

Finance Sub-Committee

Date of Meeting:	1 st September 2021
Report Title:	Treasury Management Annual Report 2020/21
Report of:	Alex Thompson, Director of Finance & Customer Services
Report Reference No:	FSC/04/21-22
Ward(s) Affected:	Not applicable

1. Executive Summary

- 1.1.** The Treasury Management Policy requires an annual report on the performance of the Council's treasury management operation. This report contains details of the activities in 2020/21 for Cheshire East Council.
- 1.2.** The pandemic has caused unprecedented fluctuations in treasury management activity. New COVID19 related Government Grants, some of significant value, have been mostly passported to local businesses and individuals, but this movement of money has impacted treasury management locally. Inexpensive borrowing has also been available throughout the year as this position has been experienced by Council's nationally and is enhanced by prevailing low interest rates.
- 1.3.** Due to the unusual activity in 2020/21 the approved investment levels with individual counterparties were temporarily exceeded in the first quarter. The Chief Financial Officer reported this informally to members at the time, and then subsequently reported this formally to the Audit and Governance Committee. Further breaches of the strategy were avoided.
- 1.4.** The report confirms that the Council has complied with legislative requirements and remained within its Prudential Indicators. As at 31st March 2021 the Council had borrowings of £212m and investments of £52m. This combination represents appropriate value for money that achieves adequate returns at appropriate cost.

2. Recommendation

- 2.1. To note the Treasury Management Annual Report for 2020/21 as detailed in Appendix A.

3. Reason for Recommendation

- 3.1. To meet the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services and the Prudential Code for Capital Finance in Local Authorities.

4. Other Options Considered

- 4.1. Not applicable.

5. Background

- 5.1. The Treasury Management Strategy for 2020/21 was approved by Council on 20th February 2020. Progress reports have been provided to Cabinet throughout the year as part of the Quarterly Financial Update Reports.
- 5.2. Treasury Management is defined by the Chartered Institute for Public Finance and Accountancy (CIPFA) as: “the management of the organisation’s borrowing, investments and cashflows; its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”. This definition is “intended to apply to all public service organisations in their use of capital and project financing, borrowings and all investments”.
- 5.3. 2020/21 was an unprecedented year for treasury management activities with the start of the first national lockdown in March 2020. Actions were taken immediately to ensure the treasury team had the appropriate access to technology for business continuity whilst working from home.
- 5.4. The funding of Government initiatives to businesses and individuals to tackle the effects of COVID lockdowns via the Council has led to increased fluctuations in cash during 2020/21. Additional government funding received in year amounted to c. £280m. The management of daily cash flows was challenging given the increased cashflow and the requirement to passport government grants directly to local businesses and third parties within tight timescales. Ultimately this has reduced the Council’s borrowing requirement throughout the year, as available cash balances were utilised on a daily basis.
- 5.5. Treasury Management income for 2020/21 is £990,000 which is higher than the budgeted £600,000.
 - The average daily investment balance including managed funds during 2020/21 is £61m. (£31.7m 2019/20)

- The average annualized interest rate received on in-house investments during 2020/21 is 0.18%. (0.74% 2019/20)
- The average annualized interest rate received on the externally managed funds during 2020/21 is 4.58%. (4.23% 2019/20)

5.6. The Bank of England cut Bank Rates to 0.1% and the UK government provided a range of fiscal stimulus measures.

5.7. The Council's total average interest rate for 2020/21 is 1.62%. The returns continue to exceed our benchmark, the London Inter-bank Bid Rate for 7 days at 0.05% (average 2020/21), and our own performance target of 0.60% (Base Rate + 0.50%).

Table 4 – Interest Rate Comparison

Comparator	Average Rate 2020/2021
Cheshire East	1.62%
LIBID 7 Day Rate	0.05%
LIBID 3 Month Rate	0.11%
Base Rate	0.10%
Target Rate	0.60%

5.8. Further details on all treasury management activities are provided in Appendix A.

6. Implications

6.1. Legal

6.1.1. As noted in paragraph 4.51 of the Finance Procedure Rules in the Council's Constitution, the Council has adopted CIPFA's *Code of Practice for Treasury Management in Local Authorities* as this is recognised as the accepted standard for this area. Paragraphs 4.52 – 4.55 provide further information relating to treasury management practice, and the Code itself will have been developed and based upon relevant legislation and best practice. This report is presented to Finance Sub Committee under rule 4.54.

6.2. Finance

6.2.1. Contained within the report.

6.3. Policy

- 6.3.1.** The treasury management activity reported for the period 1st April 2020 - 31st March 2021 has been carried out in accordance with the Treasury Management Policy Statement and Treasury Management Practices (TMPs).

6.4. Equality

- 6.4.1.** None.

6.5. Human Resources

- 6.5.1.** None.

6.6. Risk Management

- 6.6.1.** The Council operates its treasury management activity within the approved Treasury Management Code of Practice and associated guidance.
- 6.6.2.** The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Authority's treasury management strategy as no treasury management activity is without risk. The aim is to operate in an environment where risk is clearly identified and managed.
- 6.6.3.** To reduce the risk that the Council will suffer a loss as a result of its treasury management activities down to an acceptable level a number of risk management procedures have been put in place. The procedures cover liquidity risk, credit and counterparty risk, re-financing risk, legal and regulatory risk, and fraud, error and corruption risk. These are referred to within the borrowing and investment strategies, prudential indicators and the Treasury Management Practices Principles and Schedules.
- 6.6.4.** The arrangements for the identification, monitoring and controlling of risk will be reported on a regular basis in accordance with the Strategy.

6.7. Rural Communities

- 6.7.1.** None.

6.8. Children and Young People/Cared for Children

- 6.8.1.** None.

6.9. Public Health

- 6.9.1.** None.

6.10. Climate Change

6.10.1. None.

Access to Information	
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Appendices:	Appendix A – Annual Report 2020/21
Background Papers:	Treasury Management Strategy Report 2020/21