

COTSWOLD DISTRICT COUNCIL
TREASURY MANAGEMENT OUTTURN REPORT
2020/21

1. Introduction

1.1 In February 2011 this Council adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

1.2 The coronavirus pandemic dominated 2020/21, leading to almost the entire world being in some form of lockdown during the year. The start of the financial year saw The Bank of England cut Bank Rate to 0.1% and the UK government provided a range of fiscal stimulus measures, the size of which has not been seen in peacetime.

1.3 Some good news came in December 2020 as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK vaccine rollout started in earnest; over 31 million people had received their first dose by 31st March.

1.4 A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline having been agreed with the European Union on Christmas Eve.

1.5 Ultra-low interest rates prevailed throughout the whole financial year, with yields generally falling between April and December 2020 with 1-month, 3-month and 12-month rates averaged 0.01%, 0.10% and 0.23% respectively over the financial year.

2. Main Points

2.1 Investment interest for 2020/21 has produced a net deficit of £122,773 against the original budget set in February 2020 of £575,668.

2.2 Pooled Funds have returned stronger dividends than first expected, and (starting against lower capital values) returned over 4% against the £12.5m invested in this area.

2.3 The capital values of the Pooled Funds realised gains of over £941k for 2020/21.

2.4 The Council had no debt as at 31st March 2021.

2.5 All treasury prudential indicators were within their limits for 2020/21.

3. Local Context

3.1 On 31st March 2021, the Authority had net investments of £23.577m (19/20 £24.987m) arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31/3/2020 Actual £m	2020/21 Movement £m	31/3/2021 Actual £m
General Fund CFR	4.000	7.000	11.000
Less: External borrowing	0	0	0
Less: Usable reserves	(22.309)	(3.083)	(25.392)
Less: Working capital	(6.678)	(2.507)	(9.185)
Net Investments	(24.987)	1.410	(23.577)

3.2 The Council's strategy has been to diversify investments into pooled funds in order to reduce risk and increase returns. The treasury management position as at 31st March 2021 and the year-on-year change is shown in Table 2 below.

Table 2: Treasury Management Summary

	31/3/2020 Actual £m	2020/21 Movement £m	31/3/2021 Balance £m	31/3/2021 Rate %
Long-term investments	11.192	0.942	12.134	4.16
Short-term investments	8.108	(8.033)	0.075*	-
Cash and cash equivalents	5.687	5.681	11.368	0.22
Total investments	24.987	(1.410)	23.577	1.80

*Short term value of £75,000 is the accrued dividends on the Pooled Funds

4. Investment Activity

4.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21, the Authority's investment balance ranged

between £61.596m and £19.212 million due to timing differences between income and expenditure. The Council received over £37m on the 1st April 2020 from the MHDCLG for grants to fund local businesses financial support in the first lockdown. The year-end investment position and the year-on-year change in show in table 3 below.

Table 3: Investment Position (Treasury Investments)

	31/3/2020 Actual £m	2020/21 Movement £m	31/3/2021 Balance £m	31/3/2021 Rate %
Banks & building societies (unsecured)	6.000	(6.000)	0	-
Government (incl. local authorities)	2.000	(2.000)	0	-
Money Market Funds/Call	5.687	5.678	11.365	0.07
Pooled Funds	11.192	0.942	12.134	3.04
Cash Equivalents (including accrued dividends)	0.108	(0.030)	0.078	-
Total investments	24.987	(1.410)	23.577	1.56

4.2 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.3 £12.5m of the Authority's investments are held in externally managed strategic pooled (bond, equity, multi-asset, property and cash) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £418,926 (4.16%) and the capital values on these funds increased by £941,510 for reasons noted below, which are treated as an unrealised capital gain.

4.4 During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12 month period. Since March 2020 there has been improvement in market sentiment which is reflected in an increase in capital values of these short-dated, strategic bond, equity and multi-asset income funds in the Authority's portfolio.

Table 4: Current Pooled Funds

Fund Manager	Investment	31 st March 2020	31 st March 2021	Dividends Received 2019/20	2020/21 Gain/(Loss)	Gain/(Loss) v Original Investment
	£	£	£	£	£	£
CCLA Property	2,500,000	2,299,101	2,282,755	102,279	(16,346)	(217,245)
Schroders	1,000,000	621,563	764,342	47,192	142,779	(235,658)
M&G UK Income	2,000,000	1,561,084	1,831,782	83,859	270,698	(168,218)
Investec Div Income	2,000,000	1,837,499	2,018,818	75,719	181,319	18,818
Threadneedle Bond	2,000,000	1,915,356	2,148,990	56,957	233,634	148,990
CCLA Div	1,000,000	909,165	985,600	31,420	76,435	(14,400)
Federated Cash +	1,000,000	1,068,604	1,071,595	-	2,991	71,595
Fundamentum REIT	1,000,000	980,000	1,030,000	21,500	50,000	30,000
Total –current funds	12,500,000	11,192,372	12,133,882	418,926	941,510	(366,118)

4.5 The nature of these funds is that values can fluctuate from one year to another. Their performance and suitability in meeting the Authority's investment objectives are monitored and discussed with Arlingclose on a regular basis. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

5. Financial Implications

5.1 The outturn for investment income received in 2020/21 was £452,895 which equates to a 1.80% return (19/20 – 2.16%) on an average investment portfolio of £29.505 million against a budgeted £575,668 on an average investment portfolio of £28.369 million. Net investments made a deficit of £122,773 for the 2020/21 financial year. See table 5 for details.

Table 5: Investment income versus budget

Investment Income	2020/21 Original	2020/21 Actual	Variance Surplus (Deficit)
	£	£	£
Pooled Funds	420,000	397,426	(22,574)
Housing REIT	50,000	21,500	(28,500)
Short term	56,088	18,221	(37,867)

Call/MMF's	49,580	15,748	(33,832)
NET Income	575,668	452,895	(122,773)

6. Compliance Report

The Chief Finance Officer reports that all treasury management activities undertaken during 2020/21 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits were breached for one day at the beginning of the financial year as the authority received £37.464m in grants.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 5 below.

Table 5: Debt Limits

	31.3.21 Actual £m	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied
Borrowing	0	20.000	15.000	✓

No borrowing was taken out in 2020/21 and the authority is currently debt free.

7. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

7.1. Security

The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.21 Actual	2020/21 Target	Complied
Portfolio average credit	A	A-	✓

7.2. Principal Sums Invested for Periods Longer than 364 days:

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£12m	£12m	£12m
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓