

REPORT TO EXECUTIVE

Date of Meeting: 7 July 2020

REPORT TO COUNCIL

Date of Meeting: 21 July 2020

Report of: Chief Finance Officer

Title: Treasury Management 2019/20

Is this a Key Decision?

No

* One that affects finances over £1m or significantly affects two or more wards. If this is a key decision then the item must be on the appropriate forward plan of key decisions.

Is this an Executive or Council Function?

Council

1. What is the report about?

To report on the current Treasury Management performance for the 2019/20 financial year and the position regarding investments and borrowings at 31 March 2020. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

It is recommended that, the Executive and Council note the content of this report.

3. Reasons for the recommendation:

It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

4. What are the resource implications including non-financial resources

The report is an update on the overall performance in respect of treasury management for the 2019/20 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

The net interest position is positive and reflects the significantly better interest payable position arising from the interest rate received on the PWLB loans. The Council's Treasury Management team have consistently provided a positive return against budget over a number of years, whilst maintaining investments in line with the Strategy approved by Council.

6. What are the legal aspects?

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management recommends that members be updated on treasury management activities regularly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

7. Monitoring Officer Comments:

This is an update report and raises no issues for the Monitoring Officer.

8. Report Details:

9. Economic Context and Interest Rate forecast

Interest rate forecasts, provided by our Advisors, are set out below.

Link Asset Services Interest Rate View		31.3.20							
		Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 Month LIBID		0.45	0.40	0.35	0.30	0.30	0.30	0.30	0.30
6 Month LIBID		0.60	0.55	0.50	0.45	0.40	0.40	0.40	0.40
12 Month LIBID		0.75	0.70	0.65	0.60	0.55	0.55	0.55	0.55
5yr PWLB Rate		1.90	1.90	1.90	2.00	2.00	2.00	2.10	2.10
10yr PWLB Rate		2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30
25yr PWLB Rate		2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70
50yr PWLB Rate		2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50

2020 started with optimistic economic indications pointing to an upswing in growth after the end of political uncertainty as a result of the decisive general election in December settled the Brexit issue. Since then, the whole world has changed as a result of the coronavirus outbreak. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two.

Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE). The Government put in place a raft of measures to help employed, self-employed and businesses, to tide them over the lock down period. The measures taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%.

What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

9.1. Treasury Management Strategy

The Council approved the 2020/21 Treasury Management Strategy at its meeting on 26 February 2020. The Council's stated investment strategy was to continue to hold small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short dated deposits which would be placed with Local Authorities, Banks or Building Societies which are on the Council's counterparty list.

The Council's stated borrowing strategy was to defer borrowing until later years, where possible, and to reduce the size of the Council's investment balance instead, however some targeted long term borrowing will be undertaken, where the costs will be offset against future income streams.

The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and to mitigate exposure to counterparty risk.

9.2. Net Interest Position

The General Fund shows an improvement against the estimate for net interest payable, the position is:

	Estimate £	Actual £	Variance £
Interest Paid	911,000	639,454	(271,546)
Interest Earned			
Temporary investment interest	(324,000)	(604,639)	(280,639)
Science Park Loan	(25,780)	(25,850)	(70)
CVS Loan	(4,220)	(1,560)	2,660
ECL Loan	(466,000)	(271,348)	194,652
Less			
Interest to HRA	250,000	323,086	73,086
Interest to S106 agreements & CIL	104,400	89,665	(14,735)
Interest to Trust Funds	4,800	4,974	174
Lord Mayors Charity	100	84	(16)
Miscellaneous	(9,300)	(9,485)	(185)
GF interest (received) / paid out	(470,000)	(495,073)	(25,073)
Net Interest	441,000	144,381	(296,619)

CCLA - LAPF Dividend	(225,000)	(241,377)	(16,377)
Investment Loss - General Fund	0	0	0
Net Interest	216,000	(96,996)	(312,996)

9.3. The HRA earned £323,086 interest on its balances. This is calculated on the following:

- HRA working balance;
- The balance of funds in the Major Repairs Reserve and Useable Capital Receipts

However it has also had to pay interest on borrowing. As members will be aware, the Council had to borrow £56,884,000 to buy itself out of the HRA subsidy scheme. Interest of £1,979,563 has been charged to the HRA to cover the interest payment. Additionally £9,484 has been charged on the borrowing used to fund the Council's Own Build properties.

10. Investment Interest

- 10.1.** A number of Money Market Funds have been set up by the Council, which also allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.
- 10.2.** The council has made two investments, totalling £5m, in the CCLA – LAMIT property fund (April and November 2016). As at 31 March 2020 the fund size was approximately £1,206 million, the dividend yield as at the end of March was 4.41%, which is significantly higher than the returns on other investment options available. The investment in the property fund is a long term commitment which will mean that there will be fluctuations in the return over the period of the investment. Details of the current value of the investment are provided later in the report.
- 10.3.** The Council's investments as at 31 March 2020 are:

Money Market Funds

Amount	Investment	Interest rate
£1,000,000	Amundi Asset Management	0.41%
£Nil	Black Rock Asset Management	N/A
£Nil	CCLA Public Sector Deposit Fund	N/A
£10,000,000	Federated Investors	0.41%
£Nil	Aberdeen Standard Investments	N/A

Fixed Term Deposits - Current

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
5,000,000	Slough Borough Council	1.10%	03/04/19	01/04/20	364
3,000,000	Standard Chartered – Sustainable deposit	0.85%	16/10/19	16/04/20	183
5,000,000	London Borough of Barking and Dagenham	0.90%	25/10/19	27/04/20	185
3,000,000	Wirral Metropolitan Borough Council	0.85%	12/02/20	12/05/20	90
3,000,000	Ashford Borough Council	0.85%	25/02/20	26/05/20	91
3,000,000	Goldman Sachs	0.97%	16/12/19	16/06/20	183
3,000,000	Thurrock Council	0.87%	31/07/19	30/06/20	335
2,000,000	Thurrock Council	0.88%	11/10/19	13/07/20	276
3,000,000	Hull City Council	0.90%	17/01/20	17/07/20	182
3,000,000	Salford City Council	0.87%	13/08/19	11/08/20	364
5,000,000	Warrington Borough Council	0.85%	01/10/19	29/09/20	364
5,000,000	Fife Council	0.85%	25/10/19	23/10/20	364
3,000,000	Lancashire County Council	0.95%	02/12/19	30/11/20	364
3,000,000	Barclays Green 95 day notice account	0.95%	18/10/19	95 days from notice date	Min: 95

The Barclays Green account is linked to projects in pursuit of the transition to a lower carbon economy and as such counts towards the Council's Green agenda and can be included in a sustainability clause in the audited accounts.

Property Fund

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	4.42%

The value of the investment as at 31 March 2020 was £4,713,346. At the end of the financial year the value of the investment in the Property Fund is adjusted to equal the number of units held multiplied by the published bid price, with the gain or loss taken to the Available for Sale Reserve. Movements in the unit price therefore have no impact on the General Fund until the investment is sold or impaired.

11. Borrowings

- 11.1.** The Council's long term borrowing is currently £110.684 million (£53.8 million General Fund and £56.884 HRA) and there is currently no short-term borrowings. Details of loans are set out below.
- 11.2.** The Council made a one-off payment on 28 March 2012, to buy itself out of the HRA subsidy system. The final settlement figure of £56.884 million was confirmed in February 2012. The amount was borrowed from the Public Works Loans Board over a 50 year period and is repayable on maturity at the end of the loan term. The interest rate was 3.48% fixed for the term of the loan.
- 11.3.** The Public Works Loan Board (PWLB) long-term borrowing rates fell during the period, prompting a decision on 26 September 2019 to borrow in readiness for the on-going capital programme. This was a timely decision as there was an announcement on 9 October 2019 to increase the interest rates offered on new PWLB loans by 1% with immediate effect.

Existing loans

Amount	Lender	Interest rate	End date
£56,884,000	PWLB maturity (HRA)	3.48%	28/03/2062
£2,200,000	PWLB 25 year annuity	2.34%	11/01/2044
£2,150,000	PWLB 25 year annuity	2.08%	04/04/2044
£4,650,000	PWLB 30 year annuity	1.61%	26/09/2049
£8,800,000	PWLB 35 year annuity	1.71%	26/09/2054
£36,000,000	PWLB 50 year annuity	1.80%	26/09/2069

12. Future Position

- 12.1** The future cash flow forecast includes planned borrowing of £40 million as part of the 2020/21 capital programme. The decision of whether to take external long-term borrowing will be made in light of current and forecast interest rates and the decision is delegated to the section 151 Officer and Leader of the Council.
- 12.2** At Spring Budget 2020, the Government announced a new, discounted rate of PWLB lending to support social housing, which enables the Council to borrow at 1% below the rate at which the local authority would usually borrow from the PWLB, specifically for social housing projects.
On 5 April 2020, the Council took out a loan of £15.4 million from the PWLB to support the social housing programme and therefore took advantage of the discounted rate.
- 12.3** The Council's five Money Market Funds which are AAA rated, currently offer rates which vary from 0.12% to 0.33%, the rates are liable to fluctuation in the year.

- 12.4 The short term investments that are made through the call accounts and money market funds ensure cash can be accessed immediately. This has an ongoing impact on returns but increases the security of our cash.
- 12.5 We will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks and the Debt Management Office. The rates received for Local Authority deposits are currently between 0.60% and 0.75%.

13. New Investment Opportunities

- 13.1 Officers meet with the Council's treasury advisors in order to explore alternative investment opportunities.
- 13.2 Officers will continue to liaise to treasury advisors in respect of new investment opportunities. Any decisions taken will comply with the code of practice that requires 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.
- 13.3 If an amendment to the current treasury management strategy is required, a report will be presented to committee requesting the necessary amendments.

12. How does the decision contribute to the Council's Corporate Plan?

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

13. What risks are there and how can they be reduced?

The council uses treasury management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's treasury management strategy.

14. Equality Act 2010 (The Act)

- 14.1 Under the Act's Public Sector Equality Duty, decision makers are required to consider the need to:
 - eliminate discrimination, harassment, victimisation and any other prohibited conduct;
 - advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
 - foster good relations between people by tackling prejudice and promoting understanding
- 14.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

14.3. In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

14.4. In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because:

14.4.1. There are no significant equality and diversity impacts associated with this decision.

15. Carbon Footprint (Environmental) Implications:

We are working towards the Council's commitment to carbon neutral by 2030. The impact of each new investment is considered prior to approval.

16. Are there any other options?

No

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:
None

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