REPORT TO EXECUTIVE

Date of Meeting: 6 July 2021

REPORT TO COUNCIL

Date of Meeting: 21 July 2021

Report of: Director Finance

Title: Treasury Management 2020/21

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To report on the current Treasury Management performance for the 2020/21 financial year and the position regarding investments and borrowings at 31 March 2021. 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 2020/21 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

5.1. The Council's net position is in line with expectations. Given the challenges of the last year, this is a good performance. Members should note that with record low interest rates, the opportunity to deliver investment returns is limited and it is likely that the Council will use its excess cash reserves to finance the capital programme in the short term, rather than necessarily resorting to further long term borrowing, unless necessary.

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 a financial update report and therefore 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 Group Interest Rate View	8.3.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

The financial year 2020/21 will go down in history as being the year of the pandemic. The first national lockdown in late March 2020 did huge damage to an economy that was unprepared for such an eventuality. This caused an economic downturn that exceeded the one caused by the financial crisis of 2008/09. A short second lockdown in November did relatively little damage but by the time of the third lockdown in January 2021, businesses and individuals had become more resilient in adapting to working in new ways during a three month lockdown so much less damage than was caused than in the first one.

The advent of vaccines starting in November 2020, were a game changer. The way in which the UK and US have led the world in implementing a fast programme of vaccination which promises to lead to a return to something approaching normal life during the second half of 2021, has been instrumental in speeding economic recovery and the reopening of the economy.

Both the Government and the Bank of England took rapid action in March 2020 at the height of the crisis to provide support to financial markets to ensure their proper functioning, and to support the economy and to protect jobs.

BREXIT. The final agreement on 24th December 2020 eliminated a significant downside risk for the UK economy. The initial agreement only covered trade so there is further work to be done on the services sector where temporary equivalence has been granted in both directions between the UK and EU; that now needs to be formalised on a permanent basis.

9.1. Treasury Management Strategy

The Council approved the 2021/22 Treasury Management Strategy at its meeting on 23 February 2021. 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; so the actual borrowings of the Council are below the Council's borrowing requirement, as it has taken advantage of internal borrowings. This means that the Council's 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 Outturn £	Variation £
Interest paid	1,205,300	1,066,881	(138,419)
Interest earned			
Temporary investment interest	(308,000)	(177,322)	130,678
ECL Loan	(456,000)	(458,733)	(2,733)
Other interest earned	(9,300)	(9,485)	(185)
Science Park Loan	(25,780)	(25,779)	(1)
CVS Loan	(4,220)	(4,651)	(431)
Less			
Interest to HRA	250,000	263,994	13,994
Interest to S106 agreements	95,000	41,646	(53,354)
Interest to deposits held	0	7,025	7,025
Interest to Trust Funds	4,900	3,977	(923)
Lord Mayors Charity	100	79	(21)
GF interest (received) / paid out	(453,300)	(359,249)	94,049
Net Interest	**752,000**	**707,634**	**(44,370)**
CCLA – LAPF Dividend	(225,000)	(233,069)	(8,069)
Investment Loss – General Fund	0	0	0
Net Interest	**527,000**	**474,563**	**(52,439)**

9.3. The emergency budget, approved by Council in July 2020, estimated that the net interest cost for 2020/21 would increase to £817k. The actual interest cost for the year was actually £52k less than the original budget, the additional borrowing that was anticipated in the emergency budget was not required during 2020/21. The expected negative impact of COVID on the Council's cash flow position was somewhat mitigated by the range of Government support measures that were put in place after the emergency budget; this included sales, fees and charges compensation and further emergency funding for dealing with the financial impact of COVID-19.

9.4. Housing Revenue Account (HRA)

The HRA earned £263,994 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, since the borrowing cap was lifted in October 2018, the HRA has borrowed a further £15.36m towards new Council hosing development projects.

Interest of £2,172,204 has been charged to the HRA to cover the interest payment. Additionally £9,485 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 21 the fund size was approximately £1,203 million, the dividend yield as at the end of March was 4.30%, 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 2021 are:

Money Market Funds

Amount	Investment	Interest rate*
£10,000,000	Amundi Asset Management	0.10%
£10,000,000	Federated Investors	0.12%
£10,000,000	Aberdeen Standard Investments	0.14%
£10,000,000	CCLA - The Public Sector Deposit Fund	0.15%
£2,000,000	Black Rock Asset Management	0.09%

* Interest rate is variable (therefore rates quoted are an average of 2020/21 rates)

Fixed Term Deposits – Current

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
£5,000,000	Thurrock Council	0.10%	16/02/21	17/05/21	90
£2,000,000	Monmouthshire County Council	0.05%	23/11/20	23/05/21	181
£5,000,000	Wokingham Borough Council	0.10%	27/11/20	27/05/21	181
£3,000,000	Surrey Heath Borough Council	0.10%	14/12/20	14/06/21	182
£5,000,000	Wirral Metropolitan Borough Council	0.02%	26/01/21	26/04/21	90
£5,000,000	Blackpool Borough Council	0.13%	23/12/20	23/04/21	121
£5,000,000	Goldman Sachs	0.16%	09/02/21	15/06/21	126

Property Funds

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	4.66%

The value of the investment as at 31 March 2021 was £4,679,835. 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 £124.672 million (£52.428 million General Fund and £72.244 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 in 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
£2,067,000	PWLB 25 year annuity	2.34%	11/01/2044
£2,050,000	PWLB 25 year annuity	2.08%	04/04/2044
£4,467,000	PWLB 30 year annuity	1.61%	26/09/2049
£8,521,000	PWLB 35 year annuity	1.71%	26/09/2054
£35,323,000	PWLB 50 year annuity	1.80%	26/09/2069
£15,360,000	PWLB maturity (HRA)	1.31%	14/04/2070

12. Future Position

12.1 The capital financing forecast includes a borrowing requirement of £28.135 million as part of the 2021/22 capital programme (£23.535 million General Fund and £4.60 million HRA). 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 The Council's five Money Market Funds which are AAA rated, currently offer rates which vary from 0.01% to 0.03%, the rates are likely to remain low throughout 2021/22.

12.3 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.

12.4 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 0.1% and 0.2% per annum. These rates are likely to remain low throughout 2021/22.

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.

13. 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.

14. 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.

15. Equality Act 2010 (The Act)

15.1. 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

15.2. 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.

15.3. 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.

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

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

16. 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.

17. 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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