

Audit Committee		Agenda Item:
Meeting Date	25 November 2020	
Report Title	Treasury Management Half Year Report 2020/21	
Cabinet Member	Cllr Roger Truelove, Leader and Cabinet Member for Finance	
SMT Lead	Nick Vickers, Chief Financial Officer	
Head of Service	Nick Vickers, Chief Financial Officer	
Lead Officer	Phil Wilson, Financial Services Manager & Olga Cole, Management Accountant	
Key Decision	No	
Classification	Open	
Recommendations	<ol style="list-style-type: none"> 1. To note the performance information in this report. 2. To approve the prudential and treasury management indicators within the report. 	

1. Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2020/21, including compliance with treasury limits and Prudential and Treasury Performance Indicators. The report will go to Council on 6 January 2021.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services, which requires the Council to approve treasury management half-year and annual reports.
- 1.3 The Council's treasury management strategy for 2020/21 was approved at a meeting on 26 February 2020. The Council has 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 is therefore central to the Council's treasury management strategy.

2. Background

Market Environment

- 2.1 Economic background: The spread of the coronavirus pandemic dominated during the period as countries around the world tried to manage the delicate balancing act of containing transmission of the virus while easing lockdown measures and getting their populations and economies working again.

- 2.2 The Bank of England (BoE) maintained Bank Rate at 0.1%. The potential use of negative interest rates was not ruled in or out by BoE policymakers.
- 2.3 Government initiatives continued to support the economy, with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans to businesses.
- 2.4 Gross Domestic Product (GDP) growth contracted by 19.8% in Q2 2020 (April to June) according to the Office for National Statistics, pushing the annual growth rate down to -21.5%. Recent monthly estimates of GDP have shown growth recovering, with the latest rise of almost 7% in July, but even with the two previous monthly gains this still only makes up half of the lost output.
- 2.5 There are other alternatives to the use of the PWLB, such as borrowing from other councils, which is what we have done.

Borrowing

- 2.6 On 1 April 2020, the Council had 5 loans from other local authorities, totalling £25m. During the year, the Council borrowed an additional five loans from other local authorities for short-term cash flow purposes and repaid six loans. On 30 September 2020, the Council's external borrowing stood at £20 million. Further details of can be found in Appendix I.

Investments

- 2.7 The counterparties agreed by Cabinet and Council earlier this year, when the 2020/21 Treasury Strategy was approved are:

Counterparty	Cash Limits
Debt Management Office (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Local Authorities	£3m
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Money Market Funds	£3m each
Pooled Funds e.g. Absolute return, Equity income, Corporate Bond Funds	£3m each
CCLA Property Fund	£3m
Supranational Bonds	£3m in aggregate
Corporate Bonds	£3m in aggregate

Counterparty	Cash Limits
Non treasury investments	To be agreed on a case by case basis
Covered Bonds	£3m in aggregate with £1m limit per bank

- 2.8 Investments of £24.7m held at 30 September 2020 and further details can be found in Appendix I.
- 2.9 Interest income received for the first half of 2020/21 was £88,494.41.
- 2.10 For the six months to 30 September 2020, the Council maintained an average sum invested of £41.4m compared with an original budget of £26m, and an average rate of return of 0.43% compared to a budget of 0.77%.
- 2.11 The results for the six months to 30 September 2020 show that the Council achieved 0.48% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.33% average return rate above the average Bank of England Base Rate.
- 2.12 The Council has £3m invested in an externally managed property fund which is the CCLA property fund which generated an average total return of 3.97%, comprising a £59,596.03 income return. Since this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. In light of its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

Compliance with Prudential Indicators

- 2.13 The Council can confirm that it has complied with its Prudential Indicators for 2020/21 which were set in February 2020 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with members. The indicators are based on approved commitments and the current budget.
- 2.14 Prudential and Treasury Management Indicators are set out in Appendix II.

3. Proposals

- 3.1 No changes are proposed at this stage.

4. Alternative Options

- 4.1 The Chief Financial Officer will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

5. Consultation Undertaken

5.1 Consultation has been undertaken with Arlingclose.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report.
Legal, Statutory and Procurement	Need to comply with MHCLG guidance on treasury management.
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Sustainability	The Council does not own any shares or corporate bonds so there are no ethical investment consideration to be met.
Health and Wellbeing	Not relevant to this report
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

7.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Investments and Borrowing as at 30 September 2020
- Appendix II: Prudential and Treasury Management Indicators

8. Background Papers

None

Investments and Borrowings as at 30 September 2020

Counterparty	Long-Term Rating	Balance Invested & Borrowed at 30 September 2020 £'000
<u>Money Market Funds</u>		
Invesco Money Market Fund	AAAmmf	3,000
Deutsche Money Market Fund	AAAmmf	3,000
Goldman Sachs Money Market Fund	AAAmmf	3,000
Aberdeen Money Market Fund	AAAmmf	3,000
Black Rock Money Market Fund	AAAmmf	3,000
JP Morgan Money Market Fund	AAAmmf	3,000
Morgan Stanley Money Market Fund	AAAmmf	3,000
SSGA Money Market Fund	AAAmmf	670
CCLA Property Fund		3,000
Total Money Market and Property Funds		24,670
TOTAL INVESTMENTS	Maturity Date	£'000
Greater London Authority	17/12/2020	-5,000
Brighton and Hove City Council	20/07/2021	-5,000
London Borough of Havering	24/08/2021	-5,000
London Borough of Islington	01/03/2021	-5,000
TOTAL BORROWING		-20,000

The Ratings above are from Fitch credit rating agency. The Long-Term Rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions.

AAAmmf: Fund have very strong ability to meet the dual objective of providing liquidity and preserving capital

Investments and Borrowings as at 30 September 2020

Investment Activity in 2020/21

Investments	Balance on 01/04/2020	Investments Made	Investments Repaid	Balance on 30/09/2020	Average Rate
	£'000	£'000	£'000	£'000	%
Short Term Investments and Cash and Cash Equivalents	21,238	138,980	(138,548)	21,670	0.43
Long Term Investments	3,000	0	0	3,000	3.97
TOTAL INVESTMENTS	24,238	138,980	(138,548)	24,670	

Borrowing Activity in 2020/21

Borrowing	Balance on 01/04/2020	Borrowing Made	Borrowing Repaid	Balance on 30/09/2020	Average Rate
	£'000	£'000	£'000	£'000	%
External Borrowing	25,000	30,000	(35,000)	20,000	0.95
Total Borrowing	25,000	30,000	(35,000)	20,000	

Non-Treasury Investments

The definition of investments covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. The Council holds £3.6m of a long-standing portfolio of 13 investment properties within the borough. These investments are expected to generate £0.2m of investment income for the Council after taking account of direct costs, representing a rate of return of 6%.

Prudential and Treasury Management Indicators

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in local authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Capital Financing Requirement	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£'000	£'000	£'000	£'000
Capital Financing Requirements	41,961	43,736	42,859	41,981
External Borrowing	(25,000)	(5,000)	0	0
Cumulative External Borrowing Requirements	16,961	38,736	42,859	41,981

External Borrowing: as at 30 September 2020 the Council had £20 million of external borrowing – please see Appendix I for further details.

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure and Financing	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	£'000	£'000	£'000	£'000
Total Expenditure	19,099	8,849	2,697	2,303
Revenue contributions	873	640	409	63
Capital receipts	298	848	0	0
Grants and other contributions	3,098	4,699	2,288	2,240
Internal/ External borrowing	14,830	2,662	0	0
Total Financing	19,099	8,849	2,697	2,303

Prudential and Treasury Management Indicators

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate
	%	%	%	%
Total	2.78	4.41	4.23	4.13

5. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 30/09/2020	£'000
Borrowing	20,000
Other Long-term Liabilities	0
Total	20,000

6. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management strategy and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Prudential and Treasury Management Indicators

Authorised Limit for External Debt	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	55,000	55,000	55,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	57,000	57,000	57,000

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary	2020/21 Estimate £'000	2021/22 Estimate £'000	2022/23 Estimate £'000
Borrowing	45,000	45,000	45,000
Other Long-term Liabilities	500	500	500
Total Debt	45,500	45,500	45,500

The Chief Financial Officer confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2020.

Prudential and Treasury Management Indicators

7. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. This Council calculates these limits on net principal outstanding sums (i.e. fixed rate debt net of fixed rate investments).

Upper Limit for Interest Rate Exposure	Existing level at 30/09/20	2020/21 Approved Limit	2021/22 Approved Limit	2022/23 Approved Limit
Interest on fixed rate borrowing	100%	100%	100%	100%
Interest on fixed rate investments	0%	-100%	-100%	-100%
Upper Limit for Fixed Interest Rate Exposure	100%	0%	0%	0%
Interest on variable rate borrowing	0%	100%	100%	100%
Interest on variable rate investments	-100%	-100%	-100%	-100%
Upper Limit for Variable Interest Rate Exposure	-100%	0%	0%	0%

8. Maturity Structure of Borrowing

This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates. It is designed to protect against excessive exposures to interest rate changes in any one period, in particular in the course of the next ten years.

Maturity structure of fixed rate borrowing	Existing level at 30/09/20	Lower Limit for 2020/21	Upper Limit for 2020/21	Complied
	%	%	%	
Under 12 months	50	0	100	✓
12 months and within 24 months	50	0	100	✓
24 months and within 5 years	0	0	100	✓
5 years and within 10 years	0	0	100	✓
10 years and above	0	0	100	✓

Prudential and Treasury Management Indicators

9. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Chief Financial Officer confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

10. Principal Sums Invested for Periods Longer than over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Total Principal Sums Invested Over 364 Days	2020/21 £'000
Upper Limit Estimate	10,000
Actual	3,000
Complied?	✓

Prudential and Treasury Management Indicators

11. Investment Benchmarking for the six months to 30 September 2020

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average 7 day LIBID Rate
0.43%	0.77%	0.10%	(0.05%)