COUNCIL: 14 October 2020

Report of: **Head of Finance, Procurement and Commercial Services**

Relevant Corporate Director: Transformation and Resources

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SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING 2020-21

Wards affected: Borough wide

1.0 PURPOSE OF THE REPORT

1.1 To set out details of Treasury Management operations in the year to date and to report on the Prudential Indicators for 2020/21, where available.

2.0 RECOMMENDATION

2.1 That the Prudential Indicators and Treasury Management activity in the year to date be noted.

3.0 BACKGROUND

3.1 The Council has adopted the CIPFA Treasury Management Code of Practice in Local Authorities. One condition of the Code is that a report must be made twice yearly to the Council on the activities of the Treasury Management function including the exercise of Treasury Management powers delegated to the Borough Treasurer.

3.2 The CIPFA Prudential Code for Capital Finance sets out a range of prudential indicators to assess whether an authority's financial position is prudent, affordable and sustainable. It is best practice that performance on these indicators is reported to Members on a regular basis.

4.0 PRUDENTIAL INDICATORS

4.1 One of the Council's main strengths is its healthy financial position, and the Council has consistently received reports from its external auditors stating that the Council has a good financial standing. Moving forward, in general and also in light of the uncertainties due to Covid, the financial situation will be more variable and challenging.

4.2 Table 1 in the Appendix details the estimated and the projected outturn in relation to the principle of affordability contained within The Prudential Code for the current financial year. The first indicator shows that the GRA has a low ratio of financing costs compared to net revenue stream. This is due to the fact that interest earned is not as high as anticipated at the start of the year. This is as a result of the bank rate being lowered due to the financial effects of Covid 19, which has adversely affected returns. The HRA position has changed markedly since the introduction of self-financing in March 2012. The borrowing undertaken of some £88.212m attracts annual interest payments of £3.057m, which represents 11.52% of revenue, after allowing for some investment income.

4.3 The capital programme was approved at Council in February 2020, monitoring of the programme details that the expenditure is contained within budgetary sums, thus demonstrating a prudent approach to capital investment. Furthermore slippage figures from 2019-20 and revisions to the programme will be presented to members during the course of the year.

4.4 There is also a requirement to report upon the Capital Financing Requirement of the Council. This indicator details the authority's underlying need to borrow for a capital purpose. At the end of the financial year 2019/20 the capital financing requirement stood at £102.631m. Due to its nature this indicator can only be reported upon when the non current asset accounts are closed, and the figure for the 2020/21 financial year will not be available until Summer 2021.

4.5 With regard to the Treasury Management Prudential Indicators two of these relate to approved borrowing limits namely, the authorised limit for external debt and the operational boundary. Council agreed these limits at, £121.0m and £107.5m respectively at its meeting on 26th February 2020, and we are currently well within these limits. Table 2 in the Appendix details the borrowing structure and interest payments associated with the HRA self financing debt.

5.0 INVESTMENTS

5.1 The Treasury Management function has been significantly affected by the Covid 19 pandemic with the Council's income levels reduced and expenditure increased. As a result investments to date this year have on the whole tended to be liquid in nature. This is to ensure the Council can meet its current liabilities during these challenging times. There have been on average fewer funds available for investment during the current year compared to last year. The average amount of funds invested for the first 5 months of 2020/2021 was £26m compared to £28m after the same period in 2019/2020.

5.2 Following the SORP review, the Treasury Management investment return budget was increased by £326k to £499.8k. In order to facilitate achieving this target the Council's investment criteria were reviewed and revisions were agreed at the

February 2020 Council meeting. This resulted in an increased number of investment vehicles available for the Council to utilise. The expanded criteria will ensure that the Council continues to seek to minimise the risk of the loss of public funds whilst providing flexibility to increase the return on investments.

5.3 As a result of the Covid 19 pandemic the Base Rate started the year at 0.10% and has remained unchanged since. Given the uncertainty surrounding the manner of the economic recovery from the pandemic and surrounding Britain's exit from the European Union our treasury management advisors, Link Asset Services, have forecast that the base rate will remain at 0.10% until June 2022. It is anticipated that the total interest earned in 2020/21 will not reach the level achieved in 2019/20. The Treasury function has however managed its cash so that it can prepay its future service pension liability, this results in a saving of £150k per annum for the next three years.

5.4 The following table provides details on investment activity during the first 5 months of this year and last year.

	End of Aug 2020/21	End of Aug 2019/20
Investment levels		
Average Funds invested	£26 million	£28 million
External Investment Interest earned	£54,644	£94,074
Turnover	£38.5 million	£33.25 million
Number of individual investments	4	23
Average Rate earned on all investments	0.316%	0.721%
Number & type of organisations invested in		
Local Authorities	1	1
Building Societies	0	3
Banks	3	3

5.5 As part of the ongoing work to achieve Best Value in Treasury Management, we continually monitor our performance against a benchmark figure of the average 3-month LIBID interest rate. The position at the end of August is that we have exceeded this target, achieving an average rate of interest earned of 0.316%, on investments, against the benchmark average of 0.14%.

5.6 The depressed state of the market and the uncertain time frame for recovery means the Council will not achieve the investment income as anticipated under the SORP review. It is projected that the overall shortfall will be £230k, of which it is estimated that £110k is attributable to the GRA and £120k to the HRA.

5.7 There is still a situation of safety first and precaution in the banking and monetary sector. However, Members should note that investments are only made in very secure financial institutions with the highest possible credit ratings. We liaise closely with money market brokers and our treasury advisors in order to anticipate the investment landscape ahead, so that we are in a good position to safeguard our investments.

5.8 The Council approved the Commercial Property Strategy at July 2020 Council. As a result when investments are made this will have an effect on cash flow management and investment decisions. The financial implications of these possible investments will be reported to Members as part of the details of the business case of such initiatives.

6.0 TREASURY MANAGEMENT FRAMEWORK

6.1 There have not been any significant changes made to the treasury management framework in the year to date. It is standard practice that credit rating and other financial information are fully assessed before investments are made to ensure their security.

6.2 As a result of the SORP review, there have been made a number of changes to the criteria used for deciding upon counterparties for investment purposes since last reported as set out in Appendix B. The maximum amount and loan period for investing with a single organisation has also changed. No changes have been made to the list of Brokers used for investment purposes.

7.0 SUSTAINABILITY IMPLICATIONS

7.1 There are no significant sustainability impacts associated with this report and, in particular, no significant impact on crime and disorder. The report has no significant links with the Sustainable Community Strategy.

8.0 RISK ASSESSMENT

8.1 The formal reporting to Council of Prudential Indicators and Treasury Management performance is part of the overall framework set out in Codes of Practice to ensure that the risks associated with this area are effectively controlled. Given the Council's strict investment criteria the risk of loss of investment funds is low, however given that the sums invested can be very large, treasury management activities are included in the Council's Key Risk Register.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

Date	Document	File Ref
2003	CIPFA Prudential Code for Capital Finance	Accountancy Office
2010	CIPFA Revised Treasury Management Code of Practice	Accountancy Office

Equality Impact Assessment

The decision does not have any direct impact on members of the public, employees, elected members and / or stakeholders. Therefore no Equality Impact Assessment is required.

Appendices

Appendix A – Prudential Indicators

Appendix B – Investment vehicles and counterparty limits