**COUNCIL: 15 December 2021**
**(withdrawn)**
**27 January 2022**

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

**Relevant Corporate Director: Transformation and Resources**

**Contact for further information: Mr D Jackson (Extn.5374)**
**(E-mail: derek.jackson@westlancs.gov.uk)**
**Mr J Smith (Extn.5093)**
**(E-mail: Jonas.Smith@westlancs.gov.uk)**

**SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS MONITORING 2021-22**

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 six months ended 30th September 2021, 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 s151 officer.

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

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4.1 The prudential indicators which best practice dictates should be monitored and reported to the Council are presented at s 4.2.

They present a picture which reflects a stable and welcome state of affairs as regards the Council's arrangements for Treasury Management in the light of the following evidence:-

- Since 2004 this Council has been debt free until 2012 when, as a result of the abolition of the housing subsidy system, the Council faced a large borrowing requirement to finance the transfer of its housing stock from Government.
- A track record of sound management of debt since 2012, when £88.212m of PWLB debt was taken out at fixed rates of interest and with a range of maturity dates, both of these actions spreading borrowing risk.
- Fixing interest rates has mitigated the risk of exposure to interest rate fluctuations and drawing down traunches of debt with a range of maturity dates has minimised exposure to peak refinancing costs.
- Since 2012 the Council has not taken on board any more external debt at all. Contenting itself with borrowing internally, using capital receipts or making revenue contributions to finance its capital expenditure needs.
- Given the above the Council is lightly geared in terms of the ratio of its costs of borrowing to its income streams.
- The Council also maintains healthy levels of investments, currently mainly held as liquid assets for which it obtains ambient market rates of interest.
- Investments in income earning assets are performing strongly, recovering income close to budget and with the benefit of high levels of occupancy
- The Council is operating well withing its authorised borrowing limits, and has done so for some time.
- Finally the Council has a long history of managing its Capital Programmes within budget, demonstrating proper financial control over its Capital Financing Requirement

The above features of the Council's Treasury Management operation are commendable, ensuring as they do, that the Council’s financial position is prudent, affordable and sustainable.

However the Treasury Management operation also needs to be reviewed regularly, under the best practice Codes.

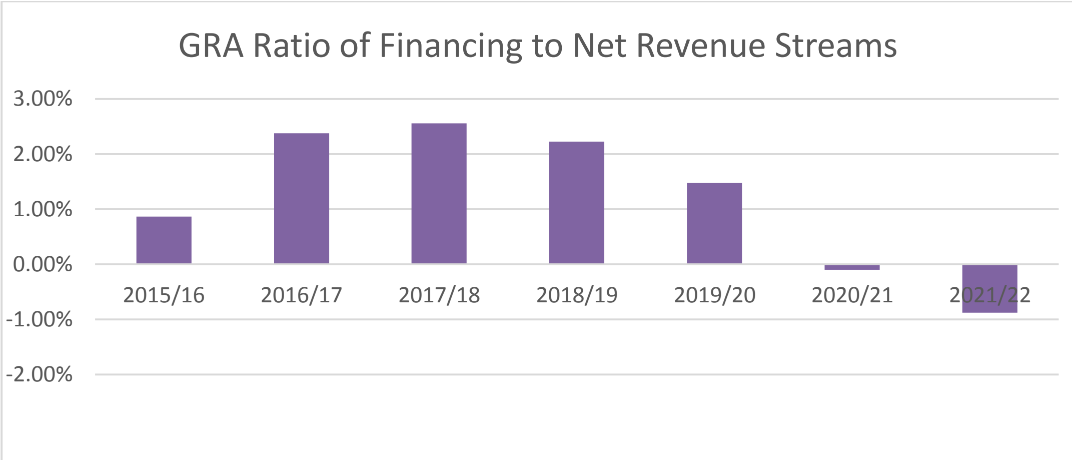
This review will be conducted as part of the Medium Term Financial Strategy (MTFS) due for consideration at Council on 23rd February, together with the Budget for 2022/23.

Given the difficult macroeconomic climate anticipated by bodies such as the Office for Budget Responsibility (OBR) who believe Brexit and the Pandemic will impact undesirably, this review of the Council's Treasury Management operation may well need to embrace a degree of change.

4.2 **The Ratio of Financing Costs to Net Revenue Stream**

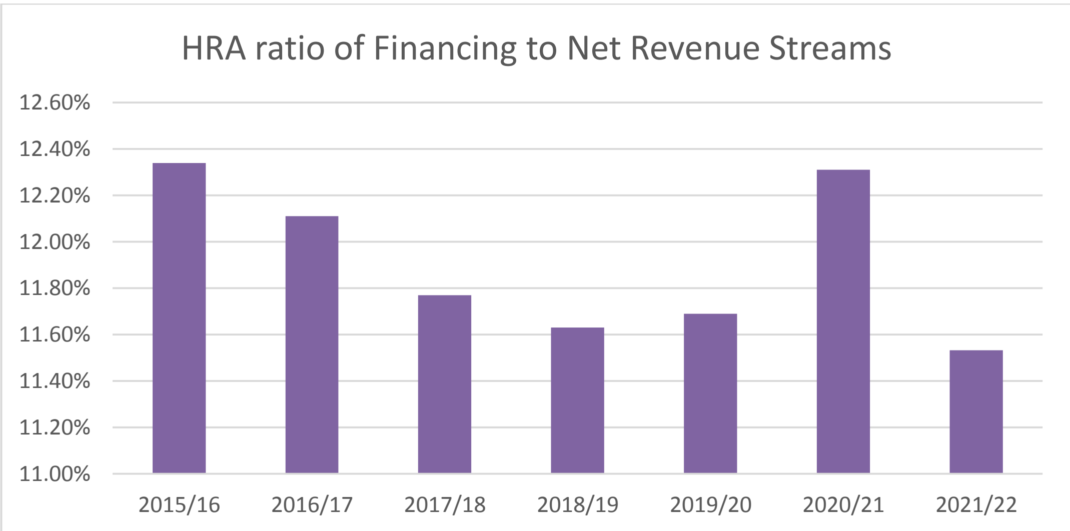
<u>This is an indicator of affordability</u> and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet borrowing costs.

The indicator shows that the revenue costs of financing the Council's GRA capital expenditure as a proportion of it's underlying budget or "net revenue stream" is negligible, given that the GRA operates debt free.




Clearly the Council has no affordability concerns regarding the prospective financing of its GRA Capital Expenditure, given the ample headroom which this indicator demonstrates.

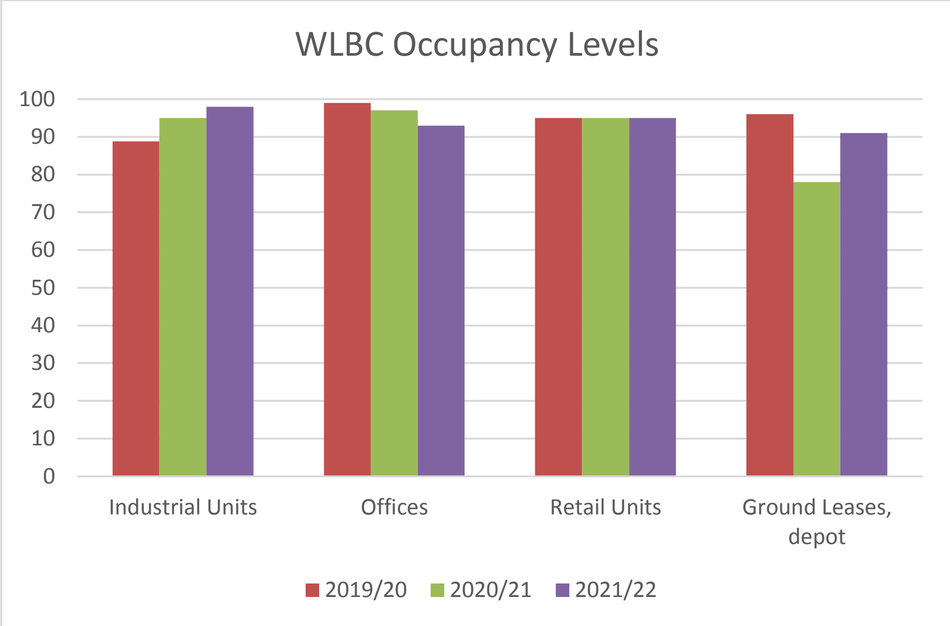
In terms of the HRA the picture is a little different given the borrowing taken out in 2012 which resulted in the ownership of £188m of assets being brought into Council control as a result of a payment of £88m being made to Government.

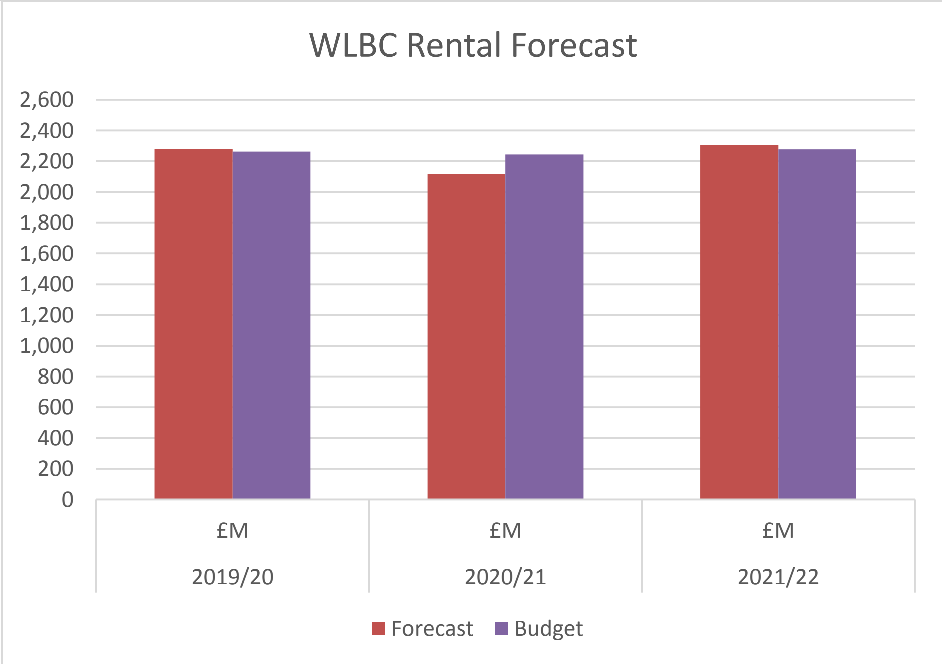



Comfort regarding affordability is available in the reasonable level of 11-12% that the ratio stands at and the fact that this interest burden is fixed on traunches of debt which have an average period to maturity of 27.85 years thus providing insulation from fluctuating interest rates.

Therefore the Council also has no affordability concerns regarding the prospective financing of its GRA Capital Expenditure given the ample headroom which this indicator demonstrates.

4.3 **Commercial Estates Occupancy and Rental Levels**




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 January 2022.

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.

## 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 2021/2022 was £21m compared to £26m after the same period in 2020/2021.

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.

These expanded criteria related to the following areas:-

- Property Funds
- Solar Bonds
- Corporate Bonds
- Council Investments
- Longer term investment in Banks & Building Societies

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 2021/22 will not reach the level achieved in 2020/21. 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 two years.

5.4 The following table provides details on investment activity during the first 6 months of this year and last year.

| INVESTMENT LEVELS | 1st Half Yr 2021/22 | 1st Half Yr 2020/21 |
|---|---|---|
| Average Funds invested | £21m | £26m |
| External Investment Interest earned | £64,365 | £65,171 |
| Turnover | £8m | £38.5m |
| Number of individual investments | 2 | 4 |
| Average Rate earned on all investments | 0.194% | 0.316% |

| No & Types of Organisations Invested in | 1st Half Yr 2021/22 | 1st Half Yr 2020/21 |
|---|---|---|
| Local Authorities | 1 | 1 |
| Building Societies | 0 | 0 |
| 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 September is that we have exceeded this target, achieving an average rate of interest earned of 0.194%, on investments, against the benchmark average of -0.05%.

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 £222k, of which it is estimated that £108k is attributable to the GRA and £114k to the HRA. The GRA shortfall includes the pension prepayment saving of £150k as mentioned in 5.3.

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 were a number of changes to the criteria used for deciding upon counterparties for investment purposes as set out below. 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.

**APPROVED COUNTERPARTIES FOR EXTERNAL INVESTMENTS –**

| Type of Counterparty | Maximum loan by Council | Maximum Period |
|---|---|---|
| Major British Based Banks and Subsidiaries with at least A- credit rating. | £5m | Up to £5m 364 days<br>Up to £3m 3 years |
| British Based Building Societies. –<br>Only those with at least A- credit rating as advised by Link (our TM advisors) | £5m | Up to £5m 364 days<br>Up to £3m 3 years |
| Other Local Authorities, where agreed. | £5m | Up to 5 years |
| Property Funds, Corporate Bonds, Infrastructure Investments | £3m | Up to 3 years corporate and, 5 years property and infrastructure. |
| Money Market Funds | £3m | N/A Callable deposits |

## 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.

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**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.