Part A

Report to:	Audit Committee
Date of meeting:	29 July 2021
Report of:	Director of Finance (Shared Service)
Title:	Treasury Management Outturn

1 Summary

1.1 This report gives details of the 2020/21 year-end review of the Treasury Management function.

2 Recommendations

2.1 That the Committee notes the Annual Treasury Management Report.

For further information on this report please contact: -

Robert Thurlow, Finance Manager

Telephone extension: 7083

email: robert.thurlow@threerivers.gov.uk

3 Introduction

3.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as: “the management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks”.

3.2 The Council’s 2020/21 Treasury Management Strategy (TMS) as approved by Council on 28 January 2020 has the primary objectives of safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective.

3.3 This report provides the Committee with an overview of Treasury Management performance for 2020/21.

3.4 The Council has appointed treasury advisors to assist with our treasury management, Link Asset Services.

The Council's Capital Position (Prudential Indicators)

3.5 The Council's capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members' overview and confirm capital expenditure plans.

Capital Financing Requirement (CFR), External Debt and Operational Boundary

3.6 The CFR and Operational Boundary estimates are shown below:

Prudential Indicator	2020/21 Original Estimate	2020/21 Revised Estimate (mid-year)	2020/21 Outturn
Capital Financing Requirement (Loans)*	£140.8m	£54.6m	£58.1m
External Debt / the Operational Boundary			
Borrowing (Gross Debt)	£25.0m	£40.0m	£30.0m

*Loans CFR is the level of underlying debt requiring finance. The CFR related to the Croxley Business Park non-treasury investment is excluded as this is financed under a leasing arrangement.

3.7 Borrowing has been lower than expected due to re-phasing of the capital programme as a result of slower than projected delivery of projects.

Limits to Borrowing Activity

3.8 The first key control over the treasury activity is a Performance Indicator (PI) to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. External borrowing should not exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years.

The Operational Boundary

3.9 This PI, which is required to be set and revised by Members, is the limit beyond which external borrowing is not normally expected to exceed. In most cases this would link directly to the authority's plans for capital expenditure, its estimates for CFR and its estimate of cashflow requirements for the year for all purposes.

Operational Boundary For External Debt	2020/21 Original Limit	2020/21 Revised Limit	2020/21 Gross Debt Outturn
Borrowing (Gross debt)	£119.0m	£119.0m	£30.0m

The Authorised Limit

3.10 This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2020/21 Original Indicator	2020/21 Revised Indicator	2020/21 Gross Debt Outturn
Borrowing (gross debt)	£125.0m	£125.0m	£30.0m

Investment Portfolio 2020/21

3.11 In accordance with the CIPFA Prudential Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

3.12 The economic impact of the Covid-19 crisis has resulted in a very difficult investment market in terms of interest rates. In order to provide support to the UK economy, the Bank of England reduced the base rate to 0.10% in March 2019.

3.13 Accordingly, market rates have been very low during 2020/21, and returns on deposits with the UK Government's Debt Management Office (DMO) were nil or negative at times between September 2020 and March 2021.

3.14 Recovery from the global recession sparked by the pandemic is dependent upon the success of vaccination programmes and the ability of major economies to return to more 'normal' functioning. Given this risk environment, investment returns are likely to remain very low for some time to come.

3.15 As part of the acquisition of Croxley Park, the Council received £24M in respect of a rent guarantee and £68M in respect of future planned programme maintenance.

3.16 The Council's treasury advisers, Link, has provided advice to the Council on the investment of this sum in order to best match the drawdown profile under the financial model and to balance the inflation and property risks inherent in the underlying investment. Following a tender process, this cash was invested in a range of Money Market Funds managed by Royal London Asset Management from November 2020.

3.17 The Croxley Park cash is ring-fenced from the Council's day-to-day treasury activities, and the performance of the investments is excluded from this report. Performance reports will be made to the Property Investment Board

3.18 The Council held £18.07m[1] of investments as at 31 March 2021 (see table below). This information is reported in the monthly Members Information Bulletin.

Institution	**Principal (£'000)**
Lloyds Bank – Current Account	18,071[2]
Total	**18,071**

1 This excludes reserved balances related to the Croxley Business Park investment held with Royal London Asset Management. Performance of these investments is reported to and monitored by Commercial Investment Board

2 This balance includes £11.3m of COVID-19 related grant funding which was exempted from the bank counterparty limit of £10m

3.19 The approved limits within the Annual Investment Strategy were not breached during 2020/21.

Security

3.20 The Council uses benchmarks as simple guides to maximum risk, and these may be breached from time to time, depending on movements in interest rates and counterparty criteria. Any breach of the benchmarks will be reported, with supporting reasons, in this report. There were no breaches to report during 2020/21.

3.21 There have been no breaches of the Council's counterparty limit with Lloyds bank during the period. The Council has made use of the DMO to deposit cash in excess of the counterparty limit for short periods during the period, as this offers the best possible security.

3.22 Members are invited to note that the definition of the security of an investment is defined as receiving contractually agreed amounts at the contractually agreed date. When a negative return is applicable on an investment the amount repaid on maturity will be lower than originally invested but not less than contractually agreed. This represents the prioritisation of security over investment yield, in line with the principals of the Treasury Management Code.

Liquidity

3.23 The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft of £nil.
- Liquid short term deposits of at least £5m available with a week's notice.

The liquidity arrangements were adequate during the year to date.

Yield

3.24 The approved benchmark measure of yield is a return of 0.12% above the average bank rate. The bank rate was 0.10% throughout the year. The return for 2019/20 was equivalent to 0.04%, against a benchmark rate of 0.22% for the year. Performance remained below benchmark for the period due to difficult investment conditions and low levels of surplus cash.

3.25 The Council keeps all treasury investments short term. There are no sums within the TMS invested for greater than 364 days. Due to uncertainty over the impact of the Covid-19 pandemic on the creditworthiness of Counterparties, and the need to increase liquidity of cash balances to ensure prompt payment of suppliers and emergency grant funding, investing activity has been limited to short-term deposits with the UK debt management office. This has resulted in lower interest rates being achieved.

3.26 The current investment counterparty criteria selection approved in the TMS is being met.

Credit Ratings

3.27 Credit rating information is supplied by our treasury consultants, Link Asset Services, on all counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing.

4 Policy/Budget Reference and Implications

4.1 The recommendations in this report are within the Council's agreed policy and budgets.

5 Financial Implications

5.1 This report provides formal assurance on the Council's compliance with its Treasury Management Strategy during the year.

6 Legal, Equal Opportunities, Staffing, Environmental, Community Safety, Public Health, Customer Services Centre, Communications & Website, Health & Safety Implications

6.1 None

7 Risk Implications

7.1 The Council's Treasury Management Strategy sets out the risks that it is seeking to manage. These risks are:

- **Liquidity Risk**
  That the Council may not have the cash it needs on a day to day basis to pay its bills. This risk is managed through forecasting and the retention by the Council of an adequate working capital balance. In addition, through the Public Works Loan Board and other organisations, the Council is able to access short term borrowing, usually within 24 hours.

- **Interest Rate Risk**
  That the costs and benefits expected do not materialise due to changes in interest rates. This risk is managed through the placing of different types and maturities of investments, the forecasting and monitoring of the interest budget (with assistance from the Council's retained advisors).

- **Exchange Rate Risk**
  That losses or gains are made due to fluctuations in the prices of currency. The Council does not engage in any significant non-sterling transactions.

- **Credit and Counterparty Risk**
  That the entity holding Council funds is unable to repay them when due. This risk is managed through the maintenance of a list of authorised counterparties, with separate limits to ensure that the exposure to this risk is limited.

- **Refinancing Risk**
  That the loans taken by the Council will become due for repayment and need replacing at a time when there is limited finance available or interest rates are significantly higher. The timing of loan maturities is monitored along with

interest rate forecasts. Officers ensure that due dates are monitored and seek advice from the Council's advisors about when to raise any finance needed.

- **Legal and Regulatory Risk**
  That the Council operates outside its legal powers. This risk is managed through the Council's training and development of Officers involved in Treasury Management, the independent oversight of Internal and External Audit, and the advice (for example on the contents of this strategy) taken from the Council's Treasury advisors.

- **Fraud, Error and Corruption**
  The risk that losses will be caused by impropriety or incompetence is managed through the controls in the Council's financial procedures. For example, the segregation of duties between those making investment decisions and those transferring funds.

- **Market Risk**

That the price of investments held fluctuates, principally in secondary markets. The majority of the Council's investments are not traded, but where they are (e.g. Property investment portfolio) the main investments' value comes from the income they generate which is generally long term and secure.

8 Recommendation

- That: the Committee note the Treasury Management Annual Report

Report prepared by: Robert Thurlow, Finance Manager

Background Papers

Capital Strategy and Treasury Management Strategy 2020/21 (published as part of the 2020/21 Budget)