

<b>Report To:</b>	<b>Cabinet</b>
<b>Date:</b>	<b>24 September 2020</b>
<b>Report Title:</b>	<b>Treasury Management Annual Report 2019/20 and 2020/21 Quarterly Monitoring</b>
<b>Report of:</b>	<b>Chief Finance Officer</b>
<b>Cabinet member:</b>	<b>Councillor Zoe Nicholson, Deputy Leader of the Council and Cabinet Member for Finance</b>
<b>Ward(s):</b>	<b>All</b>
<b>Purpose of report:</b>	<b>To present the Annual Treasury Management Report for 2019/20 and the 2020/21 Monitoring Report</b>
<b>Decision type</b>	<b>Budget and Policy Framework</b>
<b>Officer Recommendations:</b>	<b>To recommend to Full Council:</b> <b>(1) To agree the Annual Treasury Management report for 2019/20.</b> <b>(2) To approve the 2019/20 Prudential and Treasury Indicators included in the report.</b> <b>(3) To note that the Treasury Management activities for the period starting from 1 April to 31 August 2020 has been in accordance with the approved Treasury Strategies for that period.</b>
<b>Reasons for recommendations:</b>	<b>Requirement of CIPFA Treasury Management in the Public Sector Code of Practice (the Code) and this has to be reported to Full Council.</b>
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## **1 Introduction**

- 1.1 The Council is required, under the Local Government Act 2003, to produce an annual review of Treasury Management activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

- 1.2 During 2019/20, the Full Council received the annual Treasury Management Strategy Statement (TMSS), whilst Cabinet were presented with the 2019/20 Outturn Report and a Treasury Management Update Report. The regulatory environment places responsibility on Members for the review and scrutiny of TM policy and activities. This report is therefore important, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members. This report was considered by the Audit and Standards Committee at their 14 September 2020 meeting.

## 2 Treasury Management Activity

- 2.1 The timetable for reporting Treasury Management activity in 2019/2020 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
6 July 2020	1 March to 30 June 2020 ( <i>meeting cancelled</i> )
14 September 2020	1 April to 31 August 2020 ( <i>revised reporting period</i> )
16 November 2020	1 September to 31 October 2020
18 January 2021	1 November to 31 December 2020
8 March 2021	1 January to 28 February 2021

### 2.2 Fixed Term Deposits pending maturity

There are no fixed term deposits pending maturity held at 31 March 2020.

### 2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since 1 March 2020, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £9m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
243419	Thurrock Borough Council	14-Jun-19	16-Mar-20	276	3,000,000	0.88	*
245020	Thurrock Borough Council	25-Feb-20	25-Mar-20	29	3,000,000	0.95	*
245120	West Berkshire Council	25-Feb-20	10-Mar-20	14	3,000,000	1.00	*
<b>Total</b>					9,000,000		
*UK Government body and therefore not subject to credit rating							

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 March and 31 March 2020 was 0.89%, above the average bank base rate for the period of 0.35%.

## 2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £3.430m generating interest of approximately £1,000.

	Balance at 31 March '20 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£2,000	2,000	0.40
Lloyds Bank Corporate Account	£6,627	4,860	0.00

## 2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £3m in each fund, and at no time was this limit exceeded.

	Balance at 31 March '20 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£1,000	1,000	0.61
Deutsche Managed Sterling Fund	£1,500	1,500	0.63

## 2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 31 March 2020, and there was no activity in the period.

## 2.7 Secured Investments

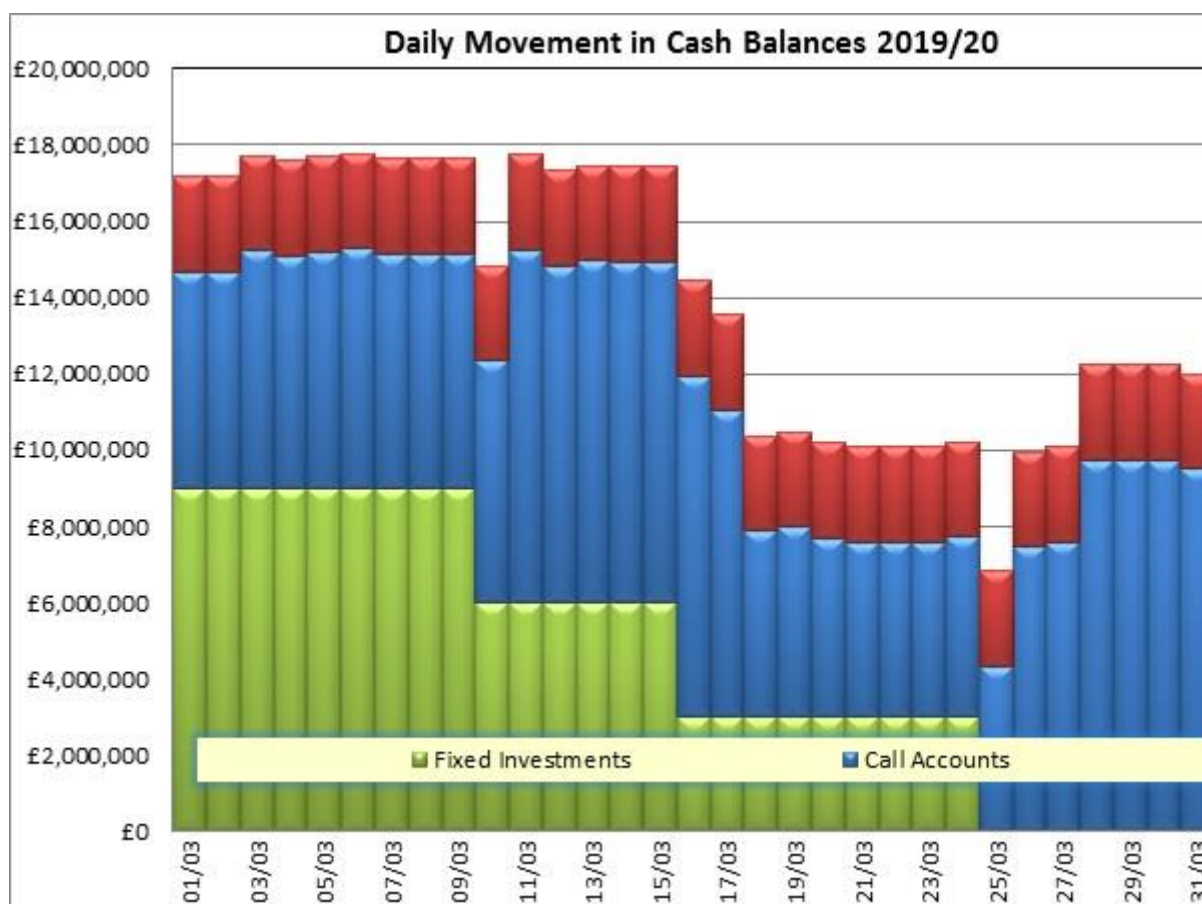
There were no Secured Investments at 31 March 2020.

## 2.8 Tradeable Investments

There were no Tradeable Investments at 31 March 2020, and there was no activity in the period.

## 2.9 Overall investment position

The chart below summarises the Council's investment position over the period 1 March to 31 March 2020. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.

















## 2.10 Borrowing

The current account with Lloyds Bank remained in credit throughout the period. No temporary borrowing for cash-flow management purposes took place. There has been no change in the total value of the Council's long term borrowing in the reporting period, which remains at £56.673m.

## 3. Compliance with Treasury and Prudential Limits

- 3.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 3.2 As at 31 March 2020, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	2019/20 Estimate Indicator	31 March 2020 Indicators	RAG Status
Authorised limit for external debt (CS 4.2.2)	£127.8m	£127.8m	
Operational boundary for external debt (CS 4.2.2)	£117.30m	£117.3m	
Gross external debt (CS 4.2.2)	£117.3m	£56.7m	
Capital Financing Requirement (TMS)	£136.9m	£85.4m	
Debt vs CFR under/(over) borrowing	£19.6m	£28.7m	
<i>Investments</i>			
Investment returns expectations	0.65	0.75	
Upper limit for principal sums invested for longer than 365 days			
<i>Maturity structure of fixed rate borrowing - upper limits:</i>			
Under 12 months	75%	75%	
12 months to 2 years	75%	75%	
2 years to 5 years	75%	75%	
5 years to 10 years	100%	100%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.4)	£11.9m	£14.2m	
<i>Ratio of financing costs to net revenue stream (CS 8.1.1):</i>			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	1.68%	1.55%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	18.08%	11.51%	

Key: CS – 2019/20 Capital Strategy Appendix 1

#### 4. Non-treasury investments

4.1 At its previous meeting, the Committee requested that information should be included in this report about the Council's 'non-treasury' investment activity e.g. loans to Council-owned companies or the purchase of property assets for the purpose of income generation.

#### 4.2 Lewes Housing Investment Company

4.2.1 Lewes Housing Investment Company (LHIC) is a wholly owned subsidiary of the Council. Incorporated in July 2017, LHIC was established to acquire, improve and let residential property at market rents. A capital allocation of £2.5m was approved as potential commercial loan funding to facilitate property purchases. At 31 March 2020, a total of £65 has been

drawn down. The balance has been rolled forward into 2020/21. There have been no transactions during the period 1 April 2020 to 30 June 2020.

#### **4.3 Aspiration Homes LLP**

4.3.1 Aspiration Homes LLP (AH) is a limited liability Partnership owned equally by Lewes District Council and Eastbourne Borough Council. Incorporated in June 2017, AH was established for the purpose of developing housing to be let at affordable rent. A capital allocation of £17.5m was approved as potential commercial loan funding to AH to facilitate property purchases. At 31 March 2020, a total of £912,910 (net of grant) has been drawn down for the purchase of Gray's School, Newhaven. The balance has been rolled forward into 2020/21

4.3.2 A working Capital facility loan of £100,000 has been agreed, at an interest rate of 2% above Base Rate. As at 31 March 2020, £20,000 of the working Capital facility loan had been drawn down. There have been no transactions during the period 1 April 2020 to 30 June 2020.

### **5. Annual Treasury Management Report**

- 5.1 As well as reviewing details of Treasury transactions during the course of the year, the Audit and Standards Committee is required to review a formal summary report after the year end before it is considered by Council in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.
- 5.2 The Annual Report is attached at Appendix 1. It should be noted that this report has been drafted prior to the final audit of the Council's accounts and, as a result, some minor changes may be necessary. If so, the changes will be reported verbally at the meeting.

### **6. Coronavirus Impact**

- 6.1 The full extent of the impact from Coronavirus will not be known for some time. However the immediate risk to the financial markets coupled with additional burdens on Council spending and uncertainty over funding have increased the need to carry larger cash balances.
- 6.2 The projection of gradual rises in interest rates that formed the Bank of England Monetary Policy Committee's guidance at the start of the period eased through the year and then evaporated entirely with the onset of the Covid-19 crisis. As the Council's borrowing rates are directly linked to market expectations this gives rise to the potential that our borrowing rates will remain close to all-time lows for some time. With the Council's Capital Programme and re-financing commitments over the next few years, our ability to secure good value in our borrowing has significant implications for the spending plans of Council as a whole.

- 6.3 This ability will be affected by the outcome of the current consultation by Public Works Loan Board (PWLB) on how it offers debt to the sector. Potentially this may mean some reversal of the PWLB's 1% margin hike imposed in October 2019. At the time of writing any such reversal is by no means certain and so our central borrowing strategy remains one of undertaking regular transactions in order to lock in current rates to fulfil our long-term borrowing requirement. Timing will be managed through a portfolio of short-term debt and we will seek to add new sources of borrowing while PWLB's margin remains competitive.

## **7. Climate change and environmental implications**

- 7.1 Treasury management is a Council-wide function and its climate change, environmental and sustainability implications are the same as for the Council itself. The Council and its Treasury Management Advisors will have regard to the environmental activities of its Counterparties (where reported) but: -

- Prioritises Security, Liquidity and Yield.
- Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily-scrutinised part of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Council's capacity to mitigate risk through diversification.

## **8 Financial Implications**

- 8.1 All relevant implications are referred to in the above paragraphs

## **9. Risk Management Implications**

- 9.1 The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

## **10. Equality Screening**

- 10.1 This is a routine report for which detailed Equality Analysis is not required to be undertaken.

## **11 Legal Implications**

- 11.1 None arising from this report.

## **12. Appendices**

- 12.1 Appendix 1: Annual Treasury Management Report 2019/20  
Appendix 2: Treasury Management Monitoring Report 1 April – 31 August 2020

## **13. Background Papers**

- 13.1 Treasury Management Strategy Statements 2019/20 and 2020/21