



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Governance and Audit Committee

23 July 2020

Report of: Councillor Adam Stokes

Cabinet Member for Finance and
Resources



2019/20 Treasury Management Annual Report

This report provides the Governance and Audit Committee with the details of the Council's treasury management activity for the financial year 2019/20

Report Author

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Corporate Priority:	Decision type:	Wards:
Administrative	Administrative	All Wards

Reviewed by:	Tracey Elliott, Governance and Risk Officer	9 July 2020
Approved by:	Richard Wyles, Interim Director of Finance	10 July 2020
Signed off by:	Councillor Adam Stokes, Cabinet Member for Finance and Resources	15 July 2020

Recommendation to the decision maker

1. It is recommended that the Governance and Audit Committee:

- Note and approve the annual report on the treasury management activity for 2019/20
- Approve the amendment to the 2020/21 Treasury Management Strategy with respect to financial limits for investments with Local Authorities

1 The Background to the Report

- 1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and performance against prudential and treasury indicators each year. 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).

2 Consultation and Feedback Received, Including Overview and Scrutiny

- 2.1 This report is in accordance with the requirement placed on the Council, by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and performance against prudential and treasury indicators for the period 2019/20. This report also 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).

- 2.2 For the financial year 2019/20 the Council adhered to the suggested minimum reporting requirements and Members received the following reports:

- An annual treasury management strategy in advance of the year which was approved by Council on 1 March 2019
- A mid-year treasury update report which was approved by Governance and Audit Committee on 18 December 2019
- An annual review following the end of the year describing the activity compared to the Strategy (this report)

- 2.3 Governance and Audit Committee has delegated powers from Council to deal with matters relating to the Council's treasury management activities. Specifically, it has the responsibility to monitor, review and amend as appropriate the Council approved Treasury Management Strategy during the financial year. The regulatory environment places a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

- 2.4 The economy (commentary provided by Link Asset Services, the Council's Treasury Advisers):

- Economic growth in 2019/20 ranged between -0.2% and 0.5%. The coronavirus outbreak has resulted in whole sections of the economy temporarily shutting down, which will result in a fall in GDP of at least 15% in quarter two and there are uncertainties as to how quickly the UK economy will recover.
- The bank rate was cut twice in March from 0.75% to 0.10% in response to the COVID-19. Market expectations for increases in Bank rate have been pushed back as a result of the COVID-19 crisis. In addition, they increased quantitative easing (QE) and introduced measures to subsidise businesses to avoid a collapse in employment during the period that the country was shut down. Investment rates are, therefore, expected to be significantly lower in 2020/21, for example Money Market Fund (MMF) rates are currently in the region of 0.3% compared with 0.75% in July 2019.
- CPI inflation remained within a range 2.0% and 1.5%.

On 9 October 2019 PWLB borrowing rates were increased by 1%. The Council has access to the certainty rate which reduces the rate on all borrowing by 0.2%. On 12 March the PWLB introduced a 1% reduction on rates for all HRA borrowing, so along with the certainty rate, the interest rates on HRA borrowing are 1.2% lower than the published rates.

Treasury Position as at 31 March 2020

2.5 The Treasury Management Strategy for 2019/20 was approved by Council on 1 March 2019. A key element of daily operations focuses on comparing current market conditions in conjunction with the Link credit rating list, using this as a tool for guidance, with the option to deviate from this guidance only when there are clear alternative options available to the Council. Any decision of this nature is clearly documented for audit purposes. The aim of the Strategy is to generate a list of highly creditworthy counterparties which enables diversification of investments and thus avoidance of risk whilst providing security. A summary of the Council's treasury position as at 31 March 2020 is as follows:

Actual borrowing position	31 March 2019		31 March 2020	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Rate Debt	£99.100m	2.35%	£95.878m	2.45%
Capital Financing Requirement	£114.602m		£111.232m	
Over/(Under) borrowing	(£15.502m)		(£15.354m)	
Investment position	31 March 2019		31 March 2020	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Investments	£49.640m	1.08%	£17.000m	1.09%
Variable Interest Investments	£10.774m	0.77%	£38.150m	0.74%
Total Investments	£60.414m	0.97%	£55.150m	0.99%
Net borrowing position	£38.686m		£40.728m	

Actual Debt Management activity during 2019/20

2.6 On 30 March 2020 an HRA loan for £25m with an interest rate of 1.99% matured, this was replaced with a new loan through the Public Work Loans Board for £25m with an interest rate of 1.63% (1.2% lower than published rates). This new lower rate will result in an annual saving of £90k on HRA interest payable.

2.7 The £95.878m is split between short term and long term borrowing as follows:

- Short term - £3.221m which is repayable within the next 12 months
- Long term - £92.657m

Actual Investment Management activity during 2019/20

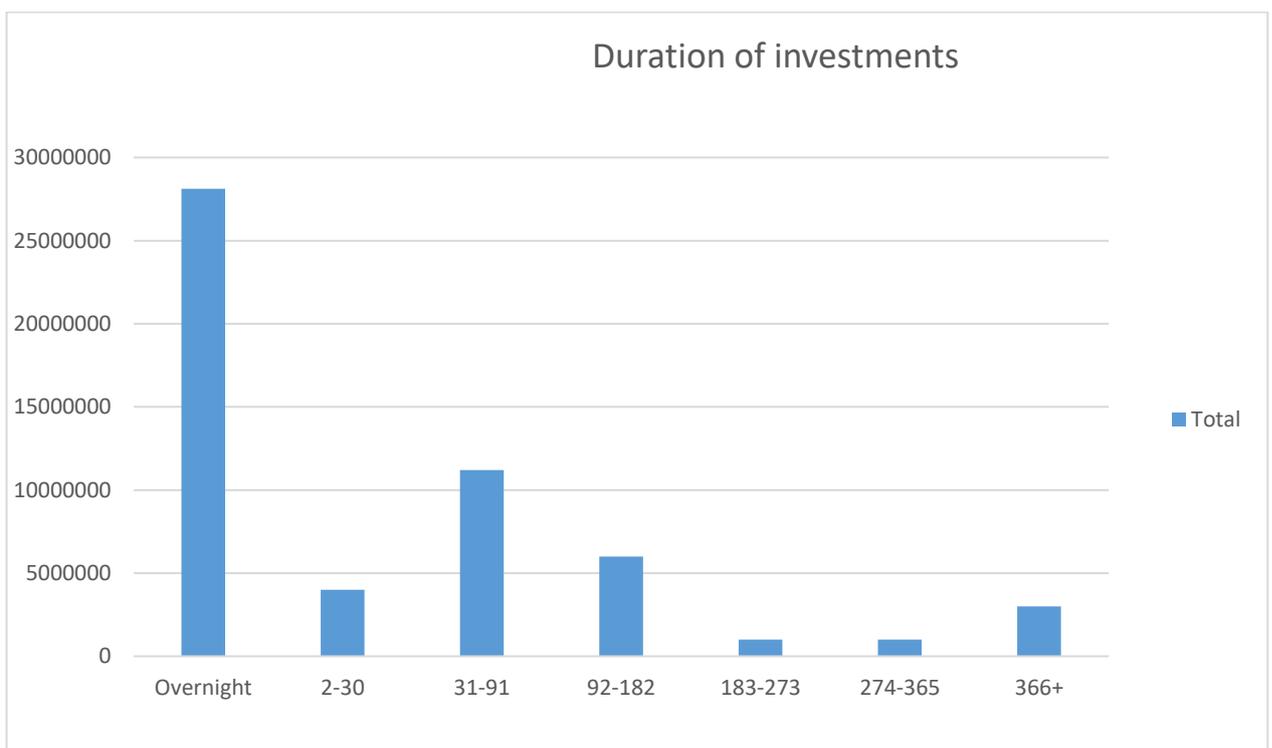
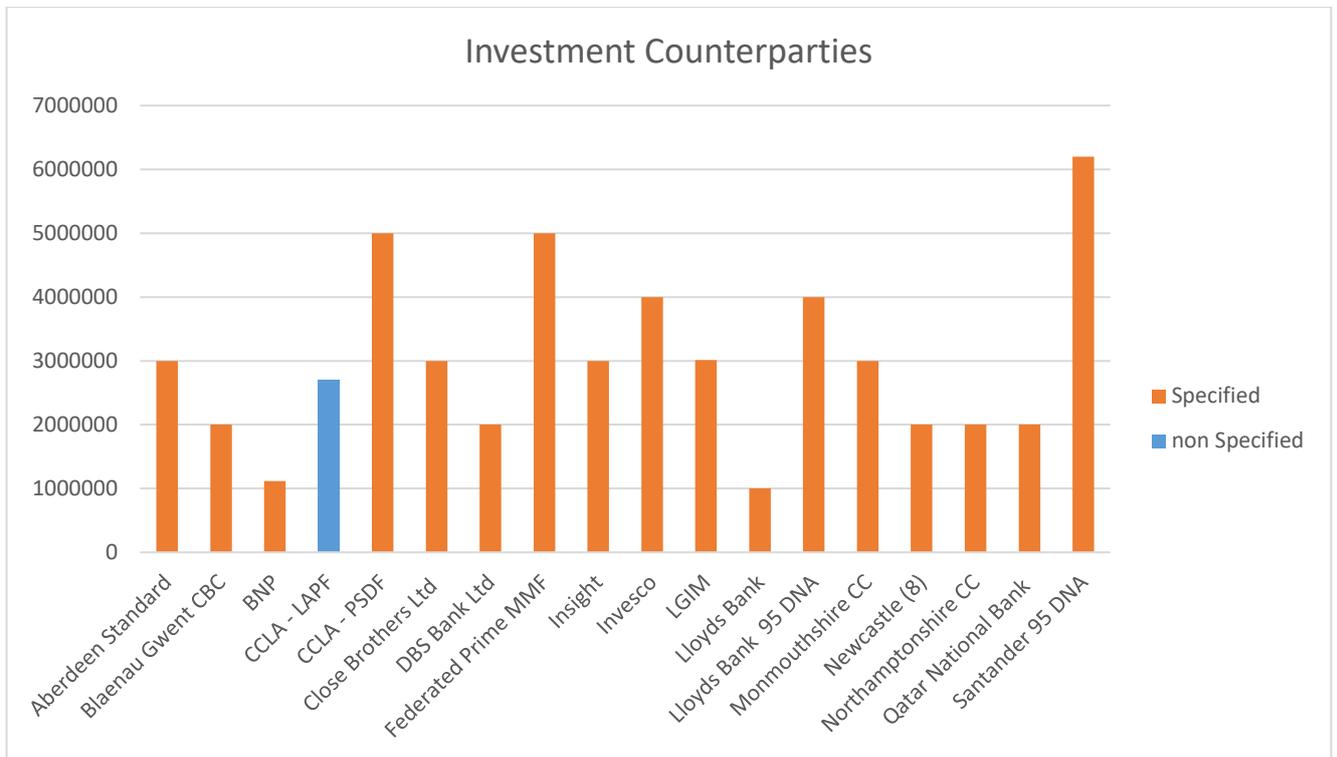
2.8 The Council's investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) guidance, which was implemented in the annual Investment Strategy approved by Council on 1 March 2019. The investment activity during the year complied with the approved Strategy until 24 March 2020, when the additional loan from PWLB was taken out and the funds were placed on Money Market funds until 30 March 2020, when the existing loan was repaid. During the year the Council had no liquidity difficulties.

2.9 As at 31 March 2020 the Council held short and long-term investments of £55.150m and was compliant with the Council's policy to hold not more than 35% of investments as long term. This total includes a £1.12m investment in Gravitass and a £3m investment in the CCLA Property Fund.

2.10 The CCLA Property Fund invests in property so the value of any investment in the Fund varies in line with the fluctuations of property values and the Council receives a quarterly dividend payment, accordingly. In line with any investment in property, a long term investment view is taken and as such a minimum five year period is undertaken, as this manages the risk of fluctuations in the value of the investment which was £2.7m at 31 March 2020. The primary reason for investing in the fund is the quarterly dividend payment as this return is significantly higher than the return on other investments. The dividend payable for quarter 4 of the financial year was £30,170, which is a 4% return on investment. In line with a number of investments, this element of the portfolio is adversely impacted by current economic conditions, but recovery is expected over the medium term.

2.11 The total amount of variable rate investments has increased between 31 March 2019 and 31 March 2020 from £10.774m to £38.150m respectively as the interest rates achievable on notice accounts and Money Market Funds (MMMMF) was comparable with fixed rate investments. This decision was made to ensure that the Council was able to cashflow the capital programme but has also meant that the Council has not had any cashflow issues during COVID-19.

2.12 The duration and counterparties of investments at 31 March 2020 are shown in the following graphs. When investments are placed, the duration is determined by taking into consideration the treasury advice received from Link and the cash flow for the Council. A number of counterparties are used as the Council has recommended investment limits that can be placed with each institution, which assists with risk management.



2.13 As part of the role performed by our treasury advisers, we are also provided with benchmarking comparative information across all their clients which helps the Council understand how its investment portfolio is performing in relation to others.

2.14 The table below shows for each quarter analysis our average rate of return was higher whilst managing the risk, when compared to other district councils. This reflects the positive work undertaken within the team to maximise our investment returns whilst balancing our exposure to risk.

Quarter ending	SK WARoR*	District WARoR*	SK WARR**	District WARR**
Q1 – June 2019	0.96%	0.90%	4.11	3.00
Q2 – Sept 2019	0.96%	0.89%	4.14	3.18
Q3 – Dec 2019	0.94%	0.87%	3.67	3.05
Q4 – Mar 2020	0.78%	0.71%	2.55	2.81

*WARoR – average rate of return

**WARR – average rate of risk

2.15 As part of the prudential code the Council sets a number of prudential and treasury indicators as part of the Treasury Strategy, the estimated performance against these indicators was provided in the Treasury Strategy approved on 1 March 2020 and the actual the performance against these indicators is detailed in Appendix 1.

Change to an investment counterparty limit

2.16 The 2020/21 Treasury Management Strategy was presented to Council on 2 March 2020 and contained an upper investment threshold limit of £10m for investments with other local authorities. However, it is appropriate to review these limits in response to the current economic conditions. Since the COVID-19 crisis the interest rates that can be achieved with counterparties has significantly reduced to an average of 0.3% and it is becoming necessary to ensure there is a greater diversity and range of investments and this includes the an increase in opportunities to invest with other local authorities at a marginally better rate. These investments are also deemed more secure because of the sovereign nature of local authorities. Therefore, it is recommended that the Council removes the upper investment limit which will allow it to place up to £5m with each local authority, thereby increasing the investment options available. The Council's independent treasury advisors have been consulted on this proposal and confirm that any placements that are undertaken are subject to the necessary due diligence checks being carried out prior to the investment.

Summary

2.17 The Council's treasury management functions have operated effectively during 2019/20 and have successfully achieved the following:

- Repayment of principal has been secured in all deposits
- The Council's cash liquidity requirement has been met throughout the financial year
- Investment income levels have exceeded budget as investment levels and the rates achieved were higher than originally estimated.
- Robust management of the Council's debt position;
- Performance indicators set for 2019/20 have been achieved
- Benchmarking information shows the Council achieved a higher weighted average rate of return compared to the group average

3 Available Options Considered

3.1 None

4 Preferred Option

4.1 As set out in the recommendations.

5 Reasons for the Recommendation (s)

5.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and performance against prudential and treasury indicators for 2019/20

6 Next Steps – Communication and Implementation of the Decision

6.1 Not applicable.

7 Financial Implications

7.1 These are included in the report.

Financial Implications reviewed by: Richard Wyles, Interim Director of Finance

8 Legal and Governance Implications

8.1 This report provides details of the Council's performance in respect of treasury management against policy set out as part of the Budget and Policy Framework. Members should note the performance and scrutinise any elements to assist the role of the Governance and Audit Committee in its review of the Treasury Management Strategy.

Legal Implications reviewed by: Shelley Hardy, Legal Executive

9 Equality and Safeguarding Implications

9.1 None.

10 Risk and Mitigation

10.1 Risk has been considered as part of this report and no exceptional/high risks have been identified.

11 Community Safety Implications

11.1 None.

12 How will the recommendations support South Kesteven District Council's declaration of a climate emergency?

12.1 The report has a neutral carbon impact.

13 Other Implications (where significant)

13.1 None

14 Background Papers

14.1 Treasury Management Strategy
report:

[Treasury Management Strategy Report 2019/20 \(as approved at Council on 1 March 2019\)](#)

minutes:

[Minutes of the 1 March 2019 meeting of Council](#)

14.2 Treasury Management Mid-year Review 2019/20

report:

[Treasury Management Activity 2019-20 - Mid year review reported to the 18 December 2019 meeting of the Governance and Audit Committee](#)

minutes:

[Minutes of the 18 December 2019 meeting of the Governance and Audit Committee](#)

15 Appendices

15.1 Appendix 1 – 2019/20 Prudential and Treasury Indicators

Report Timeline:	Date of Publication on Forward Plan (if required)	Not required
	Previously Considered by: Governance and Audit Committee	18 December 2019
	Final Decision date	23 July 2020