



**SOUTH
KESTEVEN
DISTRICT
COUNCIL**

Governance and Audit Committee

19 November 2020

Report of: Councillor Adam Stokes,
Cabinet Member for Finance and
Resources



2020-21 Treasury Management Activity Mid-Year Review

This Council is required by regulations issued under the Local Government Act 2003 to produce regular reports on treasury and debt management operations during the financial year. This report meets the requirements of the CIPFA code of practice on Treasury Management (the code).

Report Author

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Corporate Priority:	Decision type:	Wards:
Administrative	Regulatory	All Wards
Reviewed by:	Alison Hall-Wright, Head of Finance	10 November 2020
Approved by:	Richard Wyles, Director of Finance	11 November 2020
Signed off by:	Councillor Adam Stokes, Cabinet Member for Finance and Resources	12 November 2020

Recommendation (s) to the decision maker (s)

1. It is recommended that members of Governance and Audit Committee note and approve the contents of the mid-year review of treasury management activity for 2020-21

1 Introduction

- 1.1 Treasury Management is the term used to cover the Council's borrowing and investment strategies. The Council has formally adopted the key recommendations of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of practice on Treasury Management (revised 2017). In line with the Code the Council has adopted a treasury management policy statement that requires regular reports on treasury and debt management operations during the financial year.
- 1.2 Additionally, under part 1 of the Local Government Act 2003, the Council is required to have regard to the prudential Code for capital finance including the setting of prudential Indicators. Relevant treasury management indicators were incorporated into the Treasury Management Strategy 2020-21 approved by Council on 2 March 2020. From 2019/20 all local authorities were required to produce a Capital Strategy; this report was presented and approved by Council on 2 March 2020.
- 1.3 This report is submitted in accordance with these requirements and provides a review of treasury management for the period ended 30 September 2020 and reviews current developments. The following elements are covered by the report:
- A review of debt management operations
 - A review of investment operations
 - An update on the treasury management Prudential Code Indicators
 - An economic update for the first part of the 2020/21 financial year
- 1.4 The CIPFA Treasury Management panel promotes the view that Council's monitor performance at least half yearly. In addition to this, a report by the audit commission entitles 'Risk and Return' identifies the need for local authorities to report regularly to members in addition to the annual review.

2 Treasury Management Update

Debt Management Operations Borrowing

- 2.1 No additional borrowing was required during the first half of 2020/21. All current Council borrowing is with the Public Works Loan Board (PWLb) and the average rate of interest paid on the debt portfolio was 2.45%. Appendix A shows loans outstanding as at 30 September 2020. Regular reviews are undertaken to consider redemption costs of natural maturity against new borrowing to settle the outstanding debt early.
- 2.2 At 30 September 2020, the council had short-term borrowing, which is defined as borrowing due to be repaid within 365 days, of £3.221m. This will be repaid in instalments of £1.611m on 28 March 2021 and 28 September 2021. The average annual rate of interest on these loan repayments is 3.03%.

Investment Operations

- 2.3 The average size of the investment portfolio for the 6-month period was £71.668m compared to an average portfolio size of £65.505m during the same period in 2019/20.
- 2.4 The increase in the portfolio is due to the re-profiling of the Capital programme and an influx of government grants both as a result of the Covid-19 pandemic

Investment Activity in the period ended 30 September 2020

- 2.5 The Council operates a diverse portfolio and uses a number of methods to invest its reserves which include direct deposit, certificates of deposit, notice accounts and money market funds. As at 30 September 2020 the Council held short term investments of £67.314m (specified investments) and £3.0m (non-specified investments). As at 30 September the Weighted Average rate of Return was 0.19% compared with that of the Link (the Council's treasury management advisors) Investment Benchmarking Analysis group which was 0.28%.
- 2.6 The Treasury Management Strategy stipulates that the Council should not ordinarily hold more than 35% of investments as non-specified and this was adhered to during the first half of 2020/21. A schedule of investments at 30 September 2020 is set out at Appendix B.
- 2.7 Short Term Fixed Deposits – In the period ended 30 September 2020, £13.5m of short-term fixed deposits were placed; £14.0m of investments matured within this same period.
- 2.8 Long Term Fixed Deposits – In the period ended 30 September 2020, no long-term fixed deposits were placed; £4.0m of investments matured within this same period.

Treasury Management Prudential Code Indicators

- 2.9 Prudential Code indicators specific to treasury management are designed to ensure that treasury management is carried out in accordance with professional practice. Indicators for 2020/21, 2021/22 and 2022/23 were approved by Council on 2 March 2020 as part of the Treasury management Strategy 2020/21.
- 2.10 The 2020/21 indicators and actual figures for the 6 months to 30 September 2020 are set out at Appendix C. All investment activity has been maintained within the indicator limits.

Economic Update from Link (the Council's Treasury Advisors)

- 2.11 The Bank of England's Monetary Policy Committee kept the Bank rate unchanged at 0.10% on 5 November 2020, Link has forecast this rate to remain unchanged until at least March 2024. It is anticipated that this will impact on the investment rates that the Council will be able to achieve over this period so the interest income budget for future years will need to be reviewed as part of the budget setting process.

The Treasury consultation which reviewed PWLB margins and lending ended on 31 July and Link anticipate the Non-HRA Certainty Rate will be reduced prior to 31 March 2021. The Council can access the certainty rate which currently reduces the advertised Public Work Loan Board rates by 0.20%.

3 Amendments to the Treasury management Strategy 2020/21

- 3.1 There are no mid-year policy changes recommended; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

4 Other Options Considered

- 4.1 None

5 Reasons for the Recommendation(s)

- 5.1 Committee members should be kept updated on the financial position of the authority.

6 Financial Implications

6.1 The financial implications are included throughout this report.

Financial Implications reviewed by: Richard Wyes, Director of Finance (Interim)

7 Legal and Governance Implications

7.1 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: Shahin Ismail, Director of Law and Governance

8 Equality and Safeguarding Implications

8.1 Not applicable

9 Risk and Mitigation

9.1 Risk has been considered as part of this report and any specific high risks are included in the table below:

Category Risk	Action/Controls
Financial Risk	The treasury strategy has been compiled in conjunction with the Council's treasury advisors and is monitored by the committee on a regular basis

10 Community Safety Implications

10.1 Not applicable

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

11.1 None.

12 Background Papers

12.1 Treasury management Strategy 2020/21

12.2 <http://moderngovsvr:8080/documents/s25014/Appendix%20E%20-%20TM%20Strategy%202020-21.pdf>

13 Appendices

13.1 Appendix 1 – Debt Maturity Analysis

13.2 Appendix 2 – Investment Maturity Analysis

13.3 Appendix 3 – Treasury Management prudential Indicators

Report Timeline:	Date of Publication on Forward Plan (if required)	Not Applicable
	Previously Considered by: Governance and Audit Committee	Not Applicable
	Final Decision date	19 November 2020