

CORPORATE COMMITTEE - 14 NOVEMBER 2019

Report title: Treasury Management Performance Report for the period April 2019 to 30 Sept 2019

Wards: All

Portfolio: Cabinet Member for Finance and Performance: Councillor Andrew Wilson

Report Authorised by: Fiona McDermott: Strategic Director for Finance and Investment

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Report summary

This report provides an update on Treasury Management performance for the half year to 30 September 2019. The last performance update report covered the full year to 31 March 2019.

The Council's Treasury Management Strategy and Prudential Indicators for 2019/20 to 2021/22 were set out in Appendix 9 to the Budget Report presented to Council on 13 February 2019. They follow the requirements of the CIPFA Treasury Management Code of Practice and incorporate a debt management strategy that reflects the Council's potential need to borrow to finance its capital expenditure plans.

In addition the Council follows the Ministry for Housing, Communities and Local Government (MHCLG) revised guidance on local authority investments of March 2018 that requires the Council to approve an investment strategy before the start of each financial year. The Guidance stipulated that the Council monitors the treasury management activity undertaken.

Finance summary

The Council's level of gross debt was £541.7m at 30 September 2019 (of which £100m was borrowed in 2019/20) and the average rate of interest is 4.59%.

The investment balance as at the end of 30 September 2019 was £60.1m. The forecast full year interest income receivable is £1.19m set against a budget of £0.862m. The forecast interest income receivable exceeds budget due to the favourable interest rate expected from non-treasury investments.

Recommendations

1. To note the Treasury Management Performance Report for the six months to 30 September 2019.

1. CONTEXT

- 1.1 This report fulfils the Council's legal obligations under the Local Government Act 2003 to have regard to both the CIPFA Code of Practice and the MHCLG Guidance.
- 1.2 The last performance update report covered the full year period to 31 March 2019.
- 1.3 This report updates the Committee on performance for the period 1 April 2019 to 30 Sept 2019.

2. PROPOSAL AND REASONS

Treasury Management Strategy:

- 2.1 The Council approved the 2019/20 Treasury Management Strategy (TMS) at its meeting on 13 February 2019. The Council's stated investment strategy is to prudently manage an investment policy achieving security (protecting the capital sum from loss), liquidity (keeping money readily available for expenditure when needed), and to consider what yield can be obtained consistent with those priorities.
- 2.2 The Council's exposure to security and interest rate risk could have been reduced by repaying some of the £541.7m outstanding long-term debt as at 30 September 2019, and, where possible, by rescheduling the average maturity of the loans. However under the current economic conditions the cost of doing so, in terms of interest and premium payable, are prohibitive.
- 2.3 The Council's stated borrowing strategy is to finance long-term borrowing from cash balances to the extent that reserves allow in addition to external borrowing.
- 2.4 A report was considered and approved by the Cabinet Member for Finance and Performance in December 2018 which set out a borrowing requirement of £130m for 2018/19, £100m for 2019/20 and £130m for 2020/21. At the time would have had an interest payable of £9.54m pa i.e. a rate of 2.65% on 50yr borrowing for £360m.
- 2.5 To date the Council has borrowed £140m at an average rate of 2.23%, therefore requiring a payment of £3.12m per annum.
- 2.6 However the Public Works Loan Board (PWLb) have now announced a rate rise, meaning that the remaining £220m of borrowing would cost the Council £6.18m at the current rate of 2.81% (changes on a daily basis) this brings total interest payable on the £360m borrowing to £9.3m per annum.
- 2.7 The above shows that the Council was prudent in setting its interest payable budget for the medium-term; but also took advantage of cheap borrowing (£140m) over the past 12 months. The subsequent rate rise will increase the cost of the remaining borrowing of £220m - but still in line with the initial approved budget.
- 2.8 There is a balance sheet review of 2018/19 and three year forward balance sheet forecast underway and Council officers caution that there might be a chance of further borrowing. Once the review is completed the outcome will be discussed with the Cabinet Member of Finance and Performance.
- 2.9 Borrowing would take place in tranches throughout the three year period, rather than taking this in one lump sum. This would spread the risk in respect of the movement in interest rates and allow gilt yields to be monitored so that the Council could be kept informed of market movements. It would also allow further analysis of the individual projections internally by the capital and major projects

teams and thereby the borrowing required in any one period. The interest rate forecast will be reviewed, with interest rates expected to change gradually over the next few years.

- 2.10 The S151 Officer is pleased to report that all treasury management activity undertaken between 1 April 2019 and 30 September 2019 period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.
- 2.11 The key drivers for an effective treasury strategy are security, liquidity and yield management.
- 2.12 A robust cashflow forecast is in place and is continuously reviewed to take account of the funding requirements both operational and major programme financing. This will better inform the borrowing and investment decisions providing an opportunity to review the budgeted investment income level.
- 2.13 The cash available at the end of the half year is as below:

	Actual	Actual	Actual
Date	Jul-19	Aug-19	Sep-19
Opening Group Balance	30,772,005.67	93,785,846.52	38,654,523.90
Total Payments	115,751,942.63	154,766,587.97	107,363,860.57
Total Receipts	178,765,783.48	99,635,265.35	105,932,353.32
Net Position - surplus	93,785,846.52	38,654,523.90	37,223,016.65

If the Council's current capital investment programme is carried out in full, the projected nine month and 12 month cashflow position indicates that there will be a cashflow deficit of circa £30m - £50m in 2019/20; and therefore further borrowing will be required.

Treasury Management Performance

- 2.14 The table below sets out the performance indicators, the agreed target and the position as at 30 September 2019. Each indicator has been RAG rated for ease of reference.
- 2.15 The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. For the full financial year to 30 September 2019, the Portfolio average credit rating was AA+ which is above the agreed target.
- 2.16 The investment balance held as at the 30 September 2019 stood at £60.1 million and the average rate of return on these investments was 0.85%. The forecast full year interest receivable income is £1.19m set against a budget of £0.862m. The forecast interest income receivable exceeds budget due to the favourable interest rate expected from non-treasury investments.

Indicator Description	Agreed Performance or target	Status at 30 September 2019	RAG Status
Borrowing Limits for the years 2019/20			
Authorised Limit	£978m	£541.7m	G
Operational Limit	£903m	£541.7m	G
Security: average credit rating			
Portfolio average credit rating	A-	AA+	G
Compliance with CLG Non-specified investments Limits			
Total Long-Term Investments	£50m	NIL	G
Total Investments with Building Societies rated below [A-]	£180m	£35m	G
Total investments in Money Markets Fund (MMF)	£50m	£NIL	G
Total of other non-credit rated Pooled Funds	£15m	£NIL	G
Total of Funding Circle Loans (non-credit rated)	£0.1m	£NIL	G
Budgeted Investment Return			
Return on Investments	0.50%	0.85%	G
Liquidity: cash available within three months			
Total cash available without borrowing	£10m	£25.1m	G
Total cash available including borrowing	£20m	£62.3m	G
Interest rate exposure			
Fixed rate exposures	£903m	£506.7m	G
Variable rate exposures	£50m	-£60.1m	G
Maturity structure of borrowing			
Under 12 months	0% - 20%	0.00%	G
12 months and within 24 months	0% - 20%	0.00%	G
24 months and within five years	0% - 20%	2.84%	G
Five years and within 10 years	0% - 20%	13.10%	G
10 to 20 years	0% - 30%	8.72%	G
20 to 30 years	0% - 50%	7.10%	G
30 to 40 years	0% - 70%	40.06%	G
40 to 50 years	0% - 70%	28.18%	G
Principal sums invested for periods longer than 365 days			
Investments longer than 365 but less than 2 years	£40m	0.0	G

3. FINANCE

- 3.1 This report describes the Council's treasury management activities and performance at 30 September 2019; and no additional financial comments are required.

4. LEGAL AND DEMOCRACY

- 4.1 The prudential capital finance system relies on the provisions of Part 1 of the Local Government Act 2003. Under this system, local authorities are allowed to borrow funds for capital investment as long as the borrowing remains within prudent limits.
- 4.2 Section 1 of the 2003 Act allows the Council to borrow for any purpose related to its functions or the prudent management of its financial affairs, provided it does not breach the affordable borrowing limit determined in accordance with section 3(1) of the Act. By virtue of section 3(8): "A local authority's function under subsection (1) shall be discharged only by the authority." Accordingly, as

stated in the body of the report above, the authority's treasury management strategy (incorporating the debt and investment strategies) and prudential indicators for 2019-20 to 2021-22 were approved by the Council at its budget-making meeting on 13 February 2019.

4.3 The terms of reference of Corporate Committee include:

"To consider and subsequently approve the Council's statement of accounts and to consider any reports produced by the Strategic Director of Finance and Investment in accordance with the duty to make arrangements for the proper administration of the Council's financial affairs, but not in respect of the formulation of a plan or strategy which is a function of the Cabinet (and subject to final approval by the Council) or detailed operational matters which are within the purview of the Cabinet."

4.4 Responsibility for the execution and administration of treasury management decisions lies with the Chief Financial officer (Director of Finance and Property (s151 Officer)), who will act in accordance with the Council's policy statement and Treasury Management Practices and CIPFA's Code of Practice on Treasury Management in the Public Services. In addition to the Chief Financial Officer duty to present to the Council's annual budget meeting a proposed treasury management strategy for the following financial year, they are also required by Financial Regulations to present to Corporate Committee an annual report on treasury management activity.

4.5 There were no additional comments from Democratic Services.

5. CONSULTATION AND CO-PRODUCTION

5.1 Not applicable.

6. RISK MANAGEMENT

6.1 Treasury investment decisions involve taking risks that Members of the Committee should bear in mind at all times. Generally, risk is taken to mean the variability of returns. Investments with greater risk must usually promise higher returns than more 'stable' Investments. Members must consider the risk/reward trade-off. Generally the higher the potential return expected the higher the associated risk.

7. EQUALITIES IMPACT ASSESSMENT

7.1 None.

8. COMMUNITY SAFETY

8.1 Not applicable

9. ORGANISATIONAL IMPLICATIONS

9.1 **Environmental implications**

None.

9.2 **Staffing and accommodation implications**

None.

9.3 **Procurement**

None.

9.4 **Health**

None.

10. TIMETABLE FOR IMPLEMENTATION

Milestone/Recommendation	Proposed Date of Implementation
To note the Treasury Management Performance Report for the half-year to 30 September 2019	N/A

AUDIT TRAIL

Consultation				
Name/Position	Lambeth directorate / department or partner	Date Sent	Date Received	Comments in paragraph:
Councillor Andy Wilson	Cabinet Member for Finance and Performance	11.10.19	24.10.19	
Fiona McDermott Strategic Director	Finance and Investment	11.10/19	24.10.19	
Christina Thomson, Director Finance and Property	Finance and Investment	11.10.19	18.10.19	
Hamant Bharadia, Assistant Director	Finance and Investment	11.10.19	16.10.19	
Alison McKane, Legal Services	Legal and Governance	11.10.19	05.11.19	
David Rose Democratic Services	Legal and Governance	30.10.19	30.10.19	

REPORT HISTORY

Original discussion with Cabinet Member	N/A
Report deadline	01.11.19
Date final report sent	30.10.19
Part II Exempt from Disclosure/confidential accompanying report?	No
Key decision report	No
Date first appeared on forward plan	N/A
Key decision reasons	N/A
Background information	Treasury Management Strategy and Prudential Indicators 2019/20 to 2021/22 Lambeth Treasury Management & Borrowing Strategy - 2019-20 to 2021-22 Balance sheet review and borrowing requirement 2018
Appendices	None.