

CORPORATE COMMITTEE 25 NOVEMBER 2020

Report title: Treasury Management Performance Report for the period April 2020 to 30 Sept 2020

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 Sept 2020. The last performance update report covered the full year to 31 March 2020.

The Council's Treasury Management Strategy and Prudential Indicators for 2020/21 to 2022/23 were set out in Appendix 9 to the Budget Report presented to Council on 12 February 2020. 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 £591.7m at 30 September 2020 (of which £150m was borrowed in 2019/20) and the average rate of interest is 4.44%.

The investment balance at the end of 30 September 2020 was £15.1m. The forecast full year interest receivable from treasury investments is £0.17m and £0.29m from non-treasury totalling £0.46m against a budget of £0.862m.

RECOMMENDATIONS

1. To note the Treasury Management Performance Report for the 6 months to 30 September 2020

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 2020.
- 1.3 This report updates the Committee on performance for the period 1 April 2020 to 30 September 2020.

2. PROPOSAL AND REASONS

Treasury Management Strategy:

- 2.1 The Council approved the 2020/21 Treasury Management Strategy (TMS) at its meeting on 12 February 2020. The Council's stated investment strategy is to prudently manage an investment policy achieving first of all, 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 £591.7m outstanding long-term debt as at 30 September 2020, 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 The balance sheet review carried out in January 2020 indicated that there is a borrowing requirement of £415m over the next four years ending 2023/24. All the borrowing will be for the councils Capital Programme and Non-Treasury or Commercially related projects. The exact timing of borrowing will depend on the Council's cashflows position and/or levels of interest rates. Any surplus monies held at any given time will be invested in line with the criteria set out within treasury management strategy.

The Cabinet Member for Finance following advice from the S151 officer and the Council's advisors, approved PWLB 50yr borrowing of £360m of which £40m was borrowed in 2018/19, £150m in 2019/20 (£360m - £190m = £170m). Therefore, approval for £170m is already in place, approval for the remaining borrowing requirement of (£415m - £360m) £55m will be requested at the appropriate time. The approved balance of £170m will be borrowed over the next four years.

The estimated interest payable for the entire amount (£415m) is £9.9m per annum based on the prevailing PWLB interest rate of 2.40% as at 30th September 2020 on 50yr borrowing; Further the yearly interest payable budget for the existing £591.7m borrowing is £26.3m at an average interest rate of 4.44%. Forecast interest payable rates are in the range of 1.76% - 2.40% at the time of this report.

- 2.5 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.

- 2.6 The S151 Officer is pleased to report that all treasury management activity undertaken between 1 April 2020 and 30 September 2020 period complied with the approved strategy, the *CIPFA Code of Practice*, and the relevant legislative provisions.
- 2.7 The key drivers for an effective treasury strategy are security, liquidity and yield management.
- 2.8 **Cash Balances and impact of COVID-19 as at 30 September 2020** - 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.
- a. Half year balance stood at £6.9m
 - b. Cashflow forecast was revised in March 2020 (and subsequently every month) to reflect the COVID-19 challenges that the Council, the country and the world are facing for the foreseeable future.
 - c. Central government also provided some relief in form of grants to ease the cashflow pressure on all Councils following the lockdown to manage the COVID-19 pandemic - circa £57.5m in Grants, £13.8m for COVID19 hardship and Council tax fund and £8.3m NNDR s31 Grants. The Council also made a 50yr borrowing from the PWLB for £50m at 2.77%.
 - d. All of the above are in the process of being reviewed and updated to take account and further restrictions and the impact on Council finances.

Treasury Management Performance

- 2.9 The table below sets out the performance indicators, the agreed target and the position as 30 September 2020. Each indicator has been RAG rated for ease of reference.

Indicator Description	Agreed Performance or target	Status at 30 September 2020	RAG Status
Borrowing Limits for the years 2020/21			
Authorised Limit	£1,353m	£591.7m	G
Operational Limit	£1,253m	£591.7m	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	£15m	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	0.75%	0.63%	A
Liquidity: cash available within three months			
Total cash available without borrowing (incl. GF Account Balance)	£10m	£22m	G
Total cash available including borrowing (incl. GF Account Balance)	£20m	£22m	G
Maturity structure of borrowing			
Under 12 months	0% - 100%	0.00%	G
12 months and within 24 months	0% - 100%	0.00%	G
24 months and within five years	0% - 100%	8.88%	G
Five years and within 10 years	0% - 100%	5.71%	G
10 to 20 years	0% - 100%	7.99%	G
20 to 30 years	0% - 100%	8.66%	G
30 to 40 years	0% - 100%	36.63%	G
40 to 50 years	0% - 100%	32.11%	G
Principal sums invested for periods longer than 365 days			
Investments longer than 365 days	£50m	0.0	G

2.10 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 2020, the Portfolio average credit rating was AA+ which is within the agreed target.

2.11 The investment balance held at the 30 September 2020 stood at £15.1 million and the average rate of return on these investments was 0.63%. The full year forecast interest receivable income is £0.17m for treasury and £0.29m for non-treasury totalling £0.46m set against a budget of £0.862m. The forecast interest income receivable is below budget due to the unfavourable interest rate received from treasury investments and low surplus cash balances available for investment.

3. FINANCE

3.1 This report describes the Council's treasury management activities and performance at 30 September 2020; 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 2020-21 to 2022-23 were approved by the Council at its budget-making meeting on 12 February 2020.

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 (SDFI) 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 always bear in mind. 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

Environmental

9.1 None.

Health

9.2 None.

Corporate Parenting

9.3 None.

Staffing and accommodation

9.4 None.

Responsible Procurement

9.5 None.

10. TIMETABLE FOR IMPLEMENTATION

Milestone/Recommendation	Proposed Date of Implementation
To note the Treasury Management Performance Report for the full year to 30 September 2020.	N/A

AUDIT TRAIL

Consultation

Name and Position/Title	Lambeth Directorate	Date Sent	Date Received	Comments in paragraph:
Councillor Andrew Wilson	Cabinet Member for Finance and Performance	23.10.20	23.10.20	
Fiona McDermott, Strategic Director	Finance and Investment	23.10.20	23.10.20	
Christina Thomson, Director of Finance and Property	Finance and Investment	23.10.20	23.10.20	
Hamant Bharadia, Assistant Director of Strategic Finance	Finance and Investment	23.10.20	23.10.20	
Andrew Pavlou, Legal Services	Legal and Governance	23.10.20	23.10.20	
David Rose, Democratic Services	Legal and Governance	23.10.20	23.10.20	

REPORT HISTORY

Original discussion with Cabinet Member	N/A
Report deadline	30.10.20
Date final report sent	28.10.20
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 2020/21 to 2022/23.
Appendices	None