

CORPORATE COMMITTEE 02 DECEMBER 2021

Report title: Treasury Management Performance Report for the period April 2021 to 30 September 2021

Wards: All

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

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REPORT SUMMARY

This report provides an update on Treasury Management performance for half year to 30 September 2021. The previous performance update report covered the full financial year to 31 March 2021.

The council's Treasury Management Strategy (TMS) and Prudential Indicators for 2021/22 to 2024/25 were set out in Appendix 8 to the Budget Report presented to Council on 3 March 2021. They follow the requirements of the Chartered Institute of Public Finance and Accountancy (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 revised 2018 guidance issued by the then Ministry for Housing, Communities and Local Government (MHCLG) on local authority investments that requires full Council to approve an investment strategy before the start of each financial year; the guidance also stipulates that the council must monitor all Treasury Management activity undertaken.

FINANCE SUMMARY

The council's gross debt as at 30 September 2021 was £641.7m and the average rate of interest payable is 4.24%.

The investment balance as at 30 September 2021 was £25.2m. The forecast full year interest income receivable from Treasury investments is £0.10m and from non-treasury investments £1.53m, totalling £1.63m against a budget of £5.4m.

RECOMMENDATIONS

1. To note the Treasury Management Performance Report for the six months to 30 September 2021.

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 Treasury Management Code of Practice and the MHCLG Guidance.
- 1.2 CIPFA defines Treasury Management as "the management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks".
- 1.3 The last performance update report covered the full year period to 31 March 2021.
- 1.4 This report updates the Committee on performance for the period 1 April 2021 to 30 September 2021.

2. PROPOSAL AND REASONS

Treasury Management Strategy

- 2.1 Council approved the 2021/22 TMS at its meeting on 3 March 2021. The council's stated investment strategy is to prudently manage an investment policy to achieve, in order of priority, security (protecting the capital sum from loss), liquidity (keeping funds readily available to meet expenditure when required), and yield after consideration of the first two priorities.
- 2.2 The council's exposure to security and interest rate risk could have been reduced by repaying some of the £641.7m outstanding long-term debt as at 30 September 2021, and, where possible, by rescheduling the average maturity of the loans. However, under the current economic conditions together with the available PWLB terms, the costs in terms of interest and premium payable would be prohibitive and any benefit would be marginal.
- 2.3 The council's stated borrowing strategy is to finance long-term borrowing from cash balances to the extent that reserves prudently allow, and then use external borrowing.
- 2.4 The annual interest payable against the existing £641.7m of borrowing is £27.2m at an average interest rate of 4.24%.
- 2.5 The Cabinet Member for Finance, following advice from the S151 Officer and the council's advisors, has approved 50yr borrowing of £360m from the Public Works Loan Board (PWLB). Of the approved amount, £40m was borrowed in 2018/19, £150m in 2019/20 and £50m in 2020/21; the remaining balance of £120m will be borrowed as required up to the end of 2023/24.
- 2.6 Borrowing against the £360m to date has been staggered, and further borrowing will take place in similar tranches rather than taken in one lump sum. All borrowing will be for the council's Capital Programme and non-treasury projects. The exact timing of borrowing will depend on the council's cashflow position and/or prevailing interest rates. Any surplus monies held at any given time will be invested in line with the criteria set out within the Treasury Management Strategy (TMS).
- 2.7 This will spread the risk in respect of possible interest rate movement and allow gilt yields and market movements to be monitored; it will also allow further internal analysis of the individual projections by the capital and major projects teams. The interest rate forecast will be reviewed regularly, with markets anticipating interest rates to increase in late 2021/early 2022.

2.8 The S151 Officer is pleased to report that all Treasury Management activity undertaken in the year complied with the approved TMS, the CIPFA Code of Practice, and the relevant legislative provisions.

Cash Balances and Impact of COVID-19 as at 30 September 2021

- 2.9 A robust cashflow forecast is in place and is continuously reviewed to take account of funding requirements, both operational and in respect of capital financing, which allows for more informed borrowing and investment decision-making.
- The council's cash balance as at 30 September 2021 stood at £55.0m, forecast to decrease to £20.0m by 31 March 2022 excluding any additional borrowing that may be undertaken in the year.
 - The cashflow forecast retains a small daily allowance for the ongoing impact of COVID-19 on the council's finances, which is reviewed and adjusted on an ongoing basis as appropriate to reflect ongoing developments.
 - Officers will continue to review, amend and improve the cashflow forecasts where possible.

Treasury Management Performance

2.10 The table below sets out the approved TMS performance indicators for 2021/22 against the mid-year position as at 30 September 2021. Each indicator has been RAG rated for ease of reference.

Indicator Description	Agreed Performance or target	Status as at 30 September 2021	RAG Status
Borrowing Limits for the Years 2021/22			
Authorised Limit (Borrowing only)	£1,441m	£641.7m	G
Operational Limit (Borrowing only)	£1,341m	£641.7m	G
Security: Average Credit Rating			
Portfolio average credit rating (where available)	A-	A-	G
Compliance with MHCLG Non-Specified Investment Limits			
Total Long-Term Investments	£50m	£NIL	G
Total Investments with Building Societies rated below [A-]	£180m	£10m	G
Total of other non-credit rated Pooled Funds	£15m	£NIL	G
Total of Funding Circle Loans (non-credit rated)	£0.1m	£NIL	G
Compliance with MHCLG Specified Investment Limits			
Total investments in MMF	£50m	£NIL	G
Budgeted Investment Return			
Return on Investments	0.10%	0.46%	G
Liquidity: Cash Available Within Three Months			
Total cash available without borrowing (incl. GF Account Balance)	£10m	£60m	G
Total cash available including borrowing (incl. GF Account Balance)	£20m	£60m	G
Maturity Structure of Borrowing			
Under 12 months	0% - 20%	0.00%	G
12 months and within 24 months	0% - 20%	1.40%	G
24 months and within five years	0% - 25%	6.79%	G
Five years and within ten years	0% - 75%	5.27%	G
10 to 20 years	0% - 75%	7.36%	G

20 to 30 years	0% - 100%	9.99%	G
30 to 40 years	0% - 100%	31.78%	G
40 to 50 years	0% - 100%	37.40%	G
Principal Sums Invested for Periods Longer Than 365 Days			
Investments longer than 365 days	£50m	£NIL	G

- 2.11 The council has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio, where credit ratings are available. As at 30 September 2021, the Portfolio average credit rating was A- which is on target with the agreed indicator.
- 2.12 The investment balance held as at the 30 September 2021 was £25.2 million and the average rate of return achieved in the year to date was 0.46%. The full year forecast income receivable from Treasury investments is £0.10m, and from non-treasury investments £1.53m, totalling £1.63m against a budget of £5.4m. The budget for expected interest income receivable was set in expectation of loans being advanced to Homes for Lambeth, but a delay in their drawdown of funds has resulted in a shortfall against budgeted returns.
- 2.13 The corresponding budget for interest payable was also increased in 2021/22 by £4.5m to account for the costs of additional external borrowing to finance the loans to Homes for Lambeth. As these loans have not been drawn at the expected rate, the reduction in interest receivable will be offset by the lower than expected borrowing costs.

Non-Treasury Investments

- 2.14 Investment in other financial assets and property primarily for financial return or to support service outcomes is classed as non-treasury investment activity; this can include loans to third parties (such as charities, local enterprises, or joint ventures), investments in subsidiaries, and investment property portfolios. Whilst such investments will impact on the Treasury function and are usually funded from capital expenditure, they are not managed as part of the normal Treasury management function. The council's material non-treasury investments include the following:

Real Lettings Property Fund

- 2.15 The council is a partner in the Real Lettings Property Fund operated by Resonance Limited and membership includes a number of other London authorities as well as the GLA, Guys and St Thomas Charity, and St Mungo's Community Housing Association. The principal activity of the Partnership is the purchase, development and letting of residential property in the Greater London area to St Mungo's to target the reduction of homelessness and provide more affordable and cost-effective access to affordable accommodation for former homeless people or those at risk of homelessness, in temporary accommodation. The Property Fund has a 9-year life and aims to deliver a cash yield of 2% per annum, together with a share of the capital appreciation at the end of the loan term. The council has invested £30m in the fund and has access to approximately 100 properties, the use of which is expected to result in savings to the council of approximately £3.6m over the life of the fund through a reduction in the provision of temporary accommodation. As at 30 September 2021 the council has received £0.29m in income from the fund relating to 2021/22.

Homes for Lambeth

- 2.16 The council is committed to increasing the supply of social housing across the borough and to this end has established the wholly owned Homes for Lambeth Group (HfL) of companies to build and manage the development of new homes. Funding to Homes for Lambeth is provided by the council in the form of loans at commercial rates and specific terms set out in individual loan agreements

and within the scope of the Memorandum of Understanding. The council has set an upper limit of £150m for outstanding loans to HfL at any one time, and as at 30 September 2021 the loan balance was £26.6m (which includes accumulated interest charges to date); total interest accrued in the six months to 30 September was £0.47m.

Average Cost of Capital

2.17 The table below presents the council's forecast internal borrowing position for 2021/22 based on data as at 30 September 2021:

2020/21 (£'000)		Forecast 2021/22 (£'000)	Change (£'000)
1,070,395	Capital Financing Requirement (CFR)	1,287,689	217,294
(90,738)	PFI Liability	(87,778)	2,960
979,657	Underlying Borrowing Requirement	1,199,911	220,254
(641,658)	External Borrowing	(761,658)	(120,000)
337,999	Internal Borrowing	438,253	100,254

2.18 The forecast assumes that additional external borrowing of at least £120m will be undertaken in 2021/22, being the pre-approved balance of PWLB borrowing yet to be drawn down, in order to part-finance the underlying borrowing requirement.

2.19 The estimated average cost of internal borrowing is £2.03m based on the mid-year investment return rate of 0.46% on total forecast internal borrowing of £438.3m.

2.20 PWLB borrowing totals £641.7m as at 30 September 2021, with an annual interest charge of £27.2m at an average rate of 4.24%. The average remaining life of the debt portfolio is 33.25 years and the premium payable on early repayment of the whole portfolio is estimated to be £478.4m using premature repayment rates as at 30 September 2021.

3. FINANCE

3.1 This report describes the council's Treasury Management activities and performance for the six months 30 September 2021; there are no additional financial comments.

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 can 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 2021/22 to 2024/25 was approved by the Council at its budget-setting meeting on 3 March 2021.

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 Chief Finance Officer 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's duty to present at full 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 are 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 those with less risk; Members must consider the risk/reward trade-off and the key requirement for security and liquidity ahead of yield.

7. EQUALITIES IMPACT ASSESSMENT

- 7.1 There are no equalities impacts arising from any decisions to be taken as a result of this report, which is for noting only.

8. COMMUNITY SAFETY

- 8.1 There are no community safety implications that arise from this report, which is for noting the performance of the council's investments only.

9. ORGANISATIONAL IMPLICATIONS

- 9.1 There are no implications against any of the below sub-headings arising from this report, which is for noting the performance of the council's investments only.

Environmental

- 9.2 None

Health

- 9.3 None

Corporate Parenting

- 9.4 None.

Staffing and accommodation

9.5 None

Responsible Procurement

9.6 None

10. TIMETABLE FOR IMPLEMENTATION

10.1 Not applicable; this report is for noting only.

Audit Trail				
Name and Position/Title	Lambeth Directorate	Date Sent	Date Received	Comments in paragraph:
Councillor Andrew Wilson	Cabinet Member for Finance and Performance	03.11.21	04.11.21	
Fiona McDermott, Strategic Director	Finance and Investment	03.11.21	08.11.21	
Christina Thompson, Director Finance and Property	Finance and Investment	03.11.21	04.11.21	
Hamant Bharadia, Assistant Director	Finance and Investment	03.11.21	15.11.21	
Andrew Pavlou, Legal Services	Legal and Governance	03.11.21	05.11.21	
Chloe Morris, Democratic Services	Legal and Governance	03.11.21	08.11.21	

Report History	
Original discussion with Cabinet Member	N/A
Report deadline	19.11.21
Date final report sent	19.11.21
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 and Capital Strategy and Prudential Indicators 2021/22 to 2024/25: Treasury Management Strategy 2021/22
Appendices	None