

Is the final decision on the recommendations in this report to be made at this meeting?

No

Quarter 3 – Treasury and Prudential Indicator Management to 31 December 2019

Final Decision-Maker	Cabinet
Portfolio Holder(s)	Councillor Tom Dawlings – Portfolio Holder for Finance and Governance
Lead Director	Lee Colyer – Director of Finance, Policy & Development
Head of Service	Jane Fineman – Head of Finance and Procurement
Lead Officer/Report Author	Clare Hazard – Accountancy Manager
Classification	Non-exempt
Wards affected	All

This report makes the following recommendations to the final decision-maker:

1. That the 2019/2020 Treasury Management and Prudential Indicator position be noted.
2. That an increase in the forecast for investment and bank interest of £42,000, which increases the forecast budget from £687,000 to £729,000, be noted.

This report relates to the following Five Year Plan Key Objectives:

This report supports all of the key objectives. Ensuring effective cash flow management is vital in order to support all the services provided by the Council. The interest received from the Council's investments is an important source of income in helping the Council set a balanced budget.

Timetable	
Meeting	Date
Management Board	29 January 2020 (Verbal update)
Discussion with Portfolio Holder	18 February 2020
Cabinet Advisory Board	18 February 2020
Cabinet	12 March 2020

Quarter 3 – Treasury and Prudential Indicator Management to 31 December 2019

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report monitors compliance with the Treasury Management Policy & Strategy 2019/20 for the period 1 April 2019 to 31 December 2019.
 - 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2019/20 is forecast to be £729,000, an increase of £42,000 on the approved budget of £687,000.
 - 1.3 The report also updates Members on the borrowed funds held by the Council. The cost of the interest on the PWLB loan for 2019/20 is forecast to be £50,000, the same as the approved budget.
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2. INTRODUCTION AND BACKGROUND

- 2.1 Under its Financial Procedure Rules, the Council delegates responsibility for the implementation and monitoring of its treasury management policies and practices to Cabinet.
- 2.2 This report monitors, for the period 1 April 2019 to 31 December 2019, compliance with the Treasury Management Policy and Strategy 2019/20 recommended by Cabinet at its meeting 7 February 2019 (CAB134/18) and approved by Full Council at its meeting of 27 February 2019 (FC60/18).

Current Investments

- 2.3 The 2019/20 approved limits on the amount of money and the time period the Council can invest with any given counterparty is shown in **Appendix A**.
- 2.4 As at 31 December 2019 the Council had £40 million of investments and the institution categories and the maturity profile of these investments are shown in **Appendix B**.

Investment Interest

- 2.5 The bank interest rate set by the Bank of England's Monetary Policy Committee has been 0.75% from 2 August 2018 onwards.
- 2.6 Link Asset Services, who are the Council's treasury advisors, regularly review interest rates and produce a forecast of the rate over future years. They forecast that interest rates will remain the same until early 2021 when they will start rising slowly.
- 2.7 The 2019/20 budget was set based on average funds expected to be available for investments during the year of £39,500,000. The target interest rate to be

earned on these funds was set at 1.74%. Applying this to the funds available resulted in an interest budget of £687,000. This was made up of £654,000 of investment income and £33,000 of bank interest, which is earned when short term balances are kept in the Council's bank account.

- 2.8 The estimated average funds available for investment in 2019/20 are now projected to be £42,000,000. This increase is as a result of more cash being available due to the rescheduling of the 2019/20 capital programme into future years.
- 2.9 The amount of interest to be received from investments and bank balances is forecast to be £729,000, an increase of £42,000 on the approved budget of £687,000. This increase has been partly achieved by having additional funds available for investment. Also, the interest rate from the CCLA property fund has been higher than included when setting the budget resulting in more interest.
- 2.10 A summary of the forecast position is shown below. As can be seen the average interest rate for the year remains the same at 1.74%.

	Budget 2019/20	Forecast Quarter 2	Forecast Quarter 3
Equated Investments	£39.50 million	£39.50 million	£42.00 million
Average Interest Rate	1.74%	1.74%	1.74%
Investment Interest	£654,000	£654,000	£654,000
Bank Interest	£33,000	£33,000	£75,000
Total Interest	£687,000	£687,000	£729,000

Treasury Management Strategy Prudential Indicators and Targets

- 2.11 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 31 December 2019 are set out in **Appendix C**.
- 2.12 None of the Prudential Indicators were breached in this period. The interest rate forecast to be achieved from investments has remained the same at 1.74%.

Local Authorities' Property Fund

- 2.13 The Council has purchased £9 million worth of units in The Local Authorities' Property Fund. The Fund pays a dividend to the Council on a quarterly basis. The dividend paid for April to December 2019 was 5.86% although a management fee of 0.73% was paid back to the Fund resulting in a net interest rate of 5.13 %.
- 2.14 The value of the investment is calculated at year end to be included in the Council's Financial Statements at its fair value or market price. The value of the Council's £9 million investment was £10,876,554 as at 31 March 2019. The

value of the £9 million invested as at 31 December 2019 is £10,720,516, a loss in the year of £156,038 but an overall gain of £1,720,516.

- 2.15 The gain or loss at year end is held in a new reserve, set up specifically for this purpose, called the Financial Instrument Revaluation Reserve. This reserve will hold the £1,720,516 cumulative gain from the investment.

Other Interest and Investment Income Received

- 2.16 The Council also receives interest and investment income in addition to investment interest from a variety of sources as shown below:

	Budget 2019/20
Mortgages	£4,010
Other Loans	£1,700
Fusion Loan	£45,530
Investment Property Income	£85,250
Total Other Interest/Invest Income	£136,590

- 2.17 The Council has provided a loan to Fusion Lifestyle, who manage the Council's sports centres, to fund sports centre improvements. This will result in £45,530 of interest for 2019/20. This will be transferred to the Strategic Plan Reserve. This reserve has been added to in previous years when interest received has exceeded budget.
- 2.18 The Council purchased a commercial property in 2016/17 which is held on the balance sheet as an investment property. Investment income received for 2019/20 is expected to be £85,250. The purchase of the property was not funded by reserves and will therefore need to be repaid from revenue over the estimated life of the asset. Therefore the investment income from the property is used to meet the cost of this repayment.

Current Borrowing

- 2.19 The Council had £3 million borrowed from the Public Works Loans Board (PWLB) as at 31 March 2019, at a rate of 2.38%. This loan is repaid in sums of £1 million every July and January. As at 31 December 2019 £2 million of the loan remains.
- 2.20 The cost of interest on this borrowing for 2019/20 will be £50,000.

3. AVAILABLE OPTIONS

- 3.1 This report is essentially for information.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 That Members acknowledge the 2019/20 Treasury Management and Prudential Indicator position and note that investment and bank interest is forecast to be £729,000, an increase of £42,000 on the budget at £687,000.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 5.1 The Council takes advice from Link Asset Services on all treasury management activities.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

- 6.1 The investment income and borrowing costs are also included within the Quarter 3 Revenue Management report which is an accompanying report on this agenda.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off (name of officer and date)
Legal including Human Rights Act	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.	Patricia Narebor, Head of Legal Partnership
Finance and other resources	The net investment interest is an important source of income for the Council's revenue budget.	Jane Fineman, Head of Finance and Procurement
Staffing establishment	No implications	Clare Hazard, Accountancy Manager
Risk management	The Treasury Management Policy and Strategy sets out how the Council aims to control the risks associated with treasury management. The security of the Council's investments is the top priority when making investments and is always considered before yield.	Clare Hazard, Accountancy Manager
Environment and sustainability	No implications	Clare Hazard, Accountancy Manager
Community safety	No implications	Clare Hazard, Accountancy Manager
Health and Safety	No implications	Clare Hazard, Accountancy

		Manager
Health and wellbeing	No implications	Clare Hazard, Accountancy Manager
Equalities	No implications	Clare Hazard, Accountancy Manager

8. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: Treasury Management Investment Limits
- Appendix B: Current Investments
- Appendix C: Prudential Indicators and Treasury Management Targets

9. BACKGROUND PAPERS

Treasury Management Policy and Strategy 2019/20 – CAB134/18

<http://democracy.tunbridgewells.gov.uk/meetings/documents/s41511/13%20Treasury%20Management%20Policy%20and%20Strategy%202019-20.pdf>

Treasury and Prudential Indicator Management Report: Quarter 1

<http://democracy.tunbridgewells.gov.uk/meetings/documents/s44674/13%20Treasury%20Management%20Report%20Q1.pdf>

Treasury and Prudential Indicator Management Report: Quarter 2

<https://democracy.tunbridgewells.gov.uk/meetings/documents/s46663/Treasury%20Strategy%20202021%20FG%20CAB.pdf>