

Treasury and Prudential Indicator Management: Quarter 1 (to 30 June 2020)

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, Procurement & Parking
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 2020/21 Treasury Management and Prudential Indicator position be noted.
2. That a decrease in the forecast for investment and bank interest of £187,000, which decreases the forecast budget from £633,000 to £446,000, 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	
<i>Meeting</i>	<i>Date</i>
Management Board	12 August 2020
Discussion with Portfolio Holder	18 August 2020
Cabinet Advisory Board	Cancelled due to COVID-19 pandemic, replaced by Overview & Scrutiny 24 August 20
Cabinet	10 September 2020

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1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

- 1.1 This report monitors compliance with the Treasury Management Policy & Strategy 2020/21 for the period 1 April 2020 to 30 June 2020.
 - 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2020/21 is forecast to be £446,000, a decrease of £187,000 on the approved budget of £633,000.
 - 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 2020/21 will be £7,000, with the final repayment of £1 million being made in July.
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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 2020 to 30 June 2020, compliance with the Treasury Management Policy and Strategy 2020/21 recommended by Cabinet at its meeting 6 February 2020 (CAB125/19) and approved by Full Council at its meeting of 26 February 2020 (FC91/19).

Current Investments

- 2.3 The 2020/21 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 30 June 2020 the Council had £46.5 million of investments and bank account money. The institution categories and the maturity profile of these are shown in **Appendix B**.

Interest Rate Forecast

- 2.5 In March 2020, when it became clear that the coronavirus outbreak would pose a huge threat to the economy of the UK, two emergency cuts were applied to the bank interest rate, first to 0.25% (on 10 March 2020) and then to 0.10% (on 19 March 2020). The rate has remained at 0.10% to date.
- 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 the rate is unlikely to rise for the next two years and with so much uncertainty over the recovery of the economy, and on the Brexit deal and its timing, their forecasts are currently only for two years ahead.

Cash Flow Management

- 2.7 The Council immediately prioritised its cash flow management in response to the coronavirus crisis, as cash flow was likely to be on a downward trend for the short to medium term, and there was uncertainty over the amount and timing of these cash flows.
- 2.8 The Council was allocated £1.37 million of Government funding to help in its response to the Covid-19 pandemic, of which £1.22 million had been received by the end of June. The Government paid the Council £2.2 million of business rates reliefs relating to 2020/21 early, at the end of March 2020, where payment would ordinarily have been spread throughout the course of the year. Also, the Government deferred monthly instalments of £4.5 million of business rates for the first three months of the year.
- 2.9 These measures have alleviated the short term pressure on cash flow but the position continues to be carefully monitored. Monies are being kept short term, or in the Council's current account, as there is little benefit in investing longer term. This enables the Council to have funds available should cash flow not meet current projections or worsen in the future.

Cash Balances

- 2.10 The 2020/21 budget was set based on average funds expected to be available for investments during the year of £35 million.
- 2.11 The opening investment position was much higher than forecast at budget setting due to a number of cash flows unrelated to the Covid-19 pandemic. These include:
- Capital projects due to take place in 2019/20 and 2020/21 being removed from the capital programme (including £3.14 million for the Crescent Road extension)
 - Capital projects due to take place in 2019/20 being rescheduled to 2020/21
 - A surplus held on the Collection Fund as at 31 March 2020 of £2.5 million (which will be distributed during 2020/21)
 - A number of large S106 amounts being held on the balance sheet (£5.06 million as at 31 March 2020)
 - £842,000 surplus being transferred to the General Fund from the surplus for 2019/20
- 2.12 As explained in Note 2.8, a number of measures taken by the Government in response to the pandemic have improved the cash flow position, particularly during the first quarter of the year, which has compensated for the loss of income from various fees and charges.
- 2.13 As explained in the Capital Management report for Quarter 1 a number of capital schemes have been deferred until at least April 2021 to alleviate pressure on reserves, which will also increase cash available during this year.

- 2.14 Overall, despite the negative effects of the Covid-19 pandemic on income and therefore cash received, the amount the Council forecasts it will have to invest is now £43 million, higher than forecast when setting the budget.

Investment and Bank Interest

- 2.15 The target interest rate to be earned from funds was set at 1.81%. Applying this to the funds available resulted in an interest budget of £633,000. This was made up of £594,000 of investment income and £39,000 of bank interest, which is earned when short term balances are kept in the Council's bank account.
- 2.16 The amount of interest to be received from investments and bank balances is forecast to be £446,000, a decrease of £187,000 on the approved budget of £633,000. The decrease is due to the cut in interest rates and the need to keep cash short term. As explained in Note 2.20 the interest from the Property Fund is also forecast to be less than budgeted, reducing the overall interest amount forecast.
- 2.17 A summary of the forecast position is shown below. As can be seen the average interest rate expected for the year has decreased from 1.81% to 1.04%.

	Budget 2020/21	Actual Quarter 1
Equated Investments	£35.00 million	£43.00 million
Average Interest Rate	1.81%	1.04%
Investment Interest	£594,000	£446,000
Bank Interest	£39,000	£0
Total Interest	£633,000	£446,000

Treasury Management Strategy Prudential Indicators and Targets

- 2.18 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 30 June 2020 are set out in **Appendix C**.
- 2.19 None of the Prudential Indicators were breached during the quarter. As explained in Note 2.17 the interest for the year will not meet target this year.

Local Authorities' Property Fund

- 2.20 The Council purchased £9 million worth of units in The Local Authorities' Property Fund between 2013 and 2014. The Fund pays a dividend to the Council on a quarterly basis. The dividend paid for April to June 2020 was 5.13% although a management fee of 0.70% was paid back to the Fund resulting in a net interest rate of 4.43%. The budget assumed an average return of 4.86% from the Property Fund for the year and therefore this reduction has been reflected in the interest forecast explained in Note 2.16.

- 2.21 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 £10,487,878 as at 31 March 2020. The value of the £9 million invested as at 30 June 2020 is £10,070,476, a reduction of £417,402.
- 2.22 The difference in value at year end is held in an unusable reserve, set up specifically for this purpose, called the Financial Instrument Revaluation Reserve. This reserve holds the £1,070,476 cumulative gain from the investment. The reduction during 2020/21 to date therefore has no impact on the overall cost of services.

Other Interest and Investment Income Received

- 2.23 The Council includes a budget for interest and investment income in addition to investment interest from a variety of sources as shown below:

	Budget 2020/21
Mortgages	£3,470
Other Loans	£2,500
Investment Property Income	£85,250
Total Other Interest/Invest Income	£91,220

- 2.24 The Council purchased a commercial property in 2016/17, held on the balance sheet as an investment property, and for which a budget of £85,250, as shown above, is included for 2020/21. The property is occupied by a restaurant which closed its doors in March 2020 due to the pandemic. Their invoices had been paid in full to the end of the 2019/20 financial year. They do not now expect to reopen and therefore a reduction of £85,250 in investment income has been included with the Revenue Management report for 2020/21.
- 2.25 The Council has provided a loan to Fusion Lifestyle, who manage the Council's sports centres, to fund sports centre improvements. The interest earned on this loan each year has been transferred to the Strategic Plan Reserve to fund corporate priorities and is not therefore included within the budget in the table above.
- 2.26 The sports centres were closed following the Prime Minister's announcement on 20 March telling leisure providers to close their facilities. At this point £20,000 of interest charged for 2019/20, along with two quarters of the loan repayments, remained unpaid. In line with the Government Public Procurement Notice, issued in response to the coronavirus pandemic, the Council is required to support the contractor during the pandemic and is in discussions with Fusion concerning the level of support it may be able to provide as the centres start to open again. It is likely that the loan and interest repayments will be deferred until April 2021. The interest charged for 2020/21 was due to be £26,000.

Current Borrowing

2.27 The Council had £1 million borrowed from the Public Works Loans Board (PWLB) as at 31 March 2020, at a rate of 2.38%. This loan will be repaid in July 2020.

2.28 The cost of interest on this borrowing for 2020/21 will be £7,000.

3. AVAILABLE OPTIONS

3.1 This report is essentially for information.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 That Members acknowledge the 2020/21 Treasury Management and Prudential Indicator position and note that investment and bank interest is forecast to be £466,000, a decrease of £187,000 on the approved budget.

5. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

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

RECOMMENDATION FROM CABINET ADVISORY BOARD

5.2 The Finance and Governance Cabinet Advisory Board on 18 August 2020 was cancelled due to the COVID-19 pandemic. This was replaced by Overview and Scrutiny on 24 August 2020.

6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

6.1 The investment income and borrowing costs are also included within the Quarter 1 Revenue Management report which is an accompanying report on this agenda.

7. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
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, Procurement & Parking
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 2020/21 – CAB125/19

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