

Treasury and Prudential Indicator Management: Quarter 2 (to 30 September 2020)

For Cabinet on 3 December 2020

Summary

Lead Member: Councillor Tom Dawlings, Portfolio Holder for Finance & Governance

Lead Director: Lee Colyer, Director of Finance, Policy & Development

Head of Service: Jane Fineman, Head of Finance, Procurement & Parking

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Classification: Public document (non-exempt)

Wards Affected: All

Approval Timetable	Date
Management Board	21 October 2020 (Verbal Update)
Portfolio Holder	
Finance & Governance Cabinet Advisory Board	10 November 2020
Cabinet	3 December 2020

Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That Cabinet note the Treasury Management and Prudential Indicator position.
2. That Cabinet note the forecast for investment and bank interest is £446,000, a decrease of £187,000 from the approved budget of £633,000, the same as Quarter 1.

1. Introduction and Background

- 1.1 This report monitors compliance with the Treasury Management Policy & Strategy 2020/21 for the period 1 April 2020 to 30 September 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 having now been made.

2. Treasury Management and Prudential Indicator Management

- 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 September 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 September 2020 the Council had £39.4 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 The bank interest rate was cut to 0.10% in March 2020, when it became clear that the coronavirus outbreak would pose a huge threat to the economy and has remained at that rate 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, their forecasts are currently only for two years ahead.

Cash Flow Management

- 2.7 The Council continues to prioritise its cash flow management in response to the coronavirus crisis, as cash flows are likely to be on a downward trend for the short to medium term, and there is 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. 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 included capital projects due to take place in 2019/20 being rescheduled or removed from the capital programme, a surplus held on the Collection Fund as at 31 March 2020 of £2.5 million, a number of large S106 amounts being held on the balance sheet and £842,000 of budget surplus being transferred to the General Fund 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. 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.
- 2.13 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. This is unchanged from Quarter 1.

Investment and Bank Interest

- 2.14 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.
- 2.15 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. This is unchanged from Quarter 1.
- 2.16 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	Quarter 1	Quarter 2
Equated Investments	£35,000,000	£43,000,000	£43,000,000
Average Interest Rate	1.81%	1.04%	1.04%
Investment Interest	£594,000	£446,000	£436,000
Bank Interest	£39,000	£0	£10,000
Total Interest	£633,000	£446,000	£446,000

Treasury Management Strategy Prudential Indicators and Targets

- 2.17 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 30 September 2020 are set out in **Appendix C**.
- 2.18 None of the Prudential Indicators were breached during the quarter. As explained in Note 2.16 the interest for the year will not meet target this year.

Local Authorities Property Fund

- 2.19 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 September 2020 was 5.33% although a management fee of 0.69% was paid back to the Fund resulting in a

net interest rate of 4.64%. 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 2.15.

- 2.20 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 September 2020 is £10,051,326, a reduction of £436,552.
- 2.21 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 will hold the £1,051,326 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

- 2.22 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	£91,220

- 2.23 The Council purchased a commercial property in 2016/17, held on the balance sheet as an investment property, for which a budget of £85,250, as shown above, was included for 2020/21. The property was occupied by a restaurant which following closure for the period of lockdown has gone into administration. Their invoices had been paid in full to the end of the 2019/20 financial year but a reduction of £85,250 in investment income has been included within the Revenue Management report for 2020/21.
- 2.24 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.
- 2.25 The sports centres were closed following the Prime Minister's announcement on 20 March 2020 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. At its meeting of 10 September 2020 (CAB20/20)

Cabinet agreed interim financial support, up to a maximum of £420,000, for Fusion Lifestyle, to facilitate the opening of the Council's three sports centres, and also agreed not to recover income for their management fee due for 2020/21. As a condition of this package of support the outstanding interest invoices, as well as loan repayments for 2020/21 will be paid by Fusion in March 2021. The interest charged for 2020/21 is due to be £26,000.

Current Borrowing

- 2.26 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 was repaid in July 2020.
- 2.27 The cost of interest on this borrowing for 2020/21 will be £7,000.

3. Options Considered

- 3.1 This report is essentially for information.

4. Preferred Option and Reason

- 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, the same as Quarter 1.

5. Consultation on Options

- 5.1 The Council takes advice from Link Asset Services on all treasury management activities. The decision will be published on the Council's website.

Recommendation from Cabinet Advisory Board

- 5.2 The Finance & Governance Cabinet Advisory Board were consulted on 10 November 2020 and agreed the following:

Insert text from Cabinet Advisory Board minute, or request text from Democratic Services Officer.

6. Implementation

- 6.1 The investment income and borrowing costs are also included within the Quarter 2 Revenue Management report which is an accompanying report on this agenda.

7. Appendices and Background Documents

Appendices:

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

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>
- Treasury and Prudential Management: Quarter 1 (to 30 June 2020) – CAB26/20
<https://democracy.tunbridgewells.gov.uk/meetings/documents/s49661/15%20Treasury%20Management%20Q1.pdf>

8. Cross Cutting Issues

A. Legal (including the 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

B. 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

C. Staffing

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

D. 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

Jane Fineman, Head of Finance, Procurement & Parking

E. Environment and Sustainability

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

F. Community Safety

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

G. Equalities

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

H. Data Protection

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

I. Health and Safety

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking

J. Health and Wellbeing

There are no specific implications that arise from the process of Treasury Management over the fact that the income is part of the budget which supports the Council's priorities.

Jane Fineman, Head of Finance, Procurement & Parking