

Treasury and Prudential Indicator Management: Quarter 4 (to 31 March 2021)

For Cabinet on 24 June 2021

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

Report Author: Clare Hazard, Accountancy Manager

Classification: Public document (non-exempt)

Wards Affected: All

Approval Timetable	Date
Management Board	27 May 2021 (Verbal update)
Portfolio Holder	
Finance & Governance Cabinet Advisory Board	8 June 2021
Cabinet	24 June 2021

Recommendations

Officer / Committee recommendations as supported by the Portfolio Holder:

1. That Cabinet note the Treasury Management and Prudential Indicator position for 2020/21.
2. That Cabinet note the investment and bank interest for 2020/21 was £608,000, a decrease of £25,000 from the approved budget of £633,000, but an improvement of £22,000 from the Quarter 3 projection.

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 31 March 2021.
- 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2020/21 was £608,000, a decrease of £25,000 on the approved budget of £633,000, but an improvement of £22,000 from the Quarter 3 projection.
- 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 was £7,000, with the final repayment of £1 million having 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 31 March 2021, 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 31 March 2021 the Council had £34.6 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 currently forecast that the rate is unlikely to rise until late 2023, due to so much uncertainty over the recovery of the economy.

Cash Flow Management

- 2.7 The Council prioritised its cash flow management in response to the coronavirus crisis.
- 2.8 The Council received £1.43 million of Government grant funding to help support it through responding to the Covid-19 pandemic and has also received compensation for its losses in income, both for sales, fees and charges and losses from Council Tax and Business Rates collection. 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 and recovered this slowly over the remaining 9 months of the financial year.
- 2.9 These measures alleviated the short-term pressure on cash flow and 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. The Council has submitted claims to the Government for the loss of sales, fees and charges income due to the pandemic, and received £2.631 million during the year with a further claim of £1.596 submitted in May 2021. The Council has been administering business grants schemes, provided by the Government, to support businesses during the pandemic. The funding for these schemes has been provided up front and therefore this has increased available funds during 2020/21 temporarily, until the sums are able to be passed onto businesses. In

addition to the compensation for the loss of Fees and Charges and the support payment explained in note 2.8, the Council has also been in receipt of New Burdens Funding to cover the cost of administering the Government grant schemes. A number of capital schemes have been deferred until at least April 2021 to alleviate pressure on cashflow.

- 2.13 Overall, despite the negative effects of the Covid-19 pandemic on income received, the amount the Council had available to invest over the year was an average of £49.9 million, higher than forecast when setting the budget.

Investment and Bank Interest

- 2.14 The target interest rate to be earned from funds was set at 1.81%. Applying this to the budgeted 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 received from investments and bank balances was £608,000, a decrease of £25,000 on the approved budget of £633,000, but an increase since Quarter 3 of £22,000. The increase is mainly due to interest from the Property Fund being more than projected in the final quarter. Also, following the cut in interest rates to 0.10% in March 2020, the Council had expected to receive little or no interest on short-term balances. However, favourable rates have been negotiated for the Council's bank account and with its 95-day notice account and this increased interest receipts.

- 2.16 A summary of the forecast position is shown below. As can be seen the average interest rate achieved was 1.22% compared to a target of 1.81%, although additional funds have been available for investment.

	Budget 2020/21	Quarter 3	Quarter 4
Equated Investments	£35,000,000	£48,000,000	£49,900,000
Average Interest Rate	1.81%	1.22%	1.22%
Investment Interest	£594,000	£566,000	£587,000
Bank Interest	£39,000	£20,000	£21,000
Total Interest	£633,000	£586,000	£608,000

Treasury Management Strategy Prudential Indicators and Targets

- 2.17 Details of the Prudential Indicators and Treasury Management Targets compared to the position as at 31 March 2021 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 did not meet the target this year, following the reduction to rates in March 2020.

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 2020/21 was 5.67% although a management fee of 0.69% was paid back to the Fund resulting in a net interest rate of 4.98%.

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 31 March 2021 is £10,413,051, a reduction of £74,827 over the year.

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 £1,413,051 cumulative gain from the investment. The reduction during 2020/21 therefore has no impact on the overall cost of services.

Other Interest and Investment Income Received

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

	Budget 2020/21	Actual 2020/21
Fusion Loan	£25,900	£25,898
Investment Property Income	£85,250	£4,253
Mortgages	£3,470	£3,566
Other Loans	£2,500	£2,853
Total	£117,120	£36,570

2.23 The Council has provided a loan to Fusion Lifestyle, who manage the Council's sports centres, to fund sports centre improvements.

2.24 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 loan repayments and interest continued to be charged. The interest charged for 2020/21 was £25,898.

- 2.25 The Council purchased a commercial property in 2016/17, held on the balance sheet as an investment property. The property was occupied by a restaurant which following lockdown went into administration. The budget of £85,250 was therefore not expected to be achieved. The property has however now been relet with income of £4,253 being charged during 2020/21.

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. The cost of interest on this borrowing for 2020/21 was £7,000. The Council now has no external borrowing.

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 was £608,000, a decrease of £25,000 on the approved budget, but an increase of £22,000 from the Quarter 3 projection.

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 8 June 2021 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 4 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>
- Treasury and Prudential Management: Quarter 2 (to 30 September 2020) – CAB67/20
<https://democracy.tunbridgewells.gov.uk/documents/s51191/15%20Quarter%202020Treasury%20Management%202021.pdf>
- Treasury and Prudential Management: Quarter 3 (to 31 December 2021) – CAB111/20
<https://democracy.tunbridgewells.gov.uk/documents/s53797/11%20Quarter%202020Treasury%20Management%202021.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