

# Cabinet

25 June 2020

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

## Quarter 4 – Treasury and Prudential Indicator Management to 31 March 2020

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

### 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

<b>Meeting</b>	<b>Date</b>
Management Board	6 May 2020 (Verbal update)
Discussion with Portfolio Holder	Verbal update
Cabinet Advisory Board	Cancelled due to COVID-19 pandemic, replaced by Overview & Scrutiny 8 June 20
Cabinet	25 June 2020

# Quarter 4 – Treasury and Prudential Indicator Management to 31 March 2020

## 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 March 2020.
  - 1.2 The report updates Members on investments held by the Council and informs that interest from investments and bank interest for 2019/20 was £755,000, an increase of £68,000 on the approved budget, and an additional £26,000 from the Quarter 3 forecast.
  - 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 was £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 March 2020, 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 March 2020 the Council had £28.5 million of investments and the institution categories and the maturity profile of these investments are shown in **Appendix B**.

### Interest Rate Forecast

- 2.5 The bank interest rate set by the Bank of England's Monetary Policy Committee had been 0.75% from 2 August 2018 onwards. Despite uncertainty over Brexit the rate remained unchanged into early March 2020 until it became clear that the coronavirus outbreak would pose a huge threat to the economy of the UK. Two emergency cuts were then applied, first to 0.25% (on 10 March 2020) and then to 0.10% (on 19 March 2020). These cuts were accompanied by an increase in quantitative easing.

- 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 now forecast that the rate is unlikely to rise for the next two years. 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. The reduction in the interest rate will clearly affect the Council's interest budget in 2020/21 and onwards. Due to the timing there was little effect on the 2019/20 interest earned as funds were fixed at this point.
- 2.7 The Council immediately prioritised its cash flow management in response to the coronavirus crisis as forecasted cash flows are likely to be on a downward trend for the medium to long term, and there will be uncertainty over the amount and timing of cash flows. This will continue as the impact of the pandemic on service delivery, service income, government grants, council tax and business rate income, as well as other receivables becomes clearer.

#### **Investment and Bank Interest**

- 2.8 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.
- 2.9 The actual average funds available for investment were £43,290,000. The increase was due to the rescheduling of the 2019/20 capital programme into future years. As at Quarter 3 the increased funds were projected to earn additional interest of £42,000, increasing the forecast from £687,000 to £729,000. The Council continued to invest at sound rates and the additional interest earned for the year was actually £755,000, a total increase of £68,000 and a further increase from Quarter 3 of £26,000.
- 2.10 A summary of the forecast position is shown below. As can be seen the average interest rate for the year remained the same at 1.74%.

	<b>Budget 2019/20</b>	<b>Forecast Quarter 3</b>	<b>Actual Quarter 4</b>
Equated Investments	£39.50 million	£42.00 million	£43.29 million
Average Interest Rate	1.74%	1.74%	1.74%
Investment Interest	£654,000	£654,000	£665,000
Bank Interest	£33,000	£75,000	£90,000
<b>Total Interest</b>	<b>£687,000</b>	<b>£729,000</b>	<b>£755,000</b>

#### **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 March 2020 are set out in **Appendix C**.

2.12 None of the Prudential Indicators were breached during the year.

#### **Local Authorities' Property Fund**

2.13 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 2019/20 was 5.88% although a management fee of 0.73% was paid back to the Fund resulting in a net interest rate of 5.15 %.

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 March 2020 is £10,487,878, a loss in the year of £388,676 but an overall gain of £1,487,878.

2.15 The gain or loss 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 £1,487,878 cumulative gain from the investment. The loss during 2019/20 therefore has no impact on the overall cost of services for the year.

#### **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:

	<b>Actual 2019/20</b>
Mortgages	£4,010
Other Loans	£2,621
Fusion Loan	£45,526
Investment Property Income	£85,250
<b>Total Other Interest/Invest Income</b>	<b>£137,407</b>

2.17 The Council has provided a loan to Fusion Lifestyle, who manage the Council's sports centres, to fund sports centre improvements. The interest charged for 2019/20 was £45,526 as shown in the table above. As at 31 March 2020 £20,311 of this, along with two quarters of the loan repayments remained unpaid. The Council has agreed to defer the payments from Fusion, in the short term, as the sports centres were closed in March, in line with the Government Public Procurement Notice issued in response to the coronavirus pandemic.

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 was £85,250, which was the full amount due. 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 and therefore as at 31 March 2020 £1 million of the loan remained. This final amount will be repaid in July 2020.

2.20 The cost of interest on this borrowing for 2019/20 was £50,000.

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## **3. AVAILABLE OPTIONS**

3.1 This report is essentially for information.

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## **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 was £755,000, an increase of £68,000 on the approved budget and a further increase of £26,000 from the Quarter 3 forecast.

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## **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 2 June 2020, was cancelled due to the COVID-19 pandemic. This was replaced by Overview and Scrutiny on 8 June 2020.

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## **6. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION**

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.

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## **7. CROSS-CUTTING ISSUES AND IMPLICATIONS**

<b>Issue</b>	<b>Implications</b>	<b>Sign-off (name of officer and date)</b>
<b>Legal</b> 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	Patricia Narebor, Head of Legal Partnership

	administration and stewardship of the authority, including securing effective arrangements for treasury management.	
<b>Finance</b> 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
<b>Staffing establishment</b>	No implications	Clare Hazard, Accountancy Manager
<b>Risk management</b>	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
<b>Environment</b> and sustainability	No implications	Clare Hazard, Accountancy Manager
<b>Community safety</b>	No implications	Clare Hazard, Accountancy Manager
<b>Health and Safety</b>	No implications	Clare Hazard, Accountancy Manager
<b>Health and wellbeing</b>	No implications	Clare Hazard, Accountancy Manager
<b>Equalities</b>	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>

<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>

Treasury and Prudential Indicator Management Report: Quarter 3

<https://democracy.tunbridgewells.gov.uk/meetings/documents/s47383/10%20Quarter%203%20Treasury%20Management%20201920.pdf>