

Cherwell District Council

Accounts, Audit and Risk Committee

18 November 2020

Treasury Management Report – Q2 (September 2020)

Report of the Director of Finance

This report is public

Purpose of report

To receive information on treasury management performance and compliance with treasury management policy and Prudential Indicators for 2020-21 as required by the Treasury Management Code of Practice.

1.0 Recommendations

The meeting is recommended:

- 1.1 To note the contents of the Q2 (September 2020) Treasury Management Report.

2.0 Introduction

- 2.1 In 2012 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.
- 2.2 The Council's Treasury Management strategy for 2020-21 was approved at a meeting on 24 February 2020. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.
- 2.3 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 24 February 2020.

3.0 Report Details

Summary Position & Strategy

- 3.1 At the end of September 2020 the Council had borrowing of £152m and investments of £15.4m - a net borrowing position of £136.6m (30/6/20 - £119.6m).
- 3.2 Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk
- 3.3 All treasury management activities undertaken during the first 6 months of 2020-21 complied with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, and all Prudential Indicators were met during, and at the end of, the reporting period (see 3.10 and 3.18 below).

Borrowing performance for 6 months ended 30 September 2020

- 3.4 The Council requires external borrowing to fund its capital programme, and had total debt of £152m at the report date. £75m (49%) of the current debt is at fixed rate for the medium-long term from the Public Works Loan Board (PWLB), with the remainder borrowed short term from other local authorities (at fixed rates, but on a rolling basis with various durations, therefore effectively variable rate).
- 3.5 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required,
- 3.6 The table below shows the borrowing position during and at the end of the reporting period:

	Borrowing Amount £	Interest Rate	Interest Budget* £	Interest Actual* £	Variance £
Apr-Sep 2020	£144.2m (average)	1.64% (annualised)	£1.102m	£1.185m	£83k
As at 30/9/20	£152m	1.43%	-	-	-

* Interest payable relates to external loans only, excluding finance lease interest of £93k

- 3.7 Interest payable for the full year is forecast to be £16k over budget.

- 3.8 The table below shows average borrowing rates for the reporting period:

Borrowing Benchmarking	3-year	5-year	10-year	20-year
PWLB Maturity rate	1.98%	2.00%	2.24%	2.69%

- 3.9 A full list of current borrowing is shown below:

Lender	Principal Borrowed £	Maturity Date
Lincolnshire County Council	5,000,000	16/10/2020
Derbyshire County Council	5,000,000	20/10/2020
Elmbridge Borough Council	5,000,000	04/01/2021
Bromley Borough Council	5,000,000	21/01/2021

London Borough of Newham	10,000,000	15/02/2021
Greater London Authority	5,000,000	19/02/2021
Vale of Glamorgan	2,000,000	19/03/2021
Derbyshire Pension Fund	10,000,000	01/04/2021
St Helens Council	10,000,000	14/05/2021
Rugby Borough Council	5,000,000	08/07/2021
North of Tyne Combined Authority	10,000,000	29/09/2021
Oxfordshire County Council	5,000,000	15/07/2022
PWLB - ref 506477	21,000,000	19/10/2024
PWLB - ref 116158	6,000,000	25/09/2025
PWLB - ref 114322	6,000,000	19/09/2026
PWLB - ref 507455	10,000,000	31/05/2028
PWLB - ref 116160	6,000,000	25/09/2029
PWLB - ref 114324	6,000,000	19/09/2030
PWLB - ref 507456	5,000,000	31/05/2033
PWLB - ref 116162	5,000,000	25/09/2034
PWLB - ref 114326	5,000,000	19/09/2035
PWLB - ref 507457	5,000,000	31/05/2048
TOTAL	152,000,000	

3.10 Compliance with the authorised limit and operational boundary for external debt is demonstrated in the table below:

	2020/21 Maximum	30/9/20 Actual	2020/21 Operational Boundary	2020/21 Authorised Limit	Complied?
Borrowing / Total debt	£154m	£152m	£215	£240m	Yes

Treasury Investment performance for 6 months ended 30 September 2020:

3.11 Funds available for investment are on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.

3.12 In 2020/21 the Council expects to receive lower income from its cash and short-dated money market investments than it did in 2019/20 and earlier years. Dividends and income paid will ultimately depend on many factors including but not limited to the duration of COVID-19 and the extent of its economic impact.

3.13 The table below shows the investment position during and at the end of the reporting period:

	Investment Amount £	Interest Rate	Interest Budget £	Interest Actual £	Variance £
Apr-Sept 2020	£30.2m (average)	0.38% (annualised)	£51k	£58k	£7k

As at 30/9/20	£15.4m	0.47%	-	-	-
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3.14 Interest receivable currently shows a favourable variance against budget of £7k, but is forecast to show an adverse variance against budget of £18k for the full year. Cash balances in the early part of the year have been higher than expected due to government grants being received up-front, but lower than forecast interest rates will soon outweigh those gains.

3.15 The table below shows average money-market rates for the reporting period:

Investment Benchmarking	Overnight	7-day	1-month	3-month
LIBOR	0.05%	0.07%	0.11%	0.23%
SONIA (mid-rate)	0.09%	0.13%	0.13%	0.26%

3.16 The Council's cash investments are held primarily for liquidity purposes and therefore only available for relatively short term deposits in a restricted selection of high quality instruments.

3.17 A full list of current investments is shown below:

Counterparty	Principal Deposited £	Maturity Date/ Notice period
<u>Fixed Term Deposits</u>		
Lancashire County Council	3,000,000	02/11/2020
Slough Borough Council	3,000,000	30/11/2020
Darlington Borough Council	2,000,000	21/05/2021
<u>Money Market Funds</u>		
Goldman Sachs Asset Management	3,285,000	Same day
Federated Investors UK	4,026,000	Same day
<u>Notice account</u>		
Handelsbanken	47,301	Same day
TOTAL	15,358,301	

3.18 Compliance with investment limits is shown in the table below:

	2020/21 Maximum	30/9/20 Actual	2020/21 Limit	Complied?
Any single organisation, except the UK Government	£5.0m	£4.0m	£5m	Yes
UK Central Government	£35.5m	Nil	Unlimited	Yes
Any group of organisations under the same ownership	£5.0m	£4.0m	£5m per group	Yes

Any group of pooled funds under the same management	£5.0m	£4.0m	£5m per manager	Yes
Money Market Funds	£10.0m	£7.3m	£15m in total	Yes

Non-treasury investment activity

- 3.19 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.
- 3.20 As at 30 September 2020, the Council holds £81m of investments in the form of shares (£33.1m) and loans (£47.9m excluding accrued interest) to subsidiary companies and other organisations, primarily Graven Hill and Crown House.
- 3.21 The loan elements of these non-treasury investments generate a higher rate of return than earned on treasury investments, but this reflects the additional risks to the Council of holding such investments.

Overall performance

- 3.22 The overall performance for the 6 months to 30 September 2020 is as follows:

	Budget £k	Actual £k	Variance £k
Borrowing costs*	1,195	1,278	83
Treasury income	(51)	(58)	(7)
Non-treasury income	(2,169)	(2,158)	11
Total cost/(income)	(1,025)	(938)	87

*Borrowing costs include finance lease interest of £93k

- 3.23 Although currently showing an adverse variance, the full year forecast is expected to show a positive variance against budget of £13k. This figure will be updated in future reports as events progress in terms of borrowing and interest rate activity.
- 3.24 Our treasury advisers, Arlingclose, have provided a full economic report and interest rate forecast, which can be found at Appendix 1

4.0 Conclusion and Reasons for Recommendations

- 4.1 This report details the Treasury Performance and compliance with the Prudential Indicators for the Council for the period ending 30 September 2020.

5.0 Consultation

None

6.0 Alternative Options and Reasons for Rejection

6.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

7.0 Implications

Financial and Resource Implications

7.1 There are no financial implications arising directly from any outcome of this report.

Comments checked by:

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Legal Implications

7.2 There are no legal implications arising directly from any outcome of this report.

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Risk Management Implications

7.3 It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the Council's Treasury Management Policy has been avoided

Comments checked by:

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8.0 Decision Information

Key Decision: N/A

Financial Threshold Met: N/A

Community Impact Threshold Met: N/A

Wards Affected

All.

Links to Corporate Plan and Policy Framework

Links to all areas of Corporate Plan.

Lead Councillor

None.

Document Information

Appendix number and title

- Appendix 1 – Arlinglouse Economic Report and Interest Rate Forecast

Background papers

None

Report Author and contact details

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