Treasury Management 2019/20 Mid-Year Performance Report

Committee considering report:	Executive on 13 February 2020
Portfolio Member:	Councillor Ross MacKinnon
Date Portfolio Member agreed report:	11 December 2019
Report Author:	Gabrielle Esplin
Forward Plan Ref:	EX3871

1. Purpose of the Report

1.1 To inform Members of the treasury management activity and performance of the Council's investments as at 30th November 2019.

2. Recommendation

2.1 To note the contents of the report.

3. Implications and Impact Assessment

Implication	Commentary
Financial:	The Treasury function is responsible for the daily cash flow management of the Council. Income from investments contributes to the Council's annual budget.
Human Resource:	None
Legal:	None
Risk Management:	All investments are undertaken with a view to minimising the risk of financial loss. The Treasury Management Strategy approved by the Council sets parameters to ensure this.
Property:	The Council's Property investment strategy is closely aligned to the overarching Investment and Borrowing Strategy. Progress with property investment will be reported as part of quarterly financial performance monitoring.
Policy:	The Council's cash flow, borrowing and investments are carried out in accordance with the Annual Investment Strategy agreed by Council..

	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		
Health Impact:		X		
ICT or Digital Services Impact:		X		
Council Strategy Priorities or Business as Usual:		X		
Data Impact:		X		
Consultation and Engagement:	Internal Consultation: Joseph Holmes – Director of Resources Cllr Ross MacKinnon – Portfolio Holder for Finance			

4. Executive Summary

4.1 Summary of Treasury Management Performance April to November 2019

a) The aim of the Council's Treasury Management Strategy is to manage cash flow to ensure sufficient funds are available on a day to day basis for the Council's operations. Surplus funds are invested to maximise interest, while minimising the exposure of investments to risk.

b) The average level of funds invested by the Council between 1 April and 30th November in 2019/20 (net of short term borrowing) was £35.9 million and the average fund balance for the whole of this financial year is currently forecast to be £38.2 million (compared with £38.0 million in 2018/19).

c) Funds have been invested in the following instant access deposit accounts and money market funds (up to a maximum of £5 million per account):

- Natwest paying up 0.3% interest (depending on the level of the balance)
- Bank of Scotland paying a fixed rate of 0.6% interest
- Santander UK paying a fixed rate of 0.5% interest
- Goldman Sachs Sterling Liquid Reserve money market fund, paying a variable rate of interest averaging 0.69%.

d) Fixed term deposits have been placed with UK Building Societies for an average period of 241 days and an average rate of 1.11%. The maximum amount invested with any one institution was £5 million. 3 short term loans from other Local Authorities of between £2m and £5m were also arranged for between 1 and 22 days, at rates of between 0.65% and 0.79% to cover our short term cash flow needs. We also entered into a mutually beneficial arrangement with Newbury Town Council to hold back the first instalment of the Town Council's precept of £512k for a period of 122 days on which we paid interest to the Town Council at 0.65%.

e) Total interest earned on investments (net of interest paid on short term borrowing) from 1 April to 30 November 2019 was £256k. Net investment income for the whole of this financial year is expected to be £363k which would represent a rate of return of 0.95% (as compared with £314k or 0.83% in 2018/19). We also expect to receive £450k interest on the pre-payment of pension contributions to the Berkshire Pension Fund.

f) The total expected to be earned through cash flow management is therefore forecast to be £813k against a net income budget of £457k. It is proposed that the additional £356k income should be used to make additional provision for the future repayment of maturity loans (MRP), which will help the Council to fund future pressures on the capital programme.

g) £7.7 million new loans were taken from the Public Works Loans Board (PWLB) in August 2019 to fund capital expenditure on operational assets. A further £4.8 million is expected to be borrowed to fund capital expenditure and £5.8 million loan repayments will have been made by 31st March 2020. This will bring total long term borrowing to £207.1 million by 31st March 2020, assuming no further borrowing to fund property investment is undertaken in 2019/20.

4.2 Conclusions

a) The forecast return on investments in 2019/20 compared favourably to the previous year due to higher interest rates on deposit accounts and fixed term deposits. Interest rates are expected either to remain stable or to decrease slightly over the next few months. The Council's cash fund balance is expected to be lower in 2020/21 than in 2021/22 because around £9m capital grants, which were brought forward from previous years for major capital schemes, are currently expected to be spent in by 31st March 2020. Therefore we currently expect interest on investments in 2020/21 to be closer to the existing budget.

b) PWLB lending rates increased by about 1% across the board in October 2019. The Treasury team will therefore investigate alternative sources of borrowing which may represent better value for money than the PWLB.

5. Supporting Information

5.1 Introduction

a) The CIPFA Code of Practice for Treasury Management in the Public Services, revised in December 2017, requires the Section 151 Officer to report to the Executive before the start of the financial year on the treasury strategy for the coming year and, after the end of the financial year on Treasury Management activity and performance for the previous year. It is also recommended that we should report to members on the treasury management performance at the mid-year point.

b) The Treasury Management Group met in July and December 2019 to review performance and detailed implementation of policy. This group includes the Portfolio Member for Finance, together with the Head of Finance and Property/Director of Resources, the Chief Financial Accountant, the Finance Manager for Treasury, VAT and Projects and the Treasury Accountant.

c) This report provides details of the treasury activities and compliance with the Council's policies from the period April to November 2019, including:

- A summary of the economic factors affecting treasury policy and performance
- A summary of the approved strategy for 2019/20
- A review of treasury management performance in the year to date 2018/19.

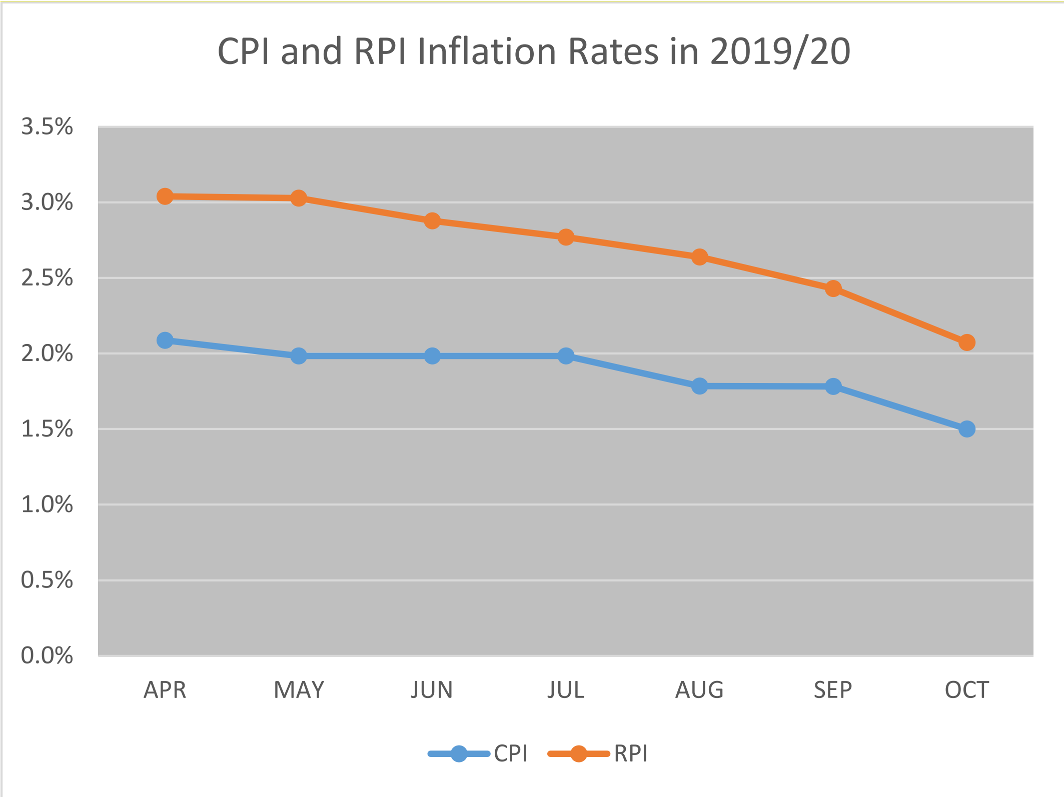
5.2 Economic conditions

a) The Bank of England Monetary Policy Report for November 2019 states that the UK economy has slowed during 2019, reflecting continued uncertainty about Brexit and slowing of growth in the world economy. UK inflation has fallen below the Banks's 2% target since August. The Monetary Policy Committee have therefore maintained the base rate of interest at 0.75%.

b) The Bank of England expects uncertainty facing UK households and businesses to fall over the next few months and the global growth to recover gradually. It is therefore expected that interest rates will remain steady over the next few months but that upward pressure on prices will build gradually over the next few years, which is likely to lead to a modest increase in interest rates in the medium to long term. However, if UK growth does not recover, it may need to lower interest rates in the short term.

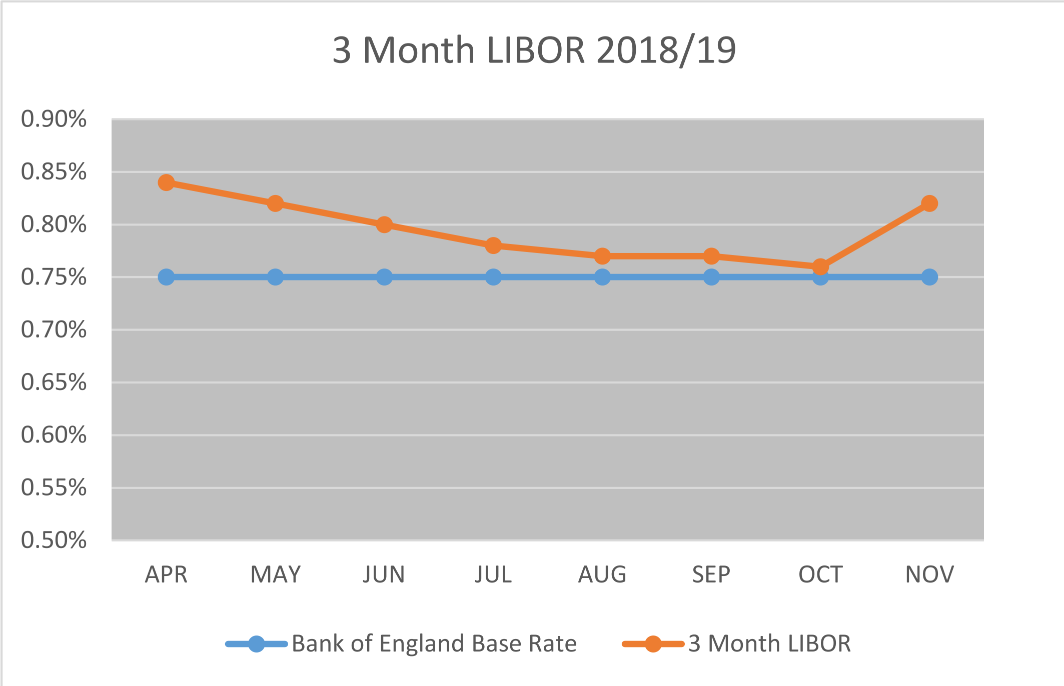
c) Chart 1 (below) shows inflation measured by PRI and CPI from April to October 2019. The Bank of England's main measure of inflation is CPI.

Chart 1



d) The interest rates which the Council can earn on its investments reflect the three month sterling London Inter-Bank Offer Rate or LIBOR (this is the rate at which the banks are prepared to lend to each other). Chart 2 (below) shows that LIBOR fell slightly from 0.84% in April 2019 to 0.76% in October 2019, which was only just above the Bank of England base rate, but the rate has recovered slightly in November.

Chart 2



e) The effect of this has been that interest rates available to the Council from building societies have decreased slightly since April 2019. For example, a 1 year investment with a top 20 building society in May 2019 earned 1.3% but equivalent rates are now at around 1.1%.

f) Another effect of recent UK economic conditions has been that the rates at which Local Authorities can borrow from the Public Works Loans Board, which are linked to the price of UK gilts, fell significantly during the first half of 2019. This led to a rapid increase in borrowing from the PWLB during the summer. In order to counteract this effect, HM treasury increased all PWLB rates by 1% in October. This restored PWLB rates approximately to their level in October 2018 and the Council is no longer able to take advantage of very low PWLB rates to reduce the cost of borrowing to fund its capital programme.

5.3 Overview of Cash Flow and Treasury Management Strategy

a) The aim of the Council's investment strategy (last approved by the Council in March 2019) is to manage cash flow to ensure sufficient funds are available on a day to day basis for the Council's operations. Surplus funds are invested to generate the most beneficial interest receipts, while minimising the exposure of investments to risk.

b) The amount of cash held by the Council fluctuates throughout the year and within each month. In general terms, funds are high on the first working day of the month when a large proportion of Council tax and government grant is received and low on the last working day of the month when the majority of staff salaries are paid. Funds also tend to be lower towards the end of the financial year as some of the smaller government grants are paid in full at the start of the financial year and the majority of

Council tax payments are made in ten equal instalments between April and January, so Council tax receipts are much lower in February and March.

5.4 Treasury management activity in 2018/19

a) Table 1 (below) shows level and average interest rates of the Council's loans and investments as at 30th November 2019, compared to the position at the 31st March 2019.

Table 1

	November 2019 £000	Average Rate	31st March 2019 £000	Average Rate
Fixed Rate Debt				
PWLB Loans Balance	204,812	3.08%	200,438	3.16%
PFI Debt	13,198	6.1%	13,651	6.1%
Short Term Borrowing	-	0.00%	8,500	0.90%
Total Debt	**218,010**		**222,589**	
Instant access cash deposits	1,710	0.43%	10,020	0.59%
Fixed term fixed rate investments	32,000	1.1%	26,000	1.1%
Total Cash & Investments	**33,710**		**36,020**	

b) In order to meet the Council's day to day cash flow requirements, a sum of between approximately £1 million and £20 million is held in instant access accounts. In line with the Council's Treasury Management Strategy, accounts are held with banks rated by Moody's Credit Ratings Agency at P1 (maximum deposit £5 million) or P2 (maximum deposit £4 million) while the money market fund is rated AAA. These ratings indicate a very low risk of default on short term investments.

c) The current interest rates and credit ratings for these accounts are as follows: Table 2

Institution:	**Interest Rate:**	**Changes:**	**Moody's Rating:**
Bank of Scotland	0.60%	Unchanged since 1 April 2019	P1
NatWest	0.2%< £1m 0.3%>£1m	Unchanged since 1 April 2019	P2
Santander UK	0.50%	Increased from 0.15% in April 2019	P1
Goldman Sachs Money Market Fund	Variable averaging 0.69%	peaked at 0.71% in May 2019; currently 0.67%	AAA

d) At various points in the year the Council had surplus funds which it has placed in fixed term, fixed rate investments until they were needed to cover outgoings. The longer the term of the investment, the higher the rate of interest earned. Between April and November 2019 we made 12 fixed term investments of between £1 million and £5 million for periods of between 11 and 365 days. Nine of these investments were placed with the top 20 British Building Societies and three with other local authorities. The average length of investment was 241 days. The average rate of interest earned from fixed term investments in the current financial year is 1.11%.

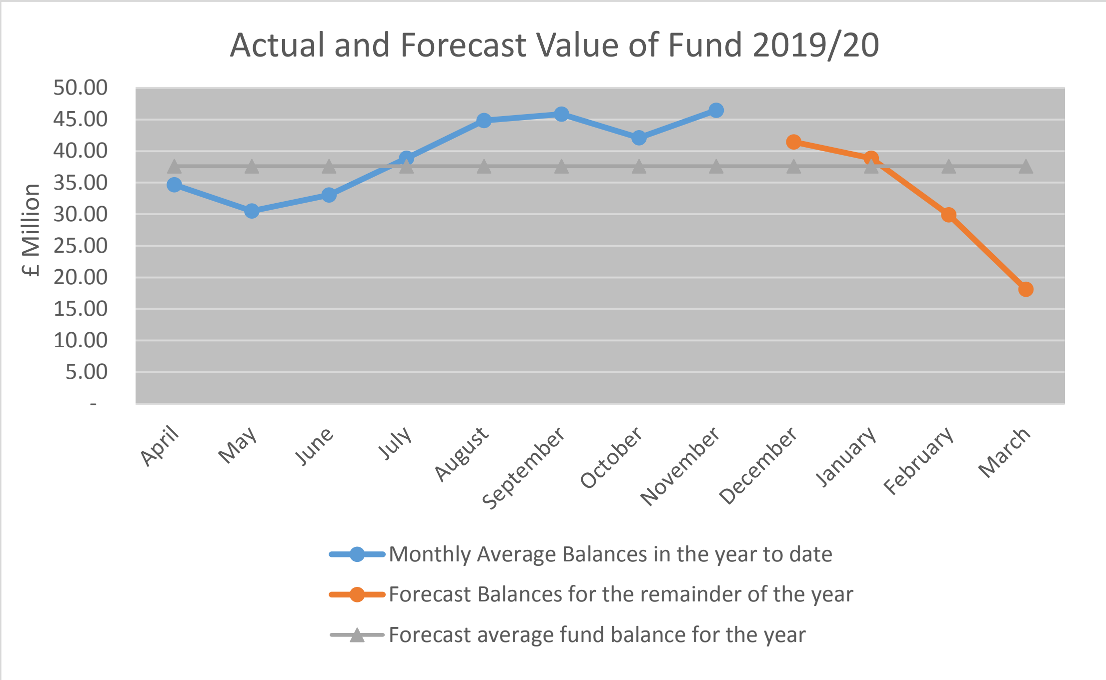
e) It was also necessary from time to time for the Council to take out short term loans to cover its cash flow requirements. 3 short term loans of between £2 million and £5 million have been taken out for this purpose so far in this financial year. These were all from other local authorities, for periods of between 1 and 22 days, at rates of interest between 0.65% and 0.79%. In addition, at the request of Newbury Town Council, West Berkshire Council also held back the first instalment of the Town Council's precept of £512k for a period of 122 days and paid interest to the Town Council at 0.65%.

f) The majority of the Council's investments and short term loans are arranged through one of five firms of financial brokers, which have ready access to the most competitive interest rates on the market each day.

5.5 Overall Performance of the Treasury Fund

a) The average value of the fund (i.e. the total of temporary investments less temporary borrowing) between April and November 2019 was £39.5 million (see Chart 3). The average fund balance for the whole of this financial year is currently forecast to be £38.2 million (compared with £38.0 million in 2018/19). This includes approximately £9 million capital grants brought forward from previous years in respect of major capital schemes which have been delayed, including the new Highwood Copse Primary school. These grants are expected to be spent by March 2020. The fund balance for 2020/21 is therefore expected to be lower than in 2019/20.

Chart 3



b) The net amount of interest earned from the Council's investment and short term borrowing activities between 1st April and 30th November 2019 is 256k. This compares with £176k earned between April and November 2018. Net investment income for the whole of this financial year is expected to be £363k which would represent a rate of return of 0.95% (as compared with £314k or 0.83% in 2018/19).

c) In addition, the Royal Borough of Windsor and Maidenhead, who manage the Berkshire pension fund, offered West Berkshire a discount of approximately 3% on its total pension contributions due for the year, in exchange for paying the contributions in advance, in April 2019, instead of in monthly instalments. In this way, the Council expects to achieve a saving of £450k, by, in effect, making a temporary investment of £14.8 million with the Berkshire Pension Fund at a rate of return of 3%. This can be achieved because the Pension Fund is much bigger than the West Berkshire treasury fund and is able to invest over longer periods and therefore to earn a higher rate of return.

d) Taking into account the saving from pre-payment of pension contributions the total net investment income for the whole of this financial year is expected to be £813k, which compares with the current budget for net income from investments of £457k, an overachievement of the income target of £356k. It is proposed that this additional investment income should be used to make additional provision for the future repayment of maturity loans (MRP), which will enable the Council to minimise the amount by which it needs to increase its revenue budget for capital financing, in order to fund pressures on the capital programme. The effect of this adjustment will be explained in more detail in the report on the Capital Strategy and programme which will be taken to the Executive in February 2020.

e) Table 3 (below) shows that investment and borrowing activities in 2018/19 were in line with the Treasury Management Strategy approved by Council in March and with the more detailed Treasury Management Policies, which underpin the Strategy.

Table 3

Policy	Target	Actual
Credit limit with counterparties not exceeded	100%	100%
All counterparties on approved lending list	100%	100%
All investments are approved investments	100%	100%
Segregation of duties complied with	100%	100%
Target for short term debt of £15m not exceeded	100%	100%

5.6 Long Term Borrowing in 2019/20

a) With the exception of debt embedded in the PFI contract, all the Council's long term debt is with the Public Works Loans Board (PWLB). The level of long term borrowing is in line with the prudential borrowing limits set out in the annual Investment and Borrowing Strategy 2019/20 and the Capital Strategy 2019 to 2022, which were both approved by the Council in March 2019. The operational borrowing limit agreed for 2019/20, as part of the Investment and Borrowing Strategy, was £273 million, which includes temporary borrowing and debt embedded in the PFI contract.

b) At 1 April 2019 the Council had long term PWLB loans of £200.4 million (including £20.5 million remaining from the loans inherited from the former Berkshire County Council). In August 2019 new PWLB loans of £7.7 million were taken out as follows:

Table 4

Purpose of Loan	Amount	Type	Rate	Start Date	Finish Date	Total Amount to be repaid
To fund capital spend in 19/20 with useful life of 30 years	£4,612,000	Annuity	1.58%	19/08/2019	19/08/2049	£5,809,684
To fund investment in Solar panels on Council buildings to achieve savings in energy costs	£536,900	Annuity	1.79%	19/08/2019	19/08/2059	£754,153
To fund capital spend in 19/20 with useful life of 50 years	£2,547,100	Annuity	1.84%	19/08/2019	19/08/2069	£3,867,780
Total	£7,696,000					£10,431,617

£3.3 million loan repayments have been made between April and November 2019, leaving the balance of long term debt with the PWLB at 30th November 2019 at £204.8 million.

c) Based on the capital expenditure forecast at the end of Quarter 2, it is expected to be necessary to borrow a further £4.8 million by 31st March 2020 to fund capital expenditure on operational assets. It currently appears unlikely that any further borrowing will be undertaken in the current financial year for further investment in commercial property. With £2.5 million further loan repayments due to be made by year end, total long term borrowing is therefore expected to be £207.1 million by 31st March 2020.

d) Following the recent steep increase in PWLB lending rates explained in paragraph 2.6, the Treasury team will investigate any alternative sources of borrowing which may represent better value for money than the PWLB. In order to allow for due diligence to be undertaken for potential new sources of lending, it may be necessary for some interim borrowing to be undertaken on a short term basis, for example from other local authorities, until longer term loans can be arranged.

e) The debt figures quoted above do not include the debt embedded in the Waste PFI contract to finance the cost of building the Padworth Waste Management facility. This debt, which is included in the total borrowing shown on the Council's balance sheet, stood at £13.2 million at end of November 2019. (Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management).

6. Other options considered

6.1 Not applicable

7. Conclusion

7.1 The forecast return on investments in 2019/20 compared favourably to the previous year due to higher interest rates on deposit accounts and fixed term deposits. Interest rates are expected either to remain stable or to decrease slightly over the next few months. The Council's cash fund balance is expected to be lower in 2020/21 than in 2021/22 because around £9m capital grants, which were brought forward from previous years for major capital schemes, are currently expected to be spent in by 31st March 2020. Therefore we currently expect interest on investments in 2020/21 to be closer to the existing budget.

7.2 PWLB lending rates increased by about 1% across the board in October 2019. The Treasury team will therefore investigate alternative sources of borrowing which may represent better value for money than the PWLB.

8. Appendices

Appendix A – Equalities Impact Assessment

Appendix B – Data Protection Impact Assessment

Subject to Call-In:
No: ☒
Report is to note only ☒

Officer details:

Name: Gabrielle Esplin
Job Title: Finance Manager – Capital, VAT and Treasury
Tel No: 01635 519836
E-mail Address: gabrielle.esplin@westberks.gov.uk

Appendix A

Equality Impact Assessment - Stage One

We need to ensure that our strategies, polices, functions and services, current and proposed have given due regard to equality and diversity as set out in the Public Sector Equality Duty (Section 149 of the Equality Act), which states:

(1) A public authority must, in the exercise of its functions, have due regard to the need to:

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it; This includes the need to:

(i) remove or minimise disadvantages suffered by persons who share a relevant protected characteristic that are connected to that characteristic;

(ii) take steps to meet the needs of persons who share a relevant protected characteristic that are different from the needs of persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it, with due regard, in particular, to the need to be aware that compliance with the duties in this section may involve treating some persons more favourably than others.

(2) The steps involved in meeting the needs of disabled persons that are different from the needs of persons who are not disabled include, in particular, steps to take account of disabled persons' disabilities.

(3) Compliance with the duties in this section may involve treating some persons more favourably than others.

The following list of questions may help to establish whether the decision is relevant to equality:

- **Does the decision affect service users, employees or the wider community?**
- **(The relevance of a decision to equality depends not just on the number of those affected but on the significance of the impact on them)**
- **Is it likely to affect people with particular protected characteristics differently?**
- **Is it a major policy, or a major change to an existing policy, significantly affecting how functions are delivered?**
- **Will the decision have a significant impact on how other organisations operate in terms of equality?**
- **Does the decision relate to functions that engagement has identified as being important to people with particular protected characteristics?**
- **Does the decision relate to an area with known inequalities?**
- **Does the decision relate to any equality objectives that have been set by the council?**

Please complete the following questions to determine whether a full Stage Two, Equality Impact Assessment is required.

What is the proposed decision that you are asking the Executive to make:	No decision – report to note only
Summary of relevant legislation:	
Does the proposed decision conflict with any of the Council's key strategy priorities?	No
Name of assessor:	Gabrielle Esplin
Date of assessment:	9/12/19

Is this a:		**Is this:**	
Policy	**No**	**New or proposed**	**No**
Strategy	**No**	**Already exists and is being reviewed**	**Yes**
Function	**Yes**	**Is changing**	**No**
Service	**No**		

What are the main aims, objectives and intended outcomes of the proposed decision and who is likely to benefit from it?	
Aims:	Not applicable – report on year to date activity to note only
Objectives:	Not applicable – report on year to date activity to note only
Outcomes:	Not applicable – report on year to date activity to note only
Benefits:	Not applicable – report on year to date activity to note only

Note which groups may be affected by the proposed decision. Consider how they may be affected, whether it is positively or negatively and what sources of information have been used to determine this.

(Please demonstrate consideration of all strands – Age, Disability, Gender Reassignment, Marriage and Civil Partnership, Pregnancy and Maternity, Race, Religion or Belief, Sex and Sexual Orientation.)

Group Affected	**What might be the effect?**	**Information to support this**
Age		
Disability		
Gender		

Reassignment		
Marriage and Civil Partnership		
Pregnancy and Maternity		
Race		
Religion or Belief		
Sex		
Sexual Orientation		
Further Comments relating to the item:		
Not applicable – report on year to date activity to note only		

Result	
Are there any aspects of the proposed decision, including how it is delivered or accessed, that could contribute to inequality?	**No**
Please provide an explanation for your answer:	
Will the proposed decision have an adverse impact upon the lives of people, including employees and service users?	**No**
Please provide an explanation for your answer:	

If your answers to question 2 have identified potential adverse impacts and you have answered 'yes' to either of the sections at question 3, or you are unsure about the impact, then you should carry out a Stage Two Equality Impact Assessment.

If a Stage Two Equality Impact Assessment is required, before proceeding you should discuss the scope of the Assessment with service managers in your area. You will also need to refer to the Equality Impact Assessment guidance and Stage Two template.

Identify next steps as appropriate:	
Stage Two required	No
Owner of Stage Two assessment:	
Timescale for Stage Two assessment:	

Name: Gabrielle Esplin **Date: 9/12/19**

Please now forward this completed form to Rachel Craggs, Principal Policy Officer (Equality and Diversity) (rachel.craggs@westberks.gov.uk), for publication on the WBC website.

Appendix B

Data Protection Impact Assessment – Stage One

The General Data Protection Regulations require a Data Protection Impact Assessment (DPIA) for certain projects that have a significant impact on the rights of data subjects.

Should you require additional guidance in completing this assessment, please refer to the Information Management Officer via dp@westberks.gov.uk

Directorate:	Resources
Service:	Finance and Property
Team:	Accountancy
Lead Officer:	Gabrielle Esplin
Title of Project/System:	Treasury Management
Date of Assessment:	9/12/19

Do you need to do a Data Protection Impact Assessment (DPIA)?

	Yes	No
Will you be processing SENSITIVE or "special category" personal data? Note – sensitive personal data is described as "*data revealing racial or ethnic origin, political opinions, religious or philosophical beliefs, or trade union membership, and the processing of genetic data, biometric data for the purpose of uniquely identifying a natural person, data concerning health or data concerning a natural person's sex life or sexual orientation*"	☐	☒
Will you be processing data on a large scale? Note – Large scale might apply to the number of individuals affected OR the volume of data you are processing OR both	☐	☒
Will your project or system have a "social media" dimension? Note – will it have an interactive element which allows users to communicate directly with one another?	☐	☒
Will any decisions be automated? Note – does your system or process involve circumstances where an individual's input is "scored" or assessed without intervention/review/checking by a human being? Will there be any "profiling" of data subjects?	☐	☒
Will your project/system involve CCTV or monitoring of an area accessible to the public?	☐	☒
Will you be using the data you collect to match or cross-reference against another existing set of data?	☐	☒
Will you be using any novel, or technologically advanced systems or processes? Note – this could include biometrics, "internet of things" connectivity or anything that is currently not widely utilised	☐	☒

If you answer "Yes" to any of the above, you will probably need to complete Data Protection Impact Assessment - Stage Two. If you are unsure, please consult with the Information Management Officer before proceeding.