Reigate & Banstead
BOROUGH COUNCIL
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SIGNED OFF BY	Interim Head of Finance
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TO	Audit Committee Executive Council
DATE	Thursday, 25 November 2021 Thursday 16 December 2021 Thursday 10 February 2022
EXECUTIVE MEMBER	Deputy Leader and Portfolio Holder for Finance and Governance

KEY DECISION REQUIRED	Y
WARDS AFFECTED	(All Wards);

SUBJECT	Treasury Management Mid-Year Report 2021/22

RECOMMENDATIONS

Audit Committee

(i) **Review the Treasury Management Performance for the year to date and the updated prudential indicators and provide any comments for consideration by Executive; and**

(ii) **Note the updated Treasury Management outturn results for 2020/21 that have been resubmitted now that the previously-outstanding information at Section 6 is available.**

Executive and Council

(i) **Note the Treasury Management Performance for the year to date and the updated prudential indicators.**

REASONS FOR RECOMMENDATIONS

This report confirms compliance with the requirements of the regulatory framework for treasury management.

The Council is required to receive and approve, as a minimum, three treasury reports each year, which incorporate relevant policies, estimates and actuals:

(i) **Prudential and Treasury Indicators and Treasury Strategy** – sets the framework for treasury management activities in the following financial year.
- The Treasury Management Strategy and Performance Indicators for 2021/22 were previously approved by Council on the 8 April 2021.

(ii) **Half-Year Treasury Management Report** – updates Members on the current borrowing and investment position, whilst amending prudential indicators and revising policies where necessary.
- This report.

(iii) **Annual Treasury Management Outturn Report** – a backward-looking review focussing on the previous year's performance.
- The outturn report for 2020/21 was reported to Executive on 16 September 2021 and approved by Council on 23 September 2021. It was also reported to Audit Committee on 28 September 2021. It is now re-submitted to this meeting of Audit Committee and includes the previously-outstanding information at Section 6.

EXECUTIVE SUMMARY

This report sets out treasury management performance for 2021/22 to date including performance against the Prudential and Treasury Management Indicators.

It will be presented to Audit Committee on 25 November and Executive on 16 December 2021 and to full Council on 10 February 2022 will be asked to approve the recommendations.

2021/22 has continued to be a challenging year for treasury management due to uncertainty in the financial markets caused by COVID-19 The Council has been holding funds at a higher level than expected due to the vital role it has played in passing on grants to support businesses during the pandemic, and to provide additional business rates reliefs. It has, however, ensured that these funds were passed on as soon as possible to those in need.

Overall performance is currently forecast to be better than budget. This is as a result of the borrowing facility not being utilised due to slippage in the 2021/22 capital programme.

At the half year, the position is that:

- Borrowing has reduced to £4m; since the end of the financial year 2020/21 a loan for £5m was repaid on 18 June 2021;

- Investments in Money Market Funds now stand at £28m, up from £23m at the end of 2020/21;

- Fixed term investments have reduced to zero from a balance of £13m as at the end of the financial year 2020/21; and

- Long-term investments in companies including interest risen since year-end to remain at £16.891m.

The forecast year end position:

- Borrowing to rise to £20m, depending on the requirements of the capital programme. We currently anticipate this borrowing occurring no earlier than March 2022;

- Investments with interest in both fixed term and long-term company investments to rise to £17.394m; and

- Additional Money Market Funds to be opened and then others to mature and close. In addition to Money Market Funds, there is likely to be further investment in Building Society and other secure investments, depending upon the interest rate offered.

The updated Treasury Management outturn position for 2020/21 is also reported, as requested by Audit Committee at its meeting on 28 September 2021.

- At that date there was a small number of figures at Section 6 (Table 10) to be confirmed relating to the Council's non-treasury (company) investments.
- This information is now available and the updated version is attached at Annex 2.

STATUTORY POWERS

1. The Council operates its Treasury Management activity as an integral part of its statutory obligation to effectively manage the Council's finances under the Local Government Act 2003 and associated regulations.

2. Treasury Management activities are undertaken in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Government's Investment Regulations.

3. This report meets these statutory requirements and incorporates the needs of the Prudential Code to ensure adequate monitoring of Capital Expenditure Plans and the Council's Prudential Indicators.

BACKGROUND

4. Regulations issued under the Local Government Act 2003 require local authorities to produce an annual review of its treasury management activities for the previous year, including performance against the Prudential and Treasury Management Indicators.

5. The Treasury Management Strategy and Performance Indicators for 2021/22 were approved by Council on the 8 April 2021.

6. The Treasury Management outturn position for 2020/21 was considered by Audit Committee at its meeting on 28 September 2021. The updated Treasury Management outturn position for 2020/21 is reported again, as at that date there was a small number of figures at Section 6 (Table 10) to be confirmed relating to the Council's non-treasury (company) investments. This information is now available and the updated version is attached at Annex 2.

FORWARD VIEW

7. The first half of 2021/22 has continued to reflect the Council's response to the COVID-19 situation and this experience needs to be considered and reflected in investment decisions made in the current year and the progress made on the capital programme. This experience also needs to be considered when the Treasury Management Strategy 2022/23 is produced.

8. It is still important to revisit the investment targets and risk appetite for investments in light of the latest economic environment and forecasts of future economic activity. The Treasury Management Strategy needs to be subject to ongoing review to ensure that it reflects the costs of actual borrowing and projections of future costs of borrowing and sets out the required rate of return of investments.

9. The Council regularly consults with its Treasury management advisors (Link) and takes account of their briefings on any changes in the risk profile of individual Money Market Funds, as well as considering updates from the Money Market Fund institutions themselves and the wider market in general.

10. We will continue to review the calculation and the assumptions that underpin the minimum revenue provision (MRP) calculation and the estimated loss allowance calculation for investments in trading companies to ensure that the General Fund is protected from any unforeseen losses.

11. In considering and updating the Treasury Management Strategy we ensure that any investments that are made are comply with our local carbon reduction targets.

12. The Treasury Management Strategy for 2022/23 will be set after the Capital Programme 2022/23 to 2026/27 and its financing are approved as part of budget-setting in January. The Strategy will be reported in draft to Audit Committee in March 2022, and then in its final form to Executive in March for consideration and onward approval by Council in April.

13. The Treasury Management Strategy 2022/23 will take account of any residual ongoing COVID-19 risks and the timing of expected capital receipts.

KEY INFORMATION

Half-Year Performance 2021/22

14. Performance during 2021/22 is reported at Annex 1.

COVID-19 Pandemic

15. The impacts of COVID-19 are still being felt including:
    - Less predictable cashflows due to receipt of planned and additional Government funding;
    - A continuation of the reduction in income receipts across all services and the Collection Fund; and
    - A reduction in market return on all investments

16. COVID 19 still means that the revised timescales for receipt of planned and emergency funding created a significant challenge from a treasury management perspective. They made cashflow forecasting less certain, which meant that large cash balances could not be avoided. Remote working and banks having no immediate solution which avoids the need for ‘wet’ signatures on documentation, means that new investments and call accounts cannot always be easily set up to place the excess funding.

Investments

17. The underlying economic environment continues to remain challenging for the Council due to market uncertainties driven by Brexit and tariff tensions between USA and China. The approach of maintaining short-term investments with high quality counterparties has continued, which allows the Council to be responsive when allocating funding to approved projects.

18. To manage the associated risks, investments are limited to a small group of banks and some building societies where they meet the Council’s Treasury Management Strategy. The returns on investment continue to be low.

19. The Council continues to seek to reduce its investment counterparty risk (i.e. those institutions it is ‘safe’ to invest with) by further diversifying its investment portfolio.

Borrowing

20. Borrowing options are currently being considered in preparation for meeting the forecast cash funding requirements of the Capital Programme. The chief objective when borrowing is to strike an appropriate risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the authority’s long-term plans change.

Treasury Management Strategy

21. The Treasury Management Strategy Statement (TMSS), for 2021/22 was approved before the start of the year. There are no policy changes to the TMSS in this report,

which focusses on updating the in-year position in the light of the updated economic position and budgetary allocations previously approved.

The Council's Capital Position (Prudential Indicators)

22. This part of the report is structured to update:
    - The Council's capital expenditure plans;
    - How these plans are being financed;
    - The impact of changes in capital expenditure plans on the prudential indicators and the underlying need to borrow; and
    - Compliance with the limits in place for borrowing activity.

Prudential Indicators for Capital Expenditure

23. The table below sets out the latest estimates for capital expenditure and any changes since the Capital Programme original budget was approved earlier this year.

Table 1: CAPITAL EXPENDITURE AND FINANCING	**2020/21**	**2021/22**			
	Actual at 31-Mar-21	**Budget at 01-Apr-21**	**Budget including approved Slippage at 30-Sep-21**	**Actual Cap Ex to date at 30-Sep-21**	**Forecast including approved growth at 31-Mar-22**
	£000	£000	£000	£000	£000
Capital Expenditure	**25,453**	**41,624**	**141,080**	**15,620**	**42,025**
Financed by:					
Capital Grants	2,113	1,600	1,600	-	1,600
Capital Receipts	4,403	24,488	5,409	-	4,402
Funding equivalent to historic New Homes Bonus allocation			19,079		
Revenue contribution	-	-	-	418	427
Capital Reserves	-	7000	7000	3500	7000
Prudential Borrowing	18,937	8,536	107,992	11,702	28,595
Total Capital Funding	**25,453**	**41,624**	**141,080**	**15,620**	**42,025**

24. The Capital Programme forecast has been updated to take account of 2020/21 carry-forwards, re-profiling of projects and new project approvals.

25. The borrowing element of the table increases underlying indebtedness by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue budget charges for the repayment of debt (the Minimum Revenue Provision - MRP).

Prudential Indicator: Capital Financing Requirement (CFR)

26. The table below sets out the Capital Financing Requirement (CFR), which is the underlying external need to incur borrowing for a capital purpose.

Table 2: PRUDENTIAL INDICATOR – CFR	**2020/21**		**2021/22**	
	Actual at 31-Mar-21	**Budget at 01-Apr-21**	**Budget including approved growth at 30-Sep-21**	**Forecast including approved growth at 31-Mar-22**
	£000	£000	£000	£000
Opening balance - CFR	**31,105**	**106,235**	**49,875**	**49,875**
Add prudential borrowing (Table 1)	18,937	8,536	107,992	28,595
Less MRP	(167)	(528)	(528)	(294)
Less PFI and Finance Lease repayments	-	-	-	-
Net movement in CFR	18,770	8,008	107,464	28,301
Closing Balance CFR	**49,875**	**114,243**	**157,339**	**78,176**

27. The borrowing need in 2020/21 resulted in a closing Capital Financing Requirement (CFR) of £49.875m.

28. Internal borrowing is a '…*treasury management practice whereby an authority delays the need to borrow externally by temporarily using cash held for other purposes, such as insurance funds held in earmarked reserves*…' (source: National Audit Office) This borrowing will be repaid over time by way of the Minimum Revenue Provision.

29. The minimum revenue provision (MRP) charge is the means by which capital expenditure, which is financed by borrowing (internal & external) or credit arrangements, is paid for by council taxpayers. Local authorities are required each year to set aside some of their revenue budget as provision for this debt. There will be a requirement to make a minimum revenue provision (MRP) toward the repayment of borrowing in 2021/22 estimated to be £0.294m. The Council is not required to make a minimum revenue provision for loans to companies or investment properties as an estimated loss allowance is made instead under IFRS9.

30. Table 3 sets out the performance to date against the limits set out in the Treasury Management Strategy and the likely position to year end.

<u>Prudential Indicator: Limits to Borrowing Activity</u>

31. The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

32. A key prudential indicator is to ensure that over the medium term, net borrowing, (borrowing less investments) will only be for a capital purpose. Gross external borrowing should therefore not, except in the short term, exceed the total of the CFR in the preceding year plus the estimate of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The table below sets out gross borrowing not exceeding the total of the CFR over the 5-year period. The Council complies with this requirement, as shown in the table.

Table 3: COMPARISON OF BORROWING PARAMETERS TO ACTUAL EXTERNAL BORROWING	**2020/21**	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**
	£000	£000	£000	£000	£000
Opening CFR	**31,105**	**49,875**	**85,604**	**87,226**	**89,839**
In Year addition to CFR	18,937	36,023	2,134	3,538	3,362
MRP	(167)	(294)	(511)	(926)	(970)
Closing CFR	**49,875**	**85,604**	**87,226**	**89,839**	**92,231**
External Borrowing	-	-	2,134	3,538	3,362
Authorised Limit	**161,500**	**161,500**	**161,500**	**161,500**	**161,500**
Operational Boundary	**151,500**	**151,500**	**151,500**	**151,500**	**151,500**

Prudential Indicator- Authorised Limit

33. The Council sets limits on borrowing activity. The Authorised Limit represents the limit beyond which borrowing is prohibited, unless further approval is obtained from Council. The Authorised Limit is unchanged and is set out in Table 3 above.

Investment Portfolio 2021/22

34. A detailed commentary on the economy and interest rates, as provided by the Council's treasury advisor, Link Asset Services, can be found in section 2 at Appendix 1 to this report.

35. In summary, the investment market remains difficult in comparatively low interest rates and the continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its consequent impact on banks, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low. The table below sets out the net treasury investment position as at 30 September 2021 and the projected position at 31 March 2022.

36. Following investment in the capital programme, treasury investments were £28m at 30 September 2021. Cash requirements will be closely monitored to assess any borrowing necessary by the end of the financial year to meet the requirements of the capital programme.

Table 4: INVESTMENT PORTFOLIO – TREASURY INVESTMENTS	Actual		Actual		Forecast	
	31-Mar-21		30-Sep-21		31-Mar-22	
	£000	%	£000	%	£000	%
Banks	12,468	26	22,553	45	11,478	70
Building Societies	13,000	27	-	-	-	-
Aberdeen Liquidity Fund	5,000	10	10,000	20	-	-
Black Rock	5000	10	8,000	16	-	-
Federated Money Market Fund	5,000	10	-	-	-	-
Goldman Sachs International	5,000	10	-	-	-	-
GS Sterling Liquid Reserve			10,000	20	5,000	30
LGIM Sterling Liquidity 4	3000	6	-	-	-	-
TOTAL TREASURY INVESTMENTS	**48,468**	**100**	**50,553**	**100**	**16,478**	**100**

37. The table below sets out total investments, including non-treasury investments such as investment in property assets and council-owned companies.

Table 5: INVESTMENT PORTFOLIO – NON-TREASURY INVESTMENTS	Actual		Actual		Forecast	
	31-Mar-21		30-Sep-21		31-Mar-22	
	£000	%	£000	%	£000	%
Third Party Loans:						
Subsidiaries - Greensand Property Holdings Ltd	14,410	24	14,869	25	15,325	25
Companies - Horley Business Park Development LLP	877	1	922	2	968	2
Associate - Pathway for Care Ltd	1,100	2	1,100	2	1,100	2
Investment Property	43,372	73	43,372	72	43,372	71
TOTAL NON-TREASURY INVESTMENTS	**59,759**	**100**	**60,263**	**100**	**60,766**	**100**

38. The figures above are shown gross of any impairment for credit loss but without any rolled-up interest.

39. The treasury investment portfolio yield for the first 6 months of the year was 0.0157% which compares to the benchmark of SONIA rate of 0.048%.

Approval Limits

40. The Treasury Management Strategy specifies the maximum sums that can be invested with any one organisation. There was a period when the Council breached its limit on the maximum sum to be invested in a single institution, as specified in the 2021/22 Treasury Management Strategy, by retaining funds for COVID-19 in the operational bank accounts.

41. This was due to the continued receipt of significant emergency funding at short notice from the Government. The breach has subsequently been addressed by opening additional investment accounts with new institutions, after agreeing new processes for doing so which allowed for remote working and social distancing

Table 6.1: Breaches of Maximum Limits - Lloyds Bank (only)

Quarter	Days in period	Days above limit	Average above limit
One	65	26	£4,532,198
Two	66	0	£0

Table 6.2: Breaches of Maximum Limits - Lloyds and Bank of Scotland Combined (being part of the same banking group)

Quarter	Days in period	Days above limit	Average above limit
One	65	30	£4,601,614
Two	66	32	£5,592,553

42. In addition, there was one investment from 1 April to 10 September 2021 where £5m was deposited in a Federated Money Market Fund to help spread counterparty-risk. This investment is accredited by two rather than three of the relevant credit agencies, being Standard & Poors and Fitch (no rating provided by Moody), and therefore did not fully-meet TMSS rating requirements.

Borrowing Strategy

43. The Borrowing Strategy has been updated to reflect the Capital Financing Requirement as set out in Table 3 above. We currently anticipate borrowing occurring no earlier than March 2022.

Updated Outturn Performance 2020/21

44. The Treasury Management outturn position for 2020/21 was considered by Audit Committee at its meeting on 28 September 2021. At that date there was a small number of figures to be confirmed relating to the Council's non-treasury (company) investments. This information is now available and the updated version is attached at Annex 2.

OPTIONS

45. The Audit Committee has three options:

Option 1 – note the report and provide any feedback to the Executive.

Option 2 – note the report but ask officers to provide more detail on specific issues contained in the report before it can be submitted to Executive and Council for approval.

Option 3 – reject the report. This would result in non-compliance with the Treasury Management Code of practice and associated regulations.

The Audit Committee is asked to approve Option 1.

46. The Executive has three options:

    Option 1 – note the report and recommend its approval by Council.

    Option 2 – note the report but ask officers to provide more detail on specific issues contained in the report before it can be submitted to Council for approval.

    Option 3 – reject the report. This would result in non-compliance with the Treasury Management Code of practice and associated regulations.

    The Executive is asked to approve Option 1.

LEGAL IMPLICATIONS

47. There are no direct legal implications arising from this report

FINANCIAL IMPLICATIONS

48. The financial implications of treasury management activities were reported in the budget section of the Quarter 1 Performance Report to Executive on 16 September 2021. There are no additional direct financial implications that arise from this report.

EQUALITIES IMPLICATIONS

49. There are no equalities implications arising from this report.

COMMUNICATION IMPLICATIONS

50. There are no communications implications arising from this report

RISK MANAGEMENT CONSIDERATIONS

51. Key risks are managed in accordance with Prudential Code indicators, including ensuring Security, Liquidity and Yield for investments. Further details are provided at Annex 1.

OTHER IMPLICATIONS

52. There are no other implications relating to this report.

CONSULTATION

53. Audit Committee will be asked to consider this report at its meeting on 25 November 2021 and it will be reported to Executive on 16 December 2021. It will then be presented to Council on 10 February 2022.

POLICY FRAMEWORK

54. This report is submitted in accordance with the Council's Treasury Management Policy.

Annexes

1. Treasury Management Half-Year Report 2021/22
2. Treasury Management Outturn 2020/21

BACKGROUND PAPERS

- Executive 25 March 2021 – *Treasury Management Strategy 2021/22*
- Executive 28 September 2021 – *Treasury Management Outturn Report for 2020/21*