FULL COUNCIL

Wednesday 23 September 2020

TREASURY MANAGEMENT OUTTURN 2019/20 AND MID YEAR REPORT 2020/21

EXECUTIVE SUMMARY

1. The Treasury Management Policy Statement for 2019/20 requires an annual report and mid-year report on the Treasury Management function to be produced annually.
2. The report reviews performance of the treasury management function including prudential indicators for 2019/20 and incorporates a mid-year review of 2020/21.

2019/20 Summary:

- East Suffolk Councils short term Investments totalled £84m, long term investments totalled £18.68 and liquidity investments totalled £7m as at 31st March 2020
- Total Investments as at 31st March 2020 was £109.68m
- Interest received on investment balances during the year totalled £1.46m.
- East Suffolk Council operated within its approved Prudential Indicator Limits for 2019/20.

2020/21 Summary to date:

- Short term Investments totalled £68.6m, Long Term Investments totalled £24.86m and Liquidity Investments totalled £68m (includes £40m of Covid19 Grant money) as at 31st August 2020.
- Total Investments as at 31st August 2020 was £160.28m
- Interest received to 31st August 2020 totalled £0.33m.
- The Council received £101.5m of Covid19 grant money from MHCLG for distribution in April 2020 of which £65.7m has been distributed with the remaining balance due to be repaid to MHCLG in the coming months.
- The approved counterparty limits have been revised for 2020/21 at Appendix B.

Is the report Open or Exempt?	Open

Wards Affected:	All Wards in the District

Cabinet Member:	Councillor Maurice Cook Cabinet Member with responsibility for Resources

Supporting Officer:	Lorraine Rogers Deputy Chief Finance Officer 01502 523667 lorraine.rogers@eastsuffolk.gov.uk

1 INTRODUCTION

1.1 Treasury Management in Local Government is governed by the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services and in this context is the "management of the Council's cash flows, its banking and its capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks". This Council has adopted the Code and complies with its requirements.

1.2 The Council approves a strategy report at the beginning of each financial year, which identifies how it proposes to borrow and invest in the light of capital spending requirements, interest rate forecasts and economic conditions. The Cabinet monitors the implementation of the treasury strategy and reports are received quarterly during the year. The Audit & Governance Committee are responsible for ensuring scrutiny of the treasury management activities.

1.3 Under the Prudential Code for Capital Finance in Local Authorities, the Council determines at a local level its capital expenditure and can borrow or use alternative financing methods to finance capital spending provided that capital plans are demonstrably affordable, prudent, and sustainable. The Code requires prudential indicators to be set and monitored, some of which are limits.

1.4 Councils must report on their treasury management activities that have taken place over the past financial year to Full Council. The remainder of this report summarises the year's activities and performance and provides an update on the activities that have taken place during the first half of the current financial year.

TREASURY MANAGEMENT OUTTURN 2019/20

2 BORROWING

2.1 During 2019/20 the Council did not enter any new borrowing arrangements.

The debt portfolio for 2019/20 can be seen in the table below and is summarised by £71.17m attributable to the HRA which includes £68.30m of Self-Financing loans taken out in 2011/12 and £6.24m of General Fund loans.

Loans as at 31st March 2020	Principal £m	Rate Range %	Maturity Range (years)
PWLB Fixed Rate Maturity/Equal Instalments of Principal Loans	67.12	3.01 - 8.38	2.0- 42.0
PWLB Variable Rate Maturity Loans	10.29	0.88%	2.0
Total	**77.41**	**0.88 - 8.38**	**2.0 - 42.0**

3 INVESTMENT ACTIVITY

3.1 The Council's investment policy for 2019/20 was governed by the Ministry of Housing, Communities and Local Government (MHCLG) guidance and implemented in the annual investment strategy approved by the East Suffolk Shadow Authority on 29th January 2019. This policy set out the approach for choosing investment counterparties and was based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The MHCLG Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

3.2 The average cash balances held during the year was £119.30m and Investment income received was £1.46m which exceeded the planned budget of £750k. This is mainly due to the increased return on the Property Investment and Diversified Income investments along with an increased number of short-term Local Authority investments in the last quarter of 2019/20 which achieved an increased rate of return.

	Balance at 1st April 2019	Investment made	Investments repaid	Balance at 31st March 2020
INVESTMENTS	£m	£m	£m	£m
Term Investments (liquidity & term <60 months)	113.28	319.20	-322.80	109.68

3.3 As at the 31st March 2020 the investment profile was as follows.

INVESTMENTS	**Balance at 31st March 2020 £m**	**Rate Range**	**Institution**
Liquidity Investments	7.00	0.40%	UK Banks
Short Term Investments			
June 2019 to June 2020	3.00	0.95%	Local Authority
July 2019 to July 2020	14.00	0.95%	Local Authority
August 2019 to May 2020	5.00	0.89%	Local Authority
August 2019 to August 2020	3.00	0.90%	Local Authority
September 2019 to September 2020	2.00	0.90%	Local Authority
November 2019 to October 2020	3.00	0.83%	Local Authority
November 2019 to May 2020	10.00	0.85%	Local Authority
November 2019 to September 2020	5.00	0.80%	Local Authority
December 2019 to June 2020	11.00	0.78% - 0.85%	Local Authority
December 2019 to December 2020	5.00	1.10%	Local Authority
January 2020 to July 2020	6.00	0.84%	Local Authority
January 2020 to September 2020	2.00	0.81% - 0.84%	Local Authority
February 2020 to February 2021	5.00	0.95%	Local Authority
March 2020 to May 2020	3.00	1.10%	Local Authority
March 2020 to June 2020	7.00	0.85% - 1.10%	Local Authority
Long Term Investments			
October 2018 to October 2020	5.00	1.35%	Local Authority
Long Term Investments - Externally managed funds			
Property Investment Fund	9.28	4.49%	CCLA
Diversified Income Fund	4.40	3.36%	CCLA
Total	109.68		

3.4 Security of capital remained both Councils main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2019/20.

3.5 Investments during the year included call accounts, deposits with UK Banks and Building Societies and Local Authorities and CCLA. During the year there were no investments placed with counterparties outside of the UK.

3.6 Externally Managed Pooled Funds: £13.68m of investments are held in externally managed strategic pooled multi-asset and property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

4 COMPLIANCE WITH PRUDENTIAL INDICATORS

4.1 The Council complied with its Prudential Indicators for 2019/20, these were approved by the East Suffolk Shadow Authority on 29th January. The Prudential Indicators for 2019/20 can be found at Appendix A.

5 TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY

5.1 The East Suffolk Council Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council on 22nd January 2020 and there have been no policy changes to date.

6 DAILY CASH MANAGEMENT

6.1 The Council's counterparty list (investment list) is continuously reviewed and updated taking into account published credit rating information, financial accounts, share prices, asset size, Government support and information from the Council's Treasury Advisors, Arlingclose.

7 INVESTMENT PORTFOLIO 2020/21

7.1 The Council held £160.28m of investments as at the 31st August 2020; the table below illustrates the maturity of investments over the forthcoming months and the average interest rate achieved on the investment.

7.2 With the bank interest rate at an all time low of 0.10% and the outlook being that this level or lower is likely to be seen for the next 3 years has resulted in markable decreases in the investment rates that Local Authorities can achieve.

7.3 The Councils investment portfolio in the short term is looking healthy with both the Property Investment and Multi Asset Fund still performing well despite the current downturn due to Covid19. The Property Fund Investment has seen little effect on its income stream with the Diversified Income Fund also holding up well due to the range of different investments it holds.

7.4 The Council is currently estimating that the impact of reduced investment income rates across the whole investment portfolio will be a reduction in investment income budget of £300k for 2020/21 and £550k for 2021/22.

	1st April 2020 £m	Interest Rate Range %	31st August 2020 £m	Average Interest Rate %
Call Accounts (Liquidity Funds)	60.0	0.12% - 0.48%	48.0	0.12% - 0.48%
Money Market Funds	10.00	0.48%	20.00	0.48%
Term Investments: 3 to 24 months	136.0	0.08% – 1.35%	78.60	0.10% - 1.35%
Property Investment Fund	9.28	4.49%	9.28	4.49%
Multi Asset Fund	4.40	3.36%	4.40	3.36%

7.5 On 1st April 2020, the Council received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £101.5m was received, temporarily invested in short-dated, liquid instruments such as call accounts. £65.7m was disbursed by the end of August 2020 and surplus funding will be returned to central government over the coming months. ESC had the thirteenth largest allocation of funding in respect of these schemes, which were weighted towards rural and coastal areas due to their focus on providing support to small businesses and smaller businesses in the RHL sector including tourism. Total funding for these schemes nationally was £12.3bn. However, the number of businesses actually eligible for the grants in accordance with these Government schemes was considerably less than the number used by the Government in making these allocations, hence the large surplus allocation to be returned.

7.6 As a result of the central government funding being received the approved limits within the Annual Investment Strategy would be breached temporarily. As part of the Councils due diligence process the Leader, Cabinet Member and the Chair of the Audit & Governance Committee were updated.

7.7 With the grant scheme coming to an end in September 2020 it is anticipated that the remaining funding will be repaid to central government over the next few months. As the timing of the repayment is still uncertain the approved limits for 2020/21 have been uplifted to provide a small buffer to take account of any further external grants or contributions that may be received in the interim. The revised approved limits are set out in Appendix B.

8 ECONOMIC OUTLOOK

8.1 The UK's exit from the European Union took a back seat during the first quarter of 2020/21 as the global economic impact from coronavirus took centre stage. Part of the measures taken to stop the spread of the pandemic included the government implementing a nationwide lockdown in late March which effectively shut down almost the entire UK economy. These measures continued throughout most of the quarter with only some easing of restrictions at the end of May and into June.

8.2 Bank Rate was maintained at 0.1% despite some speculation that the Bank of England's Monetary Policy Committee (MPC) might cut further and some MPC members also suggesting that negative rates are part of the Bank's policy tools. In June, the Bank increased the asset purchase scheme by £100 billion, taking the recent round of QE to £300bn and total QE to £745 billion.

8.3 At the same time, the government also implemented a range of fiscal stimulus measures totalling over £300 billion which had been announced in March and designed to dampen the effect of the pandemic on the labour market.

8.4 As the extent of the losses that banks and building societies will suffer due to the impact from the coronavirus epidemic remains uncertain but is expected to be substantial, in early June following Arlingclose's stress testing of the institutions on the counterparty list using bail-in analysis, a number of UK banks and building societies were suspended from the counterparty list for unsecured deposits. Although much better capitalised than before the 2007-09 financial crisis, under the current economic circumstances these entities were suspended for reasons of prudence. For those remaining on the list, the duration advice remains up to 35 days.

9 TREASURY MANAGEMENT PRACTICES (TMP'S)

9.1 As a backdrop to the Council's approved treasury management policies, the Council also maintains a number of Treasury Management Practices (TMPS) which set out the manner in which the Council seeks to achieve the policies and objectives of the treasury function and how it will manage and control those activities. These were approved at Council in September 2013.

9.2 There have been no major changes during 2019/20 and during the first half of 2020/21.

9.3 The TMP'S can be viewed within the Finance service area on the Council's intranet page or by contacting the Financial Services Compliance Team.

10 INVESTMENT POLICY

10.1 The Council's investment policy has regard to the MHCLG's Guidance on Local Government Investments, Investment Regulations and the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes. The Council's investment priorities will be security first, liquidity second, and then return.

11 BANKING ARRANGEMENTS

11.1 Banking services for the Council are provided by Lloyds Banks Plc.

12 TREASURY MANAGEMENT ADVISORS

12.1 The external treasury advisors for the Council is Arlingclose.

13 HOW DOES THIS RELATE TO THE EAST SUFFOLK BUSINESS PLAN?

13.1 The Treasury Management Outturn and Mid-Year report is a CIPFA requirement, the report does not link directly to the vision of the Business Plan, but through ensuring good governance arrangements and security of the Councils investment income this will help to achieve the planned actions set out in the Business Plan.

14 FINANCIAL AND GOVERNANCE IMPLICATIONS

14.1 This report is to provide an update of the treasury management governance arrangements and performance for the previous and current year.

15 OTHER KEY ISSUES

15.1 The recommendations of this report do not directly affect or impact on the Council's policies, projects, initiatives, or actions. Therefore, an Equality Impact Assessment is not required.

15.2 No other key issues to be considered.

16 CONSULTATION

16.1 There is no requirement upon the Council for consultation.

17 OTHER OPTIONS CONSIDERED

17.1 No other options were considered

18 REASON FOR RECOMMENDATION

18.1 The CIPFA Treasury Management Code requires a report to be produced covering the Council's Treasury Management activities outturn for 2019/20 and a Mid-Year Review of the Treasury Management activities for 2020/21 to be presented to Full Council during 2020/21.

RECOMMENDATIONS

1. That the Annual Report on the Council's Treasury Management activity for 2019/20 incorporating the Mid-Year review for 2020/21 be noted.
2. That the Prudential Indicators Outturn position for 2019/20 in Appendix A be noted.
3. That the revised Counterparty limits for 2020/21 in Appendix B are approved

APPENDICES	
Appendix A	East Suffolk Council Prudential Indicators Outturn position for 2019/20
Appendix B	East Suffolk Council Counterparty Limits 2020/21

BACKGROUND PAPERS - none

Appendix A

East Suffolk Council - Compliance with Prudential Indicators 2019/20

1 ESTIMATED AND ACTUAL CAPITAL EXPENDITURE

1.1 This indicator is set to ensure that the level of proposed investment in capital assets remains within sustainable limits and in particular, to consider the impact on the Council Tax and in the case of the HRA, housing rent levels.

	2019/20	2019/20	**2020/21**
	Estimated £m	In Year Forecast	**Outturn £m**
Capital Expenditure			
Non-HRA	42.03	26.44	**10.85**
HRA	13.22	6.59	**3.13**
Total Capital Expenditure	55.25	33.03	**13.98**

1.2 The £15.59m variance on Non-HRA and the £3.46m HRA variance relates to programme delivery being deferred until 2020/21. These were reported to Cabinet on 1 September 2020 as part of the Councils Outturn report for 2019/20.

2 ESTIMATED AND ACTUAL RATIO OF FINANCING COSTS TO NET REVENUE STREAM

2.1 This is an indicator of affordability and demonstrates the revenue implications of capital investment decisions by highlighting the proportion of the revenue budget required to meet the borrowing costs associated with capital spending. The financing costs include existing and proposed capital commitments. Any increase in the percentages requires an increased contribution from the revenue account to meet the borrowing cost. The variances are primarily related to how the expenditure has been financed, with the Non-HRA benefiting from increased external financing whereas the HRA has used slightly more internal resources to finance the 2019/20 expenditure.

	2019/20	**2019/20**
	Estimated %	**Outturn %**
Ratio of Financing Costs to Net Revenue Stream		
Non-HRA	2.36	**2.07**
HRA	21.17	**23.57**

3 CAPITAL FINANCING REQUIREMENT

3.1 The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose. In order to ensure that over the medium term net borrowing will only be for a capital purpose, the Council ensures that net external borrowing does not, except in the short term, exceed the CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years.

3.2 The Council met this requirement in 2019/20.

	2019/20 Estimated £m	**2019/20 Outturn £m**
Capital Financing Requirement		
Non-HRA	48.99	**37.03**
HRA	77.75	**77.75**
Total	126.74	**114.78**

4 AFFORDABLE BORROWING LIMIT, AUTHORISED LIMIT AND OPERATIONAL BOUNDARY FOR EXTERNAL DEBT

4.1 **Authorised Limit**: This is the maximum amount of external debt that can be outstanding at one time during the financial year. The limit, which is expressed gross of investments, is consistent with the Council's existing commitments, proposals for capital expenditure and financing and with its approved treasury policy and strategy and provides headroom over and above for unusual cash movements. This limit was set at £155m for 2019/20, with the actual total borrowing being £77.14m.

4.2 **Operational Boundary**: This limit is set to reflect the Council's best view of the most likely prudent (i.e. not worst case) levels of borrowing activity and was set at £153m for 2019/20 with the actual borrowing amount being £77.14m.

4.3 The levels of debt are measured on an ongoing basis during the year for compliance with the Authorised Limit and the Operational Boundary. The Council maintained its total external borrowing and other long-term liabilities within both limits.

5 UPPER LIMITS FOR FIXED INTEREST RATE EXPOSURE AND VARIABLE INTEREST RATE EXPOSURE

5.1 These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates. The exposures are calculated on a net basis, i.e. fixed rate debt net of fixed rate investments. The upper limit for variable rate exposure allows for the use of variable rate debt to offset exposure to changes in short-term rates on our portfolio of investments.

	2019/20 Estimated %	**2019/20 Outturn %**
Upper Limit for Fixed Rate Exposure	100	**87**
Upper Limit for Variable Rate Exposure	50	**13**

6 MATURITY STRUCTURE OF FIXED RATE BORROWING

6.1 This indicator highlights the existence of any large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates and is designed to protect against excessive exposures to interest rate changes in any one period and in particular in the course of the next ten years.

6.2 It is calculated as the amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate.

Maturity structure of fixed rate borrowing	Upper limit %	Lower limit %	**Actual Borrowing as at 31 March 2020 £m**	**Percentage of total as at 31 March 2020 %**
under 12 months	50	0	**0**	**0**
1 year and within 2 years	50	0	**1.0**	**2**
2 years and within 5 years	75	0	**2.0**	**3**
5 years and within 10 years	75	0	**10.07**	**15**
10 years and within 20 years	75	0	**33.12**	**49**
20 years and above	100	0	**21.00**	**31**

6.3 All borrowing has been taken in conjunction with advice from the Council's Treasury Management Advisors.

7 TOTAL PRINCIPAL SUMS INVESTED FOR PERIODS LONGER THAN 364 DAYS

7.1 There were no proposals for the Council to invest sums for periods longer than 364 days.

7.2 The Council has £9.28m invested into a long-term property fund, £4.40m invested in a long-term diversified income fund and £5m invested with a local authority.

Appendix B

Approved investment counterparties and principal limits 2020/21

Credit rating	Banks unsecured	Banks Secured	Government	Corporates	Registered Providers
UK Govt	n/a	n/a	£ Unlimited 50 years	n/a	n/a
AAA	£25m* 5 years	£25m 20 years	£30m 50 years	£20m 20 years	£20m 20 years
AA+	£25m* 5 years	£25m 10 years	£30m 25 years	£20m 10 years	£20m 10 years
AA	£25m* 4 years	£25m 5 years	£30m 15 years	£20m 5 years	£20m 10 years
AA-	£25m* 3 years	£25m 4 years	£30m 10 years	£20m 4 years	£20m 10 years
A+	£25m* 2 years	£25m 3 years	£30m 5 years	£20m 3 years	£20m 5 years
A	£25m* 13 months	£25m 2 years	£30m 5 years	£20m 2 years	£20m 5 years
A-	£25m* 6 months	£25m 13 months	£20m 5 years	£20m 13 months	£20m 5 years
Credit rating	**Banks unsecured**	**Banks Secured**	**Government**	**Corporates**	**Registered Providers**
None	£4m 6 months	n/a	£10m 25 years	£10m 5 years	£20m 5 years
Pooled funds and real estate investment trusts	£10m per fund				

*increased from £20m to £25m