OVERVIEW AND SCRUTINY COMMITTEE – 21 DECEMBER 2020

TREASURY MANAGEMENT MID-YEAR REVIEW

Executive Summary

To comply with the 2009 CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management, the Council has agreed that the Overview and Scrutiny Committee would be responsible for ensuring effective scrutiny of the treasury management strategy and policies. In addition, the publication of comprehensive Treasury Management information in the Green Book enables scrutiny to be undertaken throughout the year.

This report to the Overview and Scrutiny Committee provides an overview of Treasury Management for the first six months of the year against the Treasury Management Strategy and Prudential Indicators for 2020/21.

The Strategy has been complied with, and there are no matters to report to the Committee.

Recommendations

The Committee is requested to:

RESOLVE that the report be received and compliance with the Council's approved strategy be noted.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers: None.

Reporting Person: Leigh Clarke, Chief Finance Officer
Email: leigh.clarke@woking.gov.uk, Extn: 3277

Contact Person: Neil Haskell
Email: neil.haskell@woking.gov.uk, Extn: 3246

Mike Stevens
Email: mike.stevens@woking.gov.uk, Extn: 3622

Date Published: 11 December 2020

1.0 Introduction

1.1 The 2009 CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management introduced the requirement for formal scrutiny of the Treasury Management function. In 2010/11, Council agreed that the Overview and Scrutiny Committee would be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This report to the Overview and Scrutiny Committee provides an overview of Treasury Management for the first six months of the year against the Treasury Management Strategy and Prudential Indicators for 2020/21.

1.2 The monthly Green Book reports on total interest receipts and payments and also contains a comprehensive section on Treasury Management, detailing external commitments (borrowing, deposits and investments in and other advances to group companies, joint ventures and external organisations), details of long term loans, deals outstanding at the month end and any new deals taken in the month. The level of detail contained in these reports, and the frequency with which the information is published, goes beyond that suggested in the guidance issued by CIPFA.

1.3 Updated versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Service Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) were issued in December 2017. Both of these codes are effective for the 2020/21 financial year.

1.4 There has been no change in the definition of Treasury Management in the Treasury Management Code, but the term “investments” has been specifically qualified to include non-financial assets which are held primarily for financial returns, such as investment property portfolios. The Code draws a clear separation between treasury and non-treasury investments and the role of the treasury management team. It is recognised that the treasury management team is unlikely to have specialist skills in such areas as property investment. The Treasury Management Strategy will not include any level of detail on non-treasury investments and therefore reporting will focus solely on treasury (financial) investments.

1.5 There is overlap between the new Capital and Investment Strategies, and the Council’s Treasury Management strategy. Therefore the three strategies are presented together, as part of the budget setting papers in February, enabling the links to be highlighted whilst minimising duplication. A suite of appendices are included which can be referred to from any of the core strategies.

Capital Strategy

1.6 The Capital Strategy has a wide scope covering the Council’s overall approach to capital investment. It demonstrates how the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.

1.7 The purpose of the capital strategy is to give a clear and concise view of how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It includes references to elements of the Investment Strategy, Treasury Management Strategy and the Council’s Investment Programme.

1.8 The Capital Strategy sets out the Council’s long term approach in line with the long term nature of capital and investment decisions. There is a direct link to the Council’s Local Plan, place shaping activities and other long term strategies.

1.9 Group activities and joint ventures are also included in the Capital Strategy, including the processes for ensuring effective due diligence and defining the Authority’s risk appetite.

1.10 The guidance requires that proportionality, in respect of overall resources, is also considered.

Investment Strategy

1.11 The Investment Strategy provides a better explanation of investment activities, explaining 'why' as well as 'what' investments are made. A range of indicators and disclosures are recommended in the guidance.

1.12 Investments held for treasury management purposes are covered by the Treasury Management Strategy (see below), with the focus of the Investment Strategy being other investments such as loans, shares and property.

1.13 Whilst the Council has a significant and increasing property portfolio, these assets are not held for investment purposes. Each acquisition has a strategic purpose with a direct link to Council objectives or services. Shares and Loans are also used to support the Council's objectives. Property, loans and shares are treated as capital expenditure and financed as with other Investment Programme projects. However these items are disclosed as assets held as investments on the Council's balance sheet and so the guidance has been applied.

2.0 Treasury Management Prudential Indicators

2.1 On 13 February 2020 the Council approved Prudential Indicators for the period 2019/20 to 2023/24 as part of the annual budget process. Performance as at 30th September 2020 against the approved limits is shown below.

	2020/21	**2020/21**
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	**£'000**	**£'000**
	Approved limit	**Actual at 30/9/20**
Authorised limit for external borrowing -		
Borrowing	£1,904,214	£1,518,822
Other long term liabilities	£24,676	£26,232*
Total authorised limit for external borrowing	£1,928,890	£1,545,054
Operational boundary for external borrowing -		
Borrowing	£1,894,214	£1,518,822
Other long term liabilities	£24,676	£26,232*
Total operational boundary for external borrowing	£1,918,890	£1,545,054
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	70%	0%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£3,000	£0

2.2 * Estimate based on September 2020 projections. The PFI Finance Lease Liability will reduce during 2020/21 and the budget reflects the end of year position

3.0 Current Treasury Position

3.1 The Council's treasury position at 30th September 2020 comprised:

	Principal	*Ave Rate*
Borrowing	£000	%
Long term borrowing	1,358,822	2.86%
Short term borrowing	160,000	0.62%
Total Borrowing	**1,518,822**	
Deposits		
External Investments		
- Short term on advice of TUK	0	0.00%
- Short term WBC Treasury	2,000	0.05%
- on call with Lloyds TSB	6,450	0.00%
Total External Deposits	**8,450**	
Long Term Investments in Group Companies/ Joint Ventures/External Organisations	**874,320**	3.29%

4.0 Borrowing Requirement

4.1 The borrowing requirement set out in the 2020/21 strategy was £390m.

4.2 The Covid pandemic has had a considerable impact on local government finances. Whilst the government has provided support through a series of grant payments, these have not covered all the Council's costs nor does the income compensation scheme fully mitigate income losses. Into 2021/22 there is no guarantee that this government support will continue. Whilst the pandemic may ease, the economic consequences and the financial impact on the Council are likely to take much longer to recover. The Council is particularly affected by loss of commercial rents and the risk of potential further non-payment in the future due to business failure.

4.3 In preparing the draft Investment Programme for 2021/22 it was therefore necessary to temporarily suspend projects which were not committed but which would have had revenue consequences through use of the Council's revenue reserves or financing costs of borrowing. These projects will continue to be reviewed as the financial outlook becomes more certain with the intention of re-instating projects as resources allow. The approved limits in section 2 have not been adjusted to reflect these projects being suspended.

4.4 The Government introduced an increase in PWLB margins over gilt yields in October 2019 increasing the cost of borrowing from the PWLB. A consultation on these margins, which raised the possibility of this increase being reversed, ended on 31 July 2020. The Authority partly deferred taking long term PWLB borrowing for the first half of 2020/21 (borrowing only £40m from the PWLB from 1 April 2020 to 30 September 2020). This allowed it to benefit from taking the lower rates available through short-term borrowing for part of the year and to secure cheaper long term PWLB rates if there was a reduction in PWLB margins later in the year.

4.5 The consultation response was published in November and the Government advised that PWLB rates would reduce by 1%. Other measures were also introduced, the most significant of which was that Local Authorities who were acquiring assets primarily for yield would not be able to access PWLB borrowing (even if the purchase of the asset was not being funded by PWLB borrowing). As discussed above, the acquisitions included in Woking

Borough Council's investment programme are largely for economic regeneration or service requirements and not primarily for yield.

4.6 Following the reduction in PWLB rates Officers are now considering taking longer term borrowing in 2020/21. The mix of long and short term borrowing is continually being reviewed to ensure an appropriate balance is maintained.

4.7 The following fixed rate loans have been taken from the Public Works Loan Board (PWLB) during the first six months of 2020/21:-

Loan number	Start date	Principal	Interest Rate	Type of Loan	Borrowing Period
186269	16/04/2020	£20,000,000	2.48%	Annuity	50 years
197955	12/05/2020	£20,000,000	2.43%	Annuity	50 years

Full details of the Council's loans are reported monthly in the Green Book.

5.0 Debt Rescheduling

5.1 No debt rescheduling has taken place to date in the 2020/21 financial year and therefore the Treasury Management Panel has not met.

6.0 Investment Strategy

6.1 The Council's investment priorities are the security of its capital, the liquidity of its investments and finally the return on the investment. The balances held in the last year have been minimised to assist in delaying the need to borrow, and so it has not been necessary to use the range of investments available in the strategy.

6.2 The investments used to manage cash flow to date in 2020/21, and the limits applied, are as indicated below.

- Money market funds – four funds, three with a limit of £50m per fund and one with a limit of £30m.

- Deposits with other local authorities – up to £4m per authority.

- Deposits with Lloyds Bank – no limit as this is the Council's banker.

6.3 Whilst deposits with other local authorities and Building Societies are permitted by the Strategy it has not been necessary to make such investments or place funds on the advice of Tradition UK (TUK) during the year to date.

Creditworthiness Policy

6.4 The Council uses Fitch ratings to derive its investment criteria for investments other than with other local authorities and Building Societies. Where a counterparty does not have a Fitch rating, the equivalent Moodys rating will be used.

6.5 The Council takes account of Link Asset Services' creditworthiness service, and receives notification of changes to ratings as well as a comprehensive weekly list. This service uses credit ratings from all three rating agencies (Fitch, Moodys and Standard and Poors), but also takes account of credit watches, credit outlooks and other information. These factors are combined to indicate the relative creditworthiness of counterparties and provide a recommended duration for investments.

Country Limits

6.6 Under the 2009 Code of Practice, the Council should determine the minimum credit limit on a country basis as well as for institutions. The Treasury Management Strategy sets out that the Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent agencies if Fitch does not provide). It should be noted that the UK is excluded from the minimum country limit as per the Executive decision on 30th June 2016; without this decision, the Council would have been unable to place investments in the UK.

6.7 Information on changes to country ratings is received as part of the Link Asset Services creditworthiness service, and records are updated by Treasury Management staff.

6.8 In the six months to 30th September, no deposits were placed outside of the UK.

7.0 Use of External Service Providers

7.1 The Council uses Link Asset Services as its external treasury management advisors.

8.0 Implications

Financial

8.1 The financial implications are implicit in the body of this report.

Human Resource/Training and Development

8.2 The CIPFA code requires members and staff involved in treasury management to receive training and the Council's training requirements will be reviewed in order to provide appropriate training.

8.3 The contract with Link Asset Services provides for staff attendance at various conferences and seminars as well as providing a helpline facility, and Treasury Management staff have attended seminars and courses run by Link Asset Services during the year.

Community Safety

8.4 There are no community safety implications arising directly from this report.

Risk Management

8.5 An objective of the treasury management strategy is to maximise the return on the Council's investments subject to minimising the level of risk of incurring losses, as described in paragraph 6.1.

Sustainability

8.6 There are no sustainability implications arising directly from this report.

Equalities

8.7 There are no equalities implications arising directly from this report.

Safeguarding

8.8 There are no safeguarding implications arising directly from this report.

9.0 Conclusions

9.1 The Treasury Management position during the first half of the year and as at 30th September 2020 is set out in this report. The actions taken have been within the approved Treasury Management Strategy and Prudential Indicators for 2020/21 and there are no matters to report to the Committee.

REPORT ENDS