



**REPORT of
DIRECTOR OF RESOURCES**

**to
STRATEGY AND RESOURCES COMMITTEE
19 NOVEMBER 2020**

YEAR-END TREASURY OUTTURN REPORT 2019 / 20

1. PURPOSE OF THE REPORT

- 1.1 To report on the Council's investment activity for the financial year of 2019 / 20 in accordance with the Chartered Institute of Public Finance and Accountancy Treasury Management Code (CIPFA's TM Code) and the Council's Treasury Management Policy and Treasury Management Practices (TMPs).

2. RECOMMENDATION

That Members review the Treasury Outturn report for compliance purposes.

3. SUMMARY OF KEY ISSUES

3.1 Background

- 3.1.1 The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires that authorities report on the performance of the treasury management function at least twice yearly (mid-year and at year end).
- 3.1.2 The Council's Treasury Management Strategy for 2019 / 20 was presented to the Finance and Corporate Services Committee on 29 January 2019 and subsequently approved by the Council on 14 February 2019 (Minute No. 788 refers).
- 3.1.3 A Treasury Management update was then brought to the Strategy and Resources Committee on 5 December 2019.
- 3.1.4 During 2019 / 20, the Council had an average of £19.5m invested and was therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.
- 3.1.5 The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by the 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 29 January 2020.

3.2 External Context

3.2.1 The Council currently engages Arlingclose to provide treasury management consultancy and advice services. Attached at **APPENDIX 1** is information prepared by Arlingclose providing an overview of the external economic environment.

3.3 Local context

3.3.1 The Council is currently debt free and its capital expenditure did not include borrowing during 2019/20. However, as investment becomes necessary for Commercial Projects, additional funds will be required, and borrowing may then be needed. Investments are forecast to fall as capital receipts are used to finance capital expenditure, and reserves are used to finance the revenue budget and Future Model.

3.3.2 If the Council does choose to borrow in the future, it is worth noting that Chancellor's March 2020 Budget Statement included changes to Public Works Loan Board (PWLB) policy and a wide-ranging consultation on the PWLB's future direction.

3.3.3 The consultation titled "Future Lending Terms", which closed in July 2020, invited local authorities and key stakeholders to contribute to developing a system whereby PWLB loans can be made available at improved margins to support qualifying projects. Proposals include:

- (i) allowing authorities that are not involved in "debt for yield" activity to borrow at lower rates,
- (ii) stopping local authorities using PWLB loans to buy commercial assets primarily for yield without impeding their ability to pursue their core policy objectives of service delivery, housing and regeneration, and
- (iii) the possibility of slowing, or stopping, individual authorities from borrowing large sums in specific circumstances.

3.3.4 The outcome of the consultation and implementation of the new lending terms are expected in the latter part of this calendar year or in financial year 2021 / 22.

3.4 Investment Activity (April 2019 – March 2020)

3.4.1 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults, and the risk of receiving unsuitably low investment returns.

3.4.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. Over the period from April 2019 to March 2020, the level of investments held by the Council has seen an increase of £5,817,000 with a total of investments held on 31 March 2020 of £19,017,000. These are comprised of:

	Balance on 01/04/2019 £000s	Movement £000s	Balance on 31/03/2020 £000s
Short term Investments			
Banks and Building societies	2,000	1,017	3,017
Money Market Funds	4,200	800	5,000
Certificates of Deposit	2,000	-	2,000
Local Authorities	-	4,000	4,000
Long Term Investments	5,000	-	5,000*
TOTAL	13,200	5,817	19,017

*The 31/3/2020 Balance Sheet figure for long-term investments is recorded at fair value, £4,620.

- 3.4.3 Over a relatively short period, following the onset of the COVID-19 pandemic, the global economic fallout was sharp and large. Market reaction was extreme with large falls in equities, corporate bond markets and, to some extent, real estate. This reaction was a result of the lockdown-induced paralysis and the uncharted challenges for governments, businesses and individuals. The Council has £3m invested in the CCLA Local Authorities Property Fund and £2m in the Ninety One (previously Investec) Diversified Income Fund, which is a multi-asset fund. The falls in the capital values of the underlying assets were reflected in 31 March 2020 valuations of both funds.
- 3.4.4 The Council is using the alternative fair value through profit and loss (FVPL) accounting and must defer the funds' fair value gains and losses to the Financial Instruments Adjustment Account (which is an unusable reserve until 2023/24) and reflected in the movement in reserves statement.
- 3.4.5 The Council's £5m of externally managed pooled and property funds generated a total income return of £216k during 2019 / 20. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In the light of their performance over the medium / long-term and the Council's latest cash flow forecasts, investment in these funds has been maintained.
- 3.4.6 Brexit:
- 3.4.6.1 The United Kingdom (UK) left the European Union (EU) on 31 January 2020. As 31 January approached, the Council ensured there were enough accounts open at UK-domiciled banks and Money Market Funds to hold sufficient liquidity required in the near term, and that its account with the Debt Management Account Deposit Facility (DMADF) remained available for use in an emergency. This has been very effective.

3.4.7 Coronavirus:

3.4.7.1 During March 2020 the UK Government imposed a lockdown on all public gatherings and unnecessary outside activity. The resulting reduction in income to the Council, businesses and other organisations, led to the Government issuing grant payments for Maldon District Council (MDC) to distribute in support of these organisations.

3.4.7.2 It is worth noting £17.8m of grants were received by MDC on 1 April 2020 for distribution to qualifying businesses from 1 April 2020. These funds were stored with DMO and transferred to businesses throughout the following few months.

3.5 **Performance – Budgeted Income and Outturn**

3.5.1 Below are the average income returns obtained on the Authority's investments:

- Short Term investments - 0.81%;
- Investments in the Ninety One (previously Investec) Diversified Income fund – 4.41%;
- Investment in the Property Fund – 4.26%.

3.5.2 The above returns average to 1.7%, this is the assumed interest rate included within the 2019 / 20 Medium Term Financial Strategy.

3.5.3 The Authority's budgeted investment income for the year was £246,000. The actual investment income for the year was £335,000. This increase was due to the higher level of balances invested than anticipated.

3.6 **Compliance with Prudential Indicators and Treasury Management Strategy**

3.6.1 The Prudential Indicators for 2019 / 20, which were set on 29 January 2019 as part of the Treasury Management Strategy Statement, have been complied with. These are shown at **APPENDIX 2**.

3.6.2 The Section 151 Officer reports that all treasury management activities undertaken during the financial year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

3.7 **Outlook for 2020 / 21 (provided by Arlingclose)**

3.7.1 The global economy is entering a period of slower growth and probable sharp recession in response to the global pandemic. In response, global and UK base interest rates have been slashed (UK reduced to 0.1% on 19 March 2020) and short-term investments have been immediately affected.

3.7.2 The depth and duration of the likely recession is very difficult to determine but an increase in interest rates is very unlikely over the coming financial year. In fact, we cannot rule out further interest rate reductions.

3.7.3 Brexit may yet have a further impact on the UK economy as the UK Government wants the transitional EU arrangements ended, and new trade agreement settled and effective from 1 January 2021.

- 3.7.4 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.
- 3.7.5 Our treasury advisor Arlingclose expects Bank Rate to remain at 0.1% for the foreseeable future but there remain substantial risks to this forecast, dependent on Coronavirus and Brexit outcomes. Arlingclose also expects gilt yields to remain at low levels for the foreseeable future and judge the risks to be weighted to the downside and that volatility will continue to offer longer-term borrowing opportunities.
- 3.7.6 The two funds managed externally by CCLA and Ninety One also expect that income distribution will be lower in 2020 / 21 than in 2019 / 20.

4. CONCLUSION

- 4.1 In compliance with the requirements of the CIPFA Code of Practice this report provides Members with a summary of the treasury management activity for the financial year of 2019 / 20. As indicated in this report, none of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

5. IMPACT ON STRATEGIC THEMES

- 5.1 The report links to the Maldon District Council's Strategic Theme of best value procurement.

6. IMPLICATIONS

- (i) **Impact on Customers** – None directly.
- (ii) **Impact on Equalities** – None identified.
- (iii) **Impact on Risk** – This report is mainly about managing credit risk. A prudent approach continues to be taken in relation to investment activity with priority being given to security and liquidity over yield.
- (iv) **Impact on Resources (financial)** – Income exceed the Council's budgeted figure (£246,000) by £89,000 in 2020.
- (v) **Impact on Resources (human)** - None directly.
- (vi) **Impact on the Environment** – None.

Background Papers: None.

Enquiries to: Lance Porteous, Lead Finance Specialist, email: lance.porteous@maldon.gv.uk.