REPORT of
DIRECTOR OF RESOURCES

to
STRATEGY AND RESOURCES COMMITTEE
15 JULY 2020

YEAR-END TREASURY OUTTURN 2020 / 21

1. PURPOSE OF THE REPORT

1.1 To report on the Council's investment activity for the financial year of 2021 / 21 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 2020 / 21 was presented to the Strategy and Resources Committee on 28 January 2021 and subsequently approved by the Council on 23 February 2021.

3.1.3 During 2020 / 21, the Council had an average of £21.7m 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.

3.1.4 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 Councils Capital Strategy, complying with CIPFA's requirement, was approved by the Council on 23 February 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 2020 / 21. 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 any revenue budget gaps.

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 during this financial year 2021 / 22.

3.4 Investment Activity (April 2020 – March 2021)

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 2020 to March 2021, the level of investments held by the Council has seen an increase of £1,802,000 with a total of investments held on 31 March 2021 of £20,819,000.

3.4.3 These are comprised of:

	Balance on 31/03/2020 £000	Movement £000	Balance on 31/03/2021 £000
Short term Investments			
Banks and Building societies	3,017	-198	2,819
Money Market Funds	5,000	-2,000	3,000
Certificates of	2,000	-2,000	0

	Balance on 31/03/2020 £000	Movement £000	Balance on 31/03/2021 £000
Deposit			
Local Authorities	4,000	6,000	10,000
Long Term Investments	5,000	0	5,000*
TOTAL	**19,017**	**1,802**	**20,819**

*The 31/3/2021 Balance Sheet figure for long-term investments is recorded at fair value, £4,776.

3.4.4 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 (Churches, Charities and Local Authorities) 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.

3.4.5 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.

3.4.6 The Council's £5m of externally managed pooled and property funds generated a total income return of £199,000 during 2020 / 21. 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.

3.4.7 Coronavirus:

3.4.7.1 During March 2020 the UK Government imposed a lockdown on all public gatherings and unnecessary outside activity. Lockdowns and Government imposed restrictions of various kinds continued throughout 2020 / 21. 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 For example, £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. Various other grants followed for distribution of financial assistance to businesses, residents, and the Council itself to mitigate financial hardship encountered due to Government restrictions.

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 - 0.23%;
- Investments in the Ninety One (previously Investec) Diversified Income fund – 3.63%;
- Investment in the Property Fund – 4.20%;
- All investments – 1.09%.

3.5.2 The Authority's budgeted investment income for the year was £242,900. The actual investment income for the year was £236,700. This shortfall was due to the reduction in interest rates suffered at the beginning of the pandemic and continuing throughout the financial year.

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

3.6.1 The Prudential Indicators for 2020 / 21, which were set on 23 February 2021 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 2021 / 22 (Summary of advice from Arlingclose.)**

3.7.1 The global economy is slowly emerging from a period of sharp recession in response to the global pandemic. As such, global and UK base interest rates have remained very low (UK continuing at to 0.1% throughout 2020 / 21) and short-term investments have been significantly affected.

3.7.2 The path to economic recovery is very difficult to determine but an increase in interest rates is considered very unlikely over the coming financial year. In fact, we cannot rule out further interest rate reductions, although this is looking less likely also.

3.7.3 Central bank actions and geopolitical risks will continue to produce significant volatility in financial markets, including bond markets.

3.7.4 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.

3.7.5 The two funds managed externally by CCLA and Ninety One also expect that income distribution will be likely to improve in 2021/22 when compared to 2020 / 21 but still lower than 2019 / 20 and before.

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 2020 / 21. 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 fell short of the Council's budgeted figure (£282,900) by £50,000 in 2020 / 21.

(v) **Impact on Resources (human)** - None directly.

(vi) **Impact on the Environment** – None.

(vii) **Impact on Strengthening Communities** – None.

Background Papers: None.

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