

SOUTH HOLLAND DISTRICT COUNCIL

Report of: Executive Director Commercialisation (S151), Christine Marshall

To: Governance and Audit Committee – 26th November 2020
Council – 20th January 2021

Author: Sean Howsam – Treasury and Investment Manager (Public Sector Partnership Services Ltd (PSPSL))

Subject: Mid Term Treasury Report 2020/21

Purpose: To provide an update of the treasury management position of the Council as at 30th September 2020.

Recommendations:

- 1 That Governance and Audit Committee note this report, the treasury activity as detailed in **Appendix A** and the economic update from Link Asset Services at **Appendix B** and make any comments for consideration by Council at their meeting on 20th January 2021.

1.0 BACKGROUND

1.1 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2020/21, all local authorities are required to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
- an overview of how the associated risk is managed
- the implications for future financial sustainability

A report setting out our Capital Strategy was taken to the full council as part of the budget setting report on 26th February 2020.

1.2 Treasury management is defined as: “The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending obligations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.3 The Treasury Management function is administered by Public Sector Partnership Services Ltd on behalf of the Council.

1.4 This report has been written in accordance with the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017). The primary requirements are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by full council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Governance and Audit Committee.

1.5 Attached for scrutiny at **Appendix A** is the 2020/21 Treasury Management Strategy Statement and Annual Investment Strategy update and at **Appendix B** an economic update from Link Asset Services (based on global and market information as at 7th October) to enable Governance and Audit to make any comments for consideration by Council at their meeting on 20th January 2021.

The mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2020/21 financial year to 30th September 2020;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure as set out in the capital strategy and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

2.0 **OPTIONS**

2.1 As the report is mainly an update report there are no alternative options presented.

3.0 **REASONS FOR RECOMMENDATION**

3.1 To comply with the CIPFA Code of Practice on Treasury Management 2017.

4.0 **EXPECTED BENEFITS**

4.1 The report provides Members with a summary of the economy, the effect it has had on financial markets and the treasury activity during 2020/21. The report requires scrutiny prior to submitting to Council for approval.

5.0 **IMPLICATIONS**

5.1 **Constitution & Legal**

5.1.1 This Council is required to produce a mid-term treasury report to comply with the CIPFA Code of Practice on Treasury Management 2017. The report has no implications which would affect the constitution and does not therefore warrant a further change in the constitution.

5.1.2 Plans and strategies for control of the Council's borrowing, investments, capital expenditure and minimum revenue provision form part of the Council's policy framework and are therefore a non-executive (Council) function under the Council's Constitution.

5.2 **Financial**

5.2.1 This mid-term report provides a review of the treasury activity for the first six month of the 2020/21 financial year.

5.2.2 The Council held £50.171m of investments and £3.227m of loans to Welland Homes as at 30 September 2020. The investment portfolio yield for the first six months of the year is 0.756% against a benchmark of 0.106% (average 3 month LIBID).

5.2.3 The Council's budgeted investment return for 2020/21 is £544,200 (GF £383,000, HRA £161,200) and performance for the year to date is £202,340 which is £70,000 below the profiled budget. The outturn is currently projected to be £325,000 which is £219,200 below the estimate. This budget shortfall can be attributed to the current level of exceptionally low interest rates available.

5.3 **Risk Management**

5.3.1 The Council's priority is the security of its investments.

5.4 **Stakeholders / Consultation / Timescales**

5.4.1 The report is being submitted for pre decision scrutiny prior to the minutes of this meeting being submitted to Council.

5.4.2 Link Asset Services have been consulted in relation to the compilation of this report.

6.0 **WARDS/COMMUNITIES AFFECTED**

6.1 Due to budgetary considerations all wards are affected.

7.0 **ACRONYMS**

- 7.1 CPI – Consumer Price Index
- 7.2 CIPFA – Chartered Institute of Public Finance and Accountancy
- 7.3 CFR – Capital Financing Requirement
- 7.4 DMADF - Debt Management Account Deposit Facility
- 7.5 ECB – European Central Bank
- 7.6 GDP – Gross Domestic Product
- 7.7 HRA – Housing Revenue Account
- 7.8 LIBID – London Inter Bank Bid (Investment Rate)
- 7.9 MPC – Monetary Policy Committee
- 7.10 MMF – Money Market Funds

- 7.11 PSPSL – Public Sector Partnership Services Ltd
- 7.12 PWLB – Public Works Loan Board
- 7.13 QE – Quantitative Easing
- 7.14 TMSS – Treasury Management Strategy Statement

Background papers:-

- a) SHDC Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy 2020/21.

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Key Decision: No

Exempt Decision: No

This report refers to a Mandatory Service

Appendices attached to this report:

Appendix A - Treasury Management Strategy Statement & Annual Investment Strategy Update 2020/21.

Appendix B – Economic Update (from Link Asset Services)