

## 2020-21 TREASURY MANAGEMENT YEAR-END PERFORMANCE

<b>Head of Service:</b>	Lee Duffy, Chief Finance Officer
<b>Wards affected:</b>	(All Wards);
<b>Urgent Decision?(yes/no)</b>	No
<b>If yes, reason urgent decision required:</b>	N/A
<b>Appendices (attached):</b>	Appendix 1 – Treasury Management Review Appendix 2 – Prudential Indicators

### Summary

This report presents the Council's treasury management performance in 2020/21.

### Recommendation (s)

#### The Committee is asked to:

- (1) Receive the report on the Council's treasury management performance 2020/21;**
- (2) Approve the 2020/21 prudential indicators.**

### 1 Reason for Recommendation

- 1.1 The Council's Treasury Management Strategy, approved annually at Full Council in February, requires that the year-end performance be reported to Strategy & Resources by the end of July.
- 1.2 The Council's prudential indicators must also be approved by a Committee of members, in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Sector.
- 1.3 Approving the recommendations will enable the Council to meet the above requirements.

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### 2 Background

- 2.1 Income earned from investments is used to help finance Council's services and contributes to the key priority 'Effective Council'.
- 2.2 The Treasury Management Strategy, approved annually by Council in February, sets out the strategy and procedures that are adopted to manage the investment of reserves, provisions and cash flow.
- 2.3 A review of treasury management performance and activity is prepared on an annual basis. This is completed in line with Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in the Public Sector and the Treasury Management Strategy approved by Council.
- 2.4 The reporting requirements of the annual performance review meet the requirements of the CIPFA Prudential Code.
- 2.5 The Council, as part of its financial strategy, maintains revenue reserves, provisions and capital reserves. For several years the main part of the Council's cash balances has typically been invested with external fund managers who use their expertise to invest in secure money markets to achieve maximum returns within defined risk parameters. The Council currently uses one external fund manager, Aberdeen Asset Management. However, at the end of 2019/20, all funds had been withdrawn to meet cashflow commitments and due to the economic uncertainties caused by the pandemic, balances have been held in money market funds to make them easily accessible if needed.
- 2.6 Internally managed balances can be invested in long term gilts or deposits with a balance retained to meet short term cash flows invested in temporary loans or money market funds. At the end of March 2021 the Council held £18.7 million in money market funds.
- 2.7 In total, at 31 March 2021, the Council's treasury investments were £18.7m (£14.6m March 2020).
- 2.8 At the same reporting date, the Council had external debt with the Public Works Loans Board of £64.4m (unchanged from March 2020).
- 2.9 The Committee will note that the Pension Fund does not form part of the Council's investments and is managed on our behalf by Surrey County Council.
- 2.10 The aim of treasury management is to ensure that funds are invested with institutions that balance the need to maximise investment returns with that of minimising risk on the monies invested. This means not investing in banks/building societies/institutions that offer high investment returns but are at high risk of defaulting.

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### 3 Performance Review

- 3.1 A report on Treasury Management performance for 2020/21 is attached to this report at Appendix 1.
- 3.2 The 2020/21 figures in this report are not expected to change, however, should there be any amendments following completion of the external audit, these will be reported back to S&R Committee in September 2021.
- 3.3 No temporary borrowings were required in 2020/21 except occasional use of the Council's bank overdraft facility to manage daily cash flow.
- 3.4 The average gross return achieved for 2020/21 of 0.29% compares favourably with the benchmark seven day London Interbank Bid (LIBID) rate of -0.07% (minus 0.07%). This amounted to total income for the year of £62,554, generated on reserves, working balances and cash flow. After deducting fees, net income for the year amounted to £30,382.
- 3.5 The outturn position fell short by £34,618 compared to the forecast reported in the half year report to Financial Policy Panel in December 2020, when it was anticipated that net income from investments would be £65,000 at the end of the year. Returns remained low in the second half of the year, as the Bank of England base rate remained at its historic low of 0.1%.
- 3.6 The performance for 2020/21 on the Council's investments was as follows;

	Average Investment	Net Interest Received	Net Average Rate of Return
Internally Managed Funds	£'m	£'000	%
Money Market Funds	17.9	11.0	0.06
Interest Bearing Account	2.0	0.8	0.04
Fixed Rate Deposit	1.6	18.6	1.15

Externally Managed Funds			
Aberdeen Asset Management	0	0	0
<b>Total</b>	<b>21.5</b>	<b>30.4</b>	<b>0.14</b>

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- 3.7 Net returns on investments for 2020/21 were £119,618 lower than the budgeted income for the year and the average net annualised return on investments was 0.14%.
- 3.8 This performance has been impacted by the economic environment following the pandemic, as interest rates fell sharply at the beginning of 2020/21, with the Bank of England Base rate remaining at 0.01% throughout the year.

### **4 Internally Managed Funds**

#### **Money Market Funds**

- 4.1 Money market funds are pooled investments that allow instant access to withdraw monies. The benefit of MMFs is that the risk on the investment is very low as the money invested in the fund is spread across a range of counterparties, which limits the exposure of a significant sum being invested with a defaulting counterparty.
- 4.2 The return made on money market funds of 0.06% compared favourably to the benchmark of -0.07%. Investment in money market funds has meant that cash balances could be called back with no notice required.

#### **Interest Bearing Accounts**

- 4.3 Interest bearing accounts offer the same instant access as the money market funds and deliver a rate of return linked to base rate set by the Bank of England.
- 4.4 The risk on these investments may be higher than the money market funds as money is deposited with one counterparty. Funds invested in this type of investment tend to be surpluses of daily cash flows which need to be called back at short notice.
- 4.5 The return made on interest bearing accounts of 0.04% compared favourably to the benchmark of -0.07%. Typically, this account was used when limits with other counterparties were reached.

#### **Fixed Interest Investments**

- 4.6 In 2020/21, the Council had one fixed term deposit which matured at the end of July 2020. Over the year 2020/21, the amount invested in fixed term deposits averaged £1.6m. The average return made on this investment was 1.15% compared to the benchmark of -0.07%.
- 4.7 The current strategy and guidance obtained from our independent advisors is to limit fixed term investments to a period of one year.

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### **5 Externally Managed Funds**

- 5.1 The main benefit to the Council of using external fund managers is to minimise the Council's risk, as the funds invested are spread across a wide portfolio of financial institutions. This results in the overall exposure to a potential defaulting bank being limited to a small percentage of the overall holding.
- 5.2 Aberdeen Asset Management plc, previously Scottish Widows, has been the Council's external fund manager since October 2007.
- 5.3 During the pandemic, officers have used money market funds to hold cash balances instead of the external fund manager, as the money market funds allow the Council to access cash balances more quickly if needed in the current uncertain environment.
- 5.4 Beyond the pandemic, due to its reliable performance over the past thirteen years, officers expect to continue to utilise Aberdeen Asset Management plc as the external fund manager when required.

### **6 Risk Assessment**

#### Legal or other duties

#### 6.1 Impact Assessment

- 6.1.1 The Council approved the Treasury Management Strategy for 2020/21, which includes a risk management approach to investment of funds and returns.

#### 6.2 Crime & Disorder

- 6.2.1 None.

#### 6.3 Safeguarding

- 6.3.1 None.

#### 6.4 Dependencies

- 6.4.1 None.

#### 6.5 Other

- 6.5.1 None.

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### 7 Financial Implications

- 7.1 In line with previously agreed policy, income is credited to revenue reserves, trust funds and other accounts based on the total return for the year. In summary, net income was credited to the following accounts:

	£'000	Purpose
Repair and Renewals Fund	1.0	Used to fund the replacement of equipment
Insurance Reserve	1.3	Used to finance self-insured losses (e.g. sums below excess limits)
Hospital Cluster Commuted Sums	29.3	Used to fund maintenance costs
Property Maintenance Reserve	1.6	Used to fund backlog property repairs
Corporate Project Reserve	11.5	Provision for any high priority projects
Community Safety Partnership Fund	0.3	Used to finance community safety projects
Other Reserves/Accounts	1.9	Nonsuch Park Joint Management Committee and Epsom, Walton Downs Conservators, trust funds and bonds held
General Fund Revenue Account	(16.5)	Used to maintain low Council Tax and finance services
<b>Total Net Interest Applied</b>	<b>30.4</b>	
<b>Funded by:</b>		
<b>Net Interest from Investments</b>	<b>(30.4)</b>	

#### Interest Equalisation Reserve

- 7.2 The interest equalisation reserve was set up to enable variations in investment returns to be accommodated within the general fund budget without having an adverse effect on the levels of funds available for the delivery of services in year.
- 7.3 The overall balance on this reserve as at the end of the financial year stands at £400,000.
- 7.4 **Section 151 Officer's comments:** Effective Treasury Management is essential to ensuring the security of the Council's funds. Interest earned from the investments contributes towards the delivery of services to residents.
- 7.5 Any Councillors who have any questions on the treasury management performance for 2020/21 are requested to contact the Chief Finance Officer prior to the meeting.

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### 8 Legal Implications

- 8.1 The legal issues around treasury management have been addressed within the report. The key issue is to appropriately manage the risks around investment, and to ensure that all decisions are taken in accordance with the governance arrangements.
- 8.2 **Monitoring Officer's comments:** None arising from the contents of this report.

### 9 Policies, Plans & Partnerships

- 9.1 **Council's Key Priorities:** The following Key Priorities are engaged:  
Effective Council
- 9.2 **Service Plans:** The matter is included within the current Service Delivery Plan.
- 9.3 **Climate & Environmental Impact of recommendations:** None
- 9.4 **Sustainability Policy & Community Safety Implications:** None
- 9.5 **Partnerships:** None

### 10 Background papers

- 10.1 The documents referred to in compiling this report are as follows:

**Previous reports:**

- Treasury Management Strategy - Appendix 11 of the Budget Report to Full Council on 16 February 2021
- Treasury Management Interim Report 2020/21 to Financial Policy Panel on 1 December 2020

**Other papers:**

- Final Accounts Working Papers 2020/21