Report No. FSD20086

London Borough of Bromley

PART 1 - PUBLIC

Decision Maker:	**Resources, Commissioning and Contracts Management Portfolio Holder** **Council**
Date:	**For pre-decision scrutiny by Executive, Resources and Contracts PDS Committee on 18th November 2020** **Council 7th December 2020**
Decision Type:	Non-Urgent Executive Non-Key
Title:	**TREASURY MANAGEMENT - QUARTER 2 PERFORMANCE 2020/21 & MID YEAR REVIEW**
Contact Officer:	Katherine Ball, Principal Accountant Tel: 020 8313 4792 E-mail: Katherine.ball@bromley.gov.uk
Chief Officer:	Director of Finance
Ward:	All

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1. Reason for report

1.1. This report summarises treasury management activity during the second quarter of 2020/21. The report also includes a Mid-Year Review of the Treasury Management Strategy Statement and Annual Investment Strategy (Annex A). The report ensures that the Council is implementing best practice in accordance with the CIPFA Code of Practice for Treasury Management. Investments as at 30th September 2020 totalled £373.3m and there was no outstanding external borrowing. For information and comparison, the balance of investments stood at £366.7m as at 30th June 2020, £336.1m as at 31st March 2020, and, at the time of writing this report (4th November 2020) it stood at £390.4m.

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2. RECOMMENDATION(S)

2.1. The Resources, Commissioning and Contracts Management Portfolio Holder is requested to:

(a) note the Treasury Management performance for the second quarter of 2020/21;

(b) recommend that Council approve the 2020/21 prudential indicators as set out in Annex B1.

2.2. Council is requested to:

(a) note the report and approve changes to the 2020/21 prudential indicators, as set out in Annex B1.

Impact on Vulnerable Adults and Children

1. Summary of Impact: None

Corporate Policy

1. Policy Status: Existing policy. To maintain appropriate levels of risk, particularly security and liquidity, whilst seeking to achieve the highest rate of return on investments.
2. BBB Priority: Excellent Council.

Financial

1. Cost of proposal: N/A
2. Ongoing costs: N/A
3. Budget head/performance centre: Interest on balances
4. Total current budget for this head: £3,591k (net) in 2020/21; £750k surplus currently projected
5. Source of funding: Net investment income

Personnel

1. Number of staff (current and additional): 0.25 fte
2. If from existing staff resources, number of staff hours: 9 hours per week

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Legal

1. Legal Requirement: Non-statutory - Government guidance.
2. Call-in: Call-in is applicable

Procurement

1. Summary of Procurement Implications: N/A

Customer Impact

1. Estimated number of users/beneficiaries (current and projected): N/A

Ward Councillor Views

1. Have Ward Councillors been asked for comments? N/A
2. Summary of Ward Councillors comments: N/A

3. COMMENTARY

3.1. General

3.1.1. Under the requirements of the CIPFA Code of Practice on Treasury Management, the Council is required, as a minimum, to approve an annual treasury strategy in advance of the year, a mid-year review report and an annual report following the year comparing actual activity to the strategy. Until recently, the Director of Finance reported quarterly on treasury management activity as well as reporting the annual strategy before the year and the annual report after the year-end. Following consideration by this Committee, on 10th December 2018 Council approved the non-reporting of treasury management activity quarterly. This effectively means that in-year monitoring will be incorporated into the three reports required by the Code of Practice and that Quarter 1 monitoring will no longer be reported unless there are any matters that officers feel should come before the Committee sooner.

3.1.2. This report includes details of investment performance in the second quarter of 2020/21. The 2020/21 annual treasury strategy, including the MRP (Minimum Revenue Provision) Policy Statement and prudential indicators, was originally approved by Council in February 2020. The annual report for financial year 2019/20 was submitted to the Executive, Resources and Contracts PDS Committee on 10th September 2020 and Council on 12th October 2020 and included no proposed changes to the 2020/21 strategy.

3.1.3. Changes in the regulatory environment have placed a much greater onus on Members to undertake the review and scrutiny of treasury management policy and activities. This report is important in that respect as it provides details of the actual position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

3.1.4. The Council has monies available for Treasury Management investment as a result of the following:

- Positive cash flow;
- Monies owed to creditors was lower than monies owed by debtors;
- Receipts (mainly from Government) received in advance of payments being made;
- Capital receipts not yet utilised to fund capital expenditure;
- Provisions made in the accounts for liabilities e.g. provision for outstanding legal cases which have not yet materialised;
- General and earmarked reserves retained by the Council.

3.1.5. Some of the monies identified above are short term and investment of these needs to be highly 'liquid', particularly if it relates to a positive cash flow position which can change in the future. Future monies available for Treasury Management investment will depend on the budget position of the Council and whether the Council will need to substantially run down capital receipts and reserves. Against a backdrop of unprecedented cuts in Government funding, which will require the Council to make revenue savings to balance the budget in future years, there is a likelihood that such actions may be required in the medium term which will reduce the monies available for investment.

3.1.6. The Council has also identified an alternative investment strategy relating to property investment. To date, this has resulted in actual and planned acquisitions which generated £3m income in 2015/16, £4.6m in 2016/17, £5.6m in 2017/18, £5.5m in 2018/19, £5.4m in 2019/20 and is budgeted to achieve £5.6m in 2020/21 (although this is being closely monitored in light of the potential impact of Covid-19). This is based on a longer term investment timeframe of at least 3 to 5 years and ensures that the monies available can attract higher yields over the longer term.

3.1.7. A combination of lower risk investment relating to Treasury Management and a separate investment strategy in the form of property acquisitions (generating higher yields and risks) provides a balanced investment strategy. Any investment decisions will also need to consider the likelihood that interest rates will increase at some point. The available resources for the medium term, given the ongoing reductions in Government funding, will need to be regularly reviewed.

3.2. Treasury Performance in the quarter ended 30th September 2020

3.2.1. **Borrowing:** The Council's healthy cashflow position continues and, other than some short-term borrowing at the end of 2015/16, no borrowing has been required for a number of years.

3.2.2. **Investments:** The following table sets out details of investment activity during the second quarter of 2020/21 and 2020/21 year to date:

	Qtr Ended 30/09/20		**2019/20 Year to Date**		
	Deposits	**Ave Rate**	**Deposits**	**Ave Rate**	**Paragraph**
	£m	**%**	**£m**	**%**	
Balance of "core" investments b/f	260.00	1.38	220.00	1.25	
New investments made in period	55.00	0.41	135.00	0.98	
Investments redeemed in period	-55.00	1.12	-95.00	1.13	
"Core" investments at end of period	260.00	1.28	260.00	1.28	
Money Market Funds	31.70	0.08	31.70	0.18	3.4.1
CCLA Property Fund*	40.00	3.48	40.00	-4.22	3.4.4.5
Multi-Asset Income Funds*	40.00	3.76	40.00	19.21	3.4.4.8
Project Beckenham Loan	1.60	6.00	1.60	6.00	3.4.3
"Alternative" investments at end of period	113.30	2.66	113.30	5.43	
Total Investments at end of Period	**373.30**	**1.70**	**373.30**	**2.54**	
* The rates shown in here are the total return (ie. the dividend income plus the change in capital value.					
A more detailed breakdown of the rates for these investments is shown in the relevant paragraphs.					

3.2.3 Details of the outstanding investments at 30th September 2020 are shown in maturity date order in Appendix 2 and by individual counterparty in Appendix 3. The return on the new "core" investments placed during the second quarter of 2020/21 was 0.41%.

3.2.4 Reports to previous meetings have highlighted the fact that options with regard to the reinvestment of maturing deposits have become seriously limited in recent years following bank credit rating downgrades. Changes to lending limits and eligibility criteria, as well as the introduction of pooled funds and housing associations have alleviated this to some extent, but there are still not many investment options available other than placing money with instant access accounts at relatively low interest rates.

3.2.5 Despite this, the Council's treasury management performance compares very well with that of other authorities. The Council was in the top decile nationally for 2014/15, 2015/16, 2016/17 and 2017/18 (the most recent CIPFA treasury management statistics available) and officers continue to look for alternative investment opportunities, both within the current strategy and outside, for consideration as part of the ongoing review of the strategy.

3.2.6 Active UK banks and building societies on the Council's list now comprise only Lloyds, RBS (ring-fenced – including National Westminster Bank), Santander UK, Goldman Sachs International Bank, Close Brothers, and Yorkshire, Principality, Nottingham & Skipton Building Societies, and all of these have reduced their interest rates significantly in recent years. The Director of Finance will continue to monitor rates and counterparty quality and take account of external advice prior to any investment decisions.

3.2.7 The chart in Appendix 1 shows total investments at quarter-end dates back to 1st April 2004 and shows how available funds have increased steadily over the years. This has been a significant contributor to the over-achievement of investment income against budgeted income in recent years.

3.3. Interest Rate Forecast (provided by Link Asset Services)

3.3.1. The forecasts in the table below have been based on an assumption that there is some sort of 'muddle through' to an agreed trade deal with the EU before the transition period ends on 31st December. Forecasts may need to be materially reassessed in light of events over the next few weeks or months.

Date	LATEST FORECAST (Nov20)				PREVIOUS FORECAST (Aug20)			
	Base Rate	3 month average earnings	6 month Libid	1 year Libid	Base Rate	3 month average earnings	6 month Libid	1 year Libid
Dec-20	0.10%	0.10%	0.10%	0.20%	0.10%	0.10%	0.10%	0.20%
Jun-21	0.10%	0.10%	0.10%	0.20%	0.10%	0.10%	0.10%	0.20%
Dec-21	0.10%	0.10%	0.10%	0.20%	0.10%	0.10%	0.10%	0.20%
Jun-22	0.10%	-	-	-	0.10%	0.10%	0.10%	0.20%
Dec-22	0.10%	-	-	-	0.10%	0.10%	0.10%	0.20%

3.4. Other accounts

3.4.1. <u>Money Market Funds</u>

3.4.1.1. The Council currently has 7 AAA-rated Money Market Fund accounts, with Federated Prime Rate, Aberdeen Standard (formerly known as Ignis), Insight, Blackrock, Fidelity, Morgan Stanley and Legal & General, all of which have a maximum investment limit of £15m. In common with market rates for fixed-term investments, interest rates on money market funds have fallen considerably in recent years. The Aberdeen Standard & Fidelity funds currently offer the best rate at around 0.05%.

3.4.1.2. The total balance held in Money Market Funds has varied during the year to date moving from £34.8m as at 31st March 2020 to £31.7m as at 30th September 2020 and currently stands at £48.8m (as at 4th November 2020). The Money Market Funds currently offer the lowest interest of all eligible investment vehicles with the exception of the Government Debt Management Account Deposit Facility (current indicative rate 0.0%); however they are the most liquid, with funds able to be redeemed up until midday for same day settlement.

Money Market Funds	Date Account Opened	Actual Balance 31/03/20	Actual Balance 30/09/20	Ave. daily balance to 30/09/20	Ave. daily rate to 01/04/20 to 30/09/20	Latest Balance 04/11/20	Latest Rate 04/11/20
		£m	£m	£m	%	£m	%
Prime Rate (Federated)	15/06/2009	15.00	15.00	13.60	0.21	15.00	0.02
Aberdeen Standard	25/01/2010	15.00	15.00	14.66	0.24	15.00	0.06
Insight	03/07/2009	-	-	1.75	0.15	-	-
Legal & General (LGIM)	23/08/2012	4.80	-	9.86	0.20	3.80	0.01
Blackrock	16/09/2009	-	-	-	-	-	-
Fidelity	20/11/2002	-	1.70	1.71	0.15	15.00	0.05
Morgan Stanley		-	-	-	-	-	-
TOTAL		34.80	31.70	41.58		48.80	

3.4.1.3 Current balances in MMFs are higher than usual for several reasons, mainly due to a number of government grants relating to Covid-19 that have been received since April 2020. Funds are also being held to cover cashflow requirements in February and March when income from Council Tax and Business Rates is significantly lower than the rest of the year, as well as ensuring the Council has sufficient liquidity to cover any ‘non-standard’ expenditure such as investment property purchases.

3.4.2. Housing Associations

3.4.2.1 Following the reduction of the counterparty rating criteria to A- for Housing Associations approved by Council in June 2017, deposits of £10m each were placed with Hyde Housing Association (A+) and Places for People Homes (A) for two years at rates of 1.30% and 1.60% respectively. Both of these investments have since matured. More recently, a deposit of £5m was placed with Metropolitan Housing Trust (A+) in April 2018 for two years at a rate of 1.75%. On 25th February 2019, Council approved an increase in the limit for investments with Housing Associations from £25m to £50m. On 28th March 2019 a further investment of £10m was made with Southern Housing Group (A2) for two years at a rate of 1.70%. On 9th April 2019 a £5m investment was made with Thames Valley Housing Association (A-) for 2 years at a rate of 1.73% and on 22nd August with Optivo Housing (A2) for 2 years at a rate of 1.45%. On April 14th 2020, a £10m investment was made with Places for People Homes Ltd (A3) for two years at a rate of 2.15%, and on June 12th 2020, a £5m investment was made with Metropolitan Housing Trust (A-) for two years at a rate of 1.50%. Current investments in Housing Associations total £40m.

3.4.3. Loan to Project Beckenham

3.4.3.1. On 26th June 2017 Council approved the inclusion in the strategy of a secured loan to Project Beckenham relating to the provision of temporary accommodation for the homeless that had previously been agreed to be advanced from the Investment Fund. A loan of £2.3m was made in June 2017, at a rate of 6%, although that may increase to 7.5% if the loan to value ratio exceeds a specified value. £0.7m of this loan was re-paid during August 2019 and £0.3m was re-paid in September 2019 leaving a balance of £1.3m as at the end of March 2020. A sum of £0.350m was advanced in August 2020, and the current balance is £1.6m.

3.4.4. <u>Pooled Investment Schemes</u>

3.4.4.1. In September 2013, the Portfolio Holder and subsequently Council approved the inclusion of collective (pooled) investment schemes as eligible investment vehicles in the Council's Investment Strategy with an overall limit of £25m and a maximum duration of 5 years. The limit was subsequently increased to £40m by Council in October 2015, £80m in June 2017 and £100m in December 2017. Such investments would require the approval of the Director of Finance in consultation with the Resources Portfolio Holder.

3.4.4.2. Until March 2018, accounting rules required that the change in capital value of these investments be held in the Available for Sale Financial Assets Reserve, and only recognised in revenue on the sale of the investment. In year projections for interest on balances therefore only reflected the dividends from these investments.

3.4.4.3. However, from 2018/19 onwards, local authorities have been required to account for financial instruments in accordance with IFRS9. One of the results of this is that changes in the capital value of pooled fund investments are recognised in revenue in-year. MHCLG have since issued regulations providing a statutory override to reverse the impact of IFRS9 on the Council's General Fund, which came into force in December 2018. The regulations are currently only applicable for a period of five years to March 2023, when it is intended for movements in value to be recognised in year.

3.4.4.4. Due to the regulations being time limited and the potentially volatile nature of these investments, interest/dividend earnings above 2.5% (£1,196k in 2019/20, £1,509k in 2018/19 and £3,790k to date) relating to the CCLA Property Fund and Fidelity Multi-Asset Income Fund have been set aside in an Income Equalisation earmarked reserve. This will protect the Council against unexpected variations in the capital value of these investments and any timing issues arising from the expiry of the statutory override.

<u>CCLA Property Fund</u>

3.4.4.5. Following consultation between the Director of Finance and the Resources Portfolio Holder, an account was opened in January 2014 with the CCLA Local Authorities' Property Fund and an initial deposit of £5m was made, followed by further deposits of £5m in July 2014, £5m in March 2015, £10m in October 2015, £5m in October 2016 and £10m in October 2017. The investment in the CCLA Fund is viewed as a medium to long-term investment and dividends are paid quarterly. A breakdown of the dividend earned and capital growth is provided in the table below.

Annualised net return	Dividend %	Capital Growth %	Total Return %
01/02/14 - 31/03/14	4.29	-29.64	-25.35
01/04/14 - 31/03/15	5.03	3.44	8.47
01/04/15 - 31/03/16	5.02	1.63	6.65
01/04/16 - 31/03/17	4.55	-2.50	2.05
01/04/17 - 31/03/18	4.59	2.41	7.00
01/04/18 - 31/03/19	4.46	1.57	6.03
01/04/19 - 31/03/20	4.45	-3.68	0.77
01/04/20 - 30/09/20	4.02	-8.23	-4.22
Cumulative return	4.53	-1.03	3.50

3.4.4.6. The negative "growth", particularly in the first two months, was mainly a result of the bid-offer spread that is inherent in property funds when the original and subsequent investments were made. This has less of an effect over the longer term that these investments are expected to be held. Overall there has been a modest capital decline of -1.03%, with the negative capital growth in 2019/20 and the first half of 2020/21 due to market volatility caused by the Covid-19 pandemic.

Multi-Asset Income Fund

3.4.4.7. Following approval by Council in June 2017, the limit for pooled investment schemes was increased to £80m and an investment of £30m was made on 12th July 2017 in the Fidelity Multi-Asset Income Fund following the agreement of the Resources, Commissioning and Contracts Management Portfolio Holder. A subsequent investment of £10m was made on December 30th 2019. The annualised fund return for the year to 30th September 2020 was capital growth of 14.80% and dividends paid of 4.51% resulting in a total return of 19.26%.

3.4.4.8. Since inception, dividends paid have averaged 4.33% per annum and the capital value has decreased by -1.82% per annum resulting in a net annual return of 2.51%. It should be noted that the Fund represents a longer-term investment of around five years.

Annualised net return	Dividend %	Capital Gain / Loss %	Total Return %
12/07/17 - 31/03/18	4.42	-6.27	-1.85
01/04/18 - 31/03/19	4.26	1.45	5.71
01/04/19 - 31/03/20	4.37	-11.81	-7.44
01/04/20 - 30/9/20	4.47	14.80	19.26
Cumulative Return	4.33	-1.82	2.51

3.4.5. Investment with Heritable Bank

3.4.5.1 Members will be aware from previous updates to the Resources Portfolio Holder and the Executive that the Council had £5m invested with the Heritable Bank, a UK subsidiary of the Icelandic bank, Landsbanki. In October 2008, the bank was placed in administration and the investment was frozen. To date, a total of £5,034k has been received (99% of the total claim of £5,087k) leaving a balance of £53k (1%).

3.5. Mid-Year Review of Treasury Management Strategy Statement and Annual Investment Strategy for 2020/21

3.5.1. The CIPFA Code of Practice on Treasury Management requires the Council to receive a mid-year review report on performance against the approved strategy. The Annual Investment Strategy was originally approved by Council in February 2020. A mid-year review, including comments on the economic background during the first half of 2020/21 and on the outlook, is included at Annex A.

3.6. Regulatory Framework, Risk and Performance

3.6.1. The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance:

- The Local Government Act 2003 (the Act) which provides the powers to borrow and invest as well as providing controls and limits on this activity;

- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing that may be undertaken (although no restrictions have been made to date);

- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;

- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;

- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;

- Under the Act, the MHCLG has issued Investment Guidance to structure and regulate the Council's investment activities;

- Under section 238(2) of the Local Government and Public Involvement in Health Act 2007, the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8th November 2007.

3.6.2. The Council has complied with all of the above relevant statutory and regulatory requirements, which limit the levels of risk associated with its treasury management activities. In particular, its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure is prudent, affordable and sustainable and its treasury practices demonstrate a low risk approach.

4. POLICY IMPLICATIONS

4.1 In line with government guidance, the Council's policy is to seek to achieve the highest rate of return on investments whilst maintaining appropriate levels of risk, particularly security and liquidity.

5. FINANCIAL IMPLICATIONS

5.1 There has been a decrease in the Bank of England base rate from 0.25% to 0.10%, and this has led to new core investments being taken out at lower rates; this is not forecast to have a substantial impact on the amount of interest received in 2020/21 as most of the rates on the core investments were already fixed, but is projected to have an impact over the next few years as the core investments taken out at higher rates mature and are replaced by investments at lower rates.

5.2 The treasury management strategy has previously been revised to enable alternative investments of £100m which will generate additional income of around £2m compared with lending to banks.

5.3 Although the Council has seen a significant reduction in the rates offered for new fixed-term investments as well as overnight money market funds, as part of the treasury management strategy there are a number of existing longer-term fixed investments at higher rates that are cushioning the Council from the impact of the drop in interest rates, and are partly responsible for the currently projected surplus of £750k for the year. The projected surplus is also due to higher interest earned on the pooled funds and the Project Beckenham loan.

Non-Applicable Sections:	Impact on Vulnerable Adults and Children, Personnel, Legal and Procurement Implications
Background Documents: (Access via Contact Officer)	CIPFA Code of Practice on Treasury Management CIPFA Prudential Code for Capital Finance in Local Authorities CLG Guidance on Investments External advice from Link Asset Services