

# Joint Audit and Governance Committee



Listening Learning Leading



Report of Head of Finance

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To: Joint Audit and Governance Committee, Cabinet and Council

DATE: 28 September 2021 by Joint Audit and Governance Committee

30 September 2021 (S) / 1 October 2021 (V) by Cabinet

7 October 2021 (S) / 6 October 2021 (V) by Council

## Treasury Outturn 2020-21

### Recommendations

That Joint Audit and Governance Committee:

1. notes the treasury management outturn report 2020/21,
2. is satisfied that the treasury activities are carried out in accordance with the treasury management strategy and policy, and
3. make any comments and recommendations to Cabinets as necessary.

That Cabinet:

Considers any comments from Joint Audit and Governance Committee and recommends Council to:

1. approve the treasury management outturn report for 2020/21;
2. approve the actual 2020/21 prudential indicators within the report.

## **Purpose of report**

1. This report fulfils the legislative requirements to ensure the adequate monitoring and reporting of the treasury management activities and that the councils' prudential indicators are reported to the councils at the end of the year. The report provides details of the treasury activities for the financial year 2020/21.
2. This complies with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA's) Code of Practice on Treasury Management.

## **Strategic objectives**

3. Effective treasury management is required to help the councils meet their strategic objectives.

## **Background**

4. The councils' treasury activities are strictly regulated by legislation. The CIPFA Prudential Code and CIPFA Treasury Management Code of Practice require a report to be provided to the councils at the end of the financial year.
5. This report provides details on the treasury activity and performance for 2020/21 against prudential indicators and benchmarks set for the year in the 2020/21 Treasury Management Strategy (TMS), approved by each council in February 2020. Each council is required to approve this report.
6. Link Asset Services are the councils' retained treasury advisors.
7. Between 1 August 2016 and 31 March 2020, the operational treasury management staff were outsourced to Capita. The executive decision making function remained with the head of finance throughout this time. On 1 April 2020, the treasury management function was brought back inhouse.
8. There are three types of investment, the performance of which is covered in this report
  - a. True treasury investments – these investments are primarily for generating interest for the councils. Examples of these are loans to banks or other local authorities. It also includes investments in property funds.
  - b. Non-treasury loans – these are loans to third parties, which earn a return, but they do not fall under the strict definition of a treasury investment.
  - c. Property investments - both councils have investment properties let on commercial basis. The primary purpose of holding these assets is for investment purposes and they are not part of regeneration schemes.
9. The councils continue to invest with regard for security, liquidity and yield, in that order.

## **Economic conditions and factors effecting investment returns during 2020/21**

10. UK bank base rates were held at 0.10 per cent. Link Asset Services provide a regular forecast of interest rates and the latest forecast is reproduced in **appendix A**. This forecast shows that base rates are expected to remain at 0.10 per cent for the foreseeable future.
11. The TMS makes clear that investment priority is given to the security of principal in the first instance. As a result, investments have only been made with counterparties of high credit quality and low risk. Since the global banking crisis and the downgrading of the credit ratings of many banks, it has become increasingly difficult to place money at competitive rates, as institutions with high credit ratings have been offering lower rates.
12. Average treasury investment balances were higher for both councils than expected in the year. This arose from a combination of accumulated revenue and capital surpluses/slippage and unbudgeted grant receipts. This was also the case in 2019/20.
13. Investments that have helped to keep yields up for both councils include longer term investments taken out when rates were higher, such as the CCLA property fund at both councils, and the unit trusts at South.
14. Outlook for 2021/22 –interest rates are expected to remain at 0.10 per cent for the next eighteen months. Monetary Policy Committee (MPC) members are hopeful we will see a good economic recovery post lockdown, however with unpredictable virus factors, forecasting is difficult and will be subject to revision.

### Summary of investment activities during 2020/21

15. Prudential limits (security). Both councils are required by the Prudential Code to report on the limits set each year in the TMS. The purpose of these limits is to ensure that the activity of the treasury function remains within certain parameters, thereby mitigating risk and reducing the impact of an adverse movement in interest rates. However, if these limits are set to be too restrictive, they may impair the opportunities to reduce costs/improve performance. These limits are shown in **appendix B**.

16. Yield - the performance of the two councils is summarised in the tables below.

South		Treasury investments £000	Non treasury loan £000	Sub Total £000	Property investment £000	Overall total £000
1	Average investment balance	160,433	15,000	175,433	7,915	183,347
2	Budgeted investment income	1,960	623	2,583		
3	Actual investment income	1,850	623	2,474	322	2,795
4	Surplus/(deficit) (3) - (2)	(110)	0	(110)		
5	Rate of return (3) ÷ (1)	1.15%	4.15%	1.41%	4.07%	1.52%

Vale		Treasury investments £000	Property investment £000	Overall total £000
1	Average investment balance	119,755	5,684	125,439
2	Budgeted investment income	908		
3	Actual investment income	1,072	238	1,310
4	surplus/(deficit) (3) - (2)	163		
5	Rate of return (3) ÷ (1)	0.89%	4.19%	1.04%

Note: £135,000 of treasury investment income relates to interest earned on Enterprise Zone balances

17. Vale exceeded treasury budgeted investment income this year in terms of actual income against budget and rates of return against benchmark. South did not reach the budgeted investment income. This is because investments matured early in the year and were reinvested at lower rates. More detail on benchmarks is included in the appendices that follow this report.

18. Detailed reports on the treasury activities for each council and performance for 2020/21 against prudential indicators and benchmarks set for the year are contained in **appendix C** – South Oxfordshire DC and **appendix D** – Vale of White Horse DC.

19. A detailed list of both councils' treasury investments as at 31 March 2021 is shown at **appendix E**.

### Debt activity during 2020/21

20. During 2020/21, there has not been a need for either council to borrow and both councils continue to take a prudent approach to their debt strategy. The prudential indicators and limits set out in **appendix B** provide the scope and flexibility for the council to borrow in the short-term, if such a need arose, for cash flow purposes to support the council(s) in the achievement of their service objectives.

### Climate and ecological impact implications

21. There are no climate or ecological implications arising from this report, however the Council can make significant impact via future investment opportunities and operational changes. Numerous changes have already been made to ensure that climate is a key consideration in key documents and processes (such as the procurement strategy), and this will become more evident in future decision making. As opportunities to support the climate ambitions of the Councils arise, they will be considered and appropriately weighted to include any climate or ecological impacts.

### Financial implications

22. The treasury investments made in 2020/21 ensured over £2 million of actual investment income was achieved for South during the year and over £1 million for Vale. Income earned from investments supports the councils' medium term financial plans and contributes to the councils' balances or supports the in-year expenditure programmes.

23. Looking forward, income is anticipated to remain stable with any increase due to ongoing surplus cash balances and rises in market rates offset by a general

reduction in the balances available to invest. This will be reflected in the councils' future budgets and medium term financial plans.

## **Legal implications**

24. There are no significant legal implications. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the MHCLG Local Government Investment Guidance provides assurance that the councils' investments are, and will continue to be, within their legal powers.

## **Conclusion**

25. Despite a difficult operating environment, both councils continued to make investments during 2020/21 that maintained security and liquidity whilst providing a return that mostly exceeded market benchmarks.

## **Background papers**

- Chartered Institute of Public Finance and Accounting (CIPFA) code of practice for treasury management in the public sector.
- DCLG Local Government Investment Guidance
- CIPFA treasury management in the public services code of practice and cross sectoral guidance notes
- Treasury Management Strategy 2020/21 – Councils in February 2020.

## **Appendices**

- A. Interest rate forecasts
- B. Prudential limits
- C. SODC – Treasury activities 2020-2021
- D. VWHDC – Treasury activities 2020-2021
- E. Treasury investments as at 31 March 2021
- F. Glossary of terms