

**Public
Key Decision - No**

HUNTINGDONSHIRE DISTRICT COUNCIL

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| Title: | Treasury Management 6 Month Performance Review |
| Meeting/Date: | Cabinet – 19th November 2020 |
| Executive Portfolio: | Strategic Resources: Councillor J A Gray (Executive Councillor for Strategic Resources) |
| Report by: | Chief Finance Officer |
| Ward(s) affected: | All Wards |

Executive Summary:

Best practice and prescribed treasury management guidance requires Members to be kept up to date in respect of treasury management activity for the first half of the year, including investment and borrowing activity and treasury performance.

The Council's 2020/21 Treasury Management Strategy was approved by the Council on the 26th February 2020 and this report sets out the Treasury Performance for period between 1st April 2020 and 30th September 2020.

The main purpose of Treasury Management is to.

- Ensure the Council has sufficient cash to meet its day to day obligations.
- Borrow when necessary to fund capital expenditure, including borrowing in anticipation of need when rates are low.
- Invest surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest.

The key market Treasury Management issues through the first half of 2020/21 influencing the Council's decision-making were.

- GDP has contracted by a massive 19.8% in Q2, inflation falling to 0.2% year on year in August, with unemployment rates increasing from 3.9% to 4.1% in Q2. It is forecast that unemployment could peak at around 8% to 9%, as furlough comes to an end in the coming months.
- The Bank of England Bank Rate at 0.01%.
- Market rates as a whole are very low, due to the Bank Rate remaining

historically low, reducing the Council's ability to earn a return on investments without increasing the risk of the investments. The Council's average investing rate was 0.25% (average interest rates obtained from Bank Deposits and Money Market Funds).

The Council's responses to the key issues were.

- When the Council has surplus funds, these will primarily be invested on a short term basis, in bank deposit accounts and money market funds.
- Where possible to take a higher return without sacrificing liquidity.
- When borrowing the Council has used the Public Works Loan Board (PWLB), which offers low fixed rate borrowing, based on gilt yields over a long period.
- Where economic conditions are forecast to deteriorate it is vital to monitor financial institutions credit rating, and credit default swap rates (the cost to insure lending). This information is provided by the Council's treasury adviser - Arlingclose.

The Council's Commercial Investment Strategy (CIS)

The Commercial Investment Strategy commenced in 2015/16. Indicators relating to the investments are shown in **Appendix A section 3.4**.

These investments generated £1.3m of investment income for the Council in 2020/21 after taking account of direct costs. The breakdown of the property's portfolio is shown in **Table 6** and the proportion of the investment income in relation to gross service expenditure, in **Table 7 of Appendix A**.

Recommendation(s):

The Cabinet is recommended to

- Note the treasury management performance for the first 6 months of 2020/21 and to recommend the report to Council for consideration.

1. PURPOSE OF THE REPORT

- 1.1 The purpose of this report is to update Members on the Council's treasury management activity for the first 6 months of the year, including investment and borrowing activity and treasury performance.

2. BACKGROUND

- 2.1 It is regarded as best practice and prescribed treasury management practice, that Members are kept up to date with treasury management activity.
- 2.2 The Council approved the 2020/21 Treasury Management Strategy at its meeting on 26th February 2020.
- 2.3 All treasury management activity undertaken during the first half of 2020/21 complied with the CIPFA Code of Practice and relevant legislative provisions.
- 2.4 The investment strategy is to invest any surplus funds in a manner that balances low risk of default by the borrower with a fair rate of interest. The Council's borrowing strategy permits borrowing for cash flow purposes and funding current and future capital expenditure over whatever periods are in the Council's best interests.

3. ANALYSIS

Economic Review

- 3.1 An economic review of the year has been provided by our Treasury Management advisors, Arlingclose and is attached with an analysis of the local context implications in **Appendix A section 2.0**.

Performance of Council Funds

- 3.2 The treasury management transactions undertaken during the first 6 months of 2020/21 financial year and the details of the investments and loans held as at 30th September 2020 are shown in detail in **Appendix A section 3.0 to 3.2**.

Risk Management

- 3.3 The Council's primary objectives for the management of its investment are to give priority to the security and liquidity (how quickly cash can be accessed) of its funds before seeking the best rate of return. For more details see **Appendix A section 3.3**.

Non-Treasury Investments

- 3.4 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. The full details of these investments can be found on **Section 3.4 of Appendix A**.

Compliance

- 3.5 Compliance with specific investment and debt limits are indicated in **table 8 and 9 of Appendix A**.

Treasury Management Indicators

- 3.6 The Council measures and manages its exposure to treasury management risks using indicators which are details in the **Appendix A section 5.0**.

4. COMMENTS OF OVERVIEW & SCRUTINY

- 4.1 The Panel received the Treasury Management Six Month Performance Review at its meeting on 4th November 2020. Members endorsed the report for submission to the Cabinet and report some observations on the loans to other organisations. While the loans appear to be beneficial to the Council, they were agreed a number of years ago when the interest rate was higher. Furthermore, the Council itself borrowed the money from another lender at a similar rate. There is a small margin to cover administration costs.

List of Appendices Included

Appendix A

- Economic review (source: Arlingclose)
- Borrowing and Investment as at 30th September 2020
- Risk Management
- Non-treasury Investments
- Treasury Management Indicators
- Outlook for the remainder of 2020/21

Appendix B


- Capital Prudential Indicators

Appendix C

- Glossary

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