Gateshead Council

REPORT TO CABINET
19 October 2021

TITLE OF REPORT: **Treasury Management – Performance to 30 September 2021**

REPORT OF: **Darren Collins – Strategic Director, Resources and Digital**

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2021, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. Cabinet will receive half yearly performance reports on the agreed Treasury Management budget identifying any variances. This report sets out the monitoring position at 30 September 2021.

3. Council agreed the Treasury Policy Statement and Treasury Strategy 2021/22 to 2025/26 which provided a framework for the Strategic Director, Resources and Digital to exercise his delegated powers on 23 March 2021.

4. Council also agreed the original Treasury Management 2021/22 budgets on 23 February 2021 of £23.556m split £11.335m for General Fund and £12.221m for the HRA.

Proposals

5. The projected outturn for 2021/22 at 30 September 2021 for the General Fund is £10.542m compared to the budget of £11.335m, an underspend of £0.793m. The HRA projection is £12.033m compared to the budget of £12.221m, an underspend of £0.219m.

6. The Audit and Standards Committee reviewed the Treasury Management performance to 30 September 2021 on 18 October 2021 and raised no comments for submission to Council.

7. It is important that effective budget monitoring and action planning is in place to ensure that spending in 2021/22 is contained within approved budgets as this will contribute to a sustainable financial position for the Council.

Recommendation

8. Cabinet is asked to recommend that Council note the Treasury Management Performance to 30 September 2021.

For the following reason:
To contribute to sound financial management and the long-term financial sustainability of the Council.

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APPENDIX 1

Policy Context

1. The proposals in this report are consistent with Council priorities and in particular they ensure that effective use is made of the Council's resources to ensure a sustainable financial position and support of the framework for achieving the Council's strategic approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just Council resources, but those of partners, local businesses and residents. This requires the Council's decision-making to be policy and priority led and driven.

Background

2. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.

3. In December 2017 CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code (the Code) which represent best practice. The Council fully complies with the Code and this contributes towards achieving good practice.

4. Part 1 of the Local Government Act 2003 specifies the powers of a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Borrowing is linked to the CIPFA Prudential Code for Capital which sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code refers to the need for a clear and integrated treasury strategy.

5. In addition, under Section 15 of the Local Government Act 2003, authorities are required to have regard to the Ministry of Housing, Communities and Local Government (MHCLG's) guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Council's Treasury Strategy.

6. Under Part 4 of the Council's Constitution the Strategic Director, Resources and Digital will produce a Treasury Policy Statement annually, setting out the general policies and objectives of the Council's treasury management function.

Treasury Management Strategy Statement

7. The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 25 March 2021. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Mid-Year Performance to 30 September 2021

8. This report sets out the latest position on the 2021/22 Treasury Management budget as at 30 September 2021 and projects interest on borrowing and investment income to the end of the financial year.

9. The combined General Fund and HRA projected outturn for 2021/22 at 30 September 2021 is £22.575m compared to the estimate of £23.556m, a projected under spend of £1.012m. The underspend is made up of several elements:

   a) Borrowing costs are lower than budget. Due to the council holding high levels of cash reserves and the projected stability in the low interest rates borrowing has been delayed until later in the financial year
   b) Investment interest achieved in the year to date is higher than budgeted estimates. This is as a result of higher levels of interest received on loans to third parties than was anticipated when the 2021/22 budget was set.

10. Appendix 2 details the budget for 2021/22 compared to an assessment of the projected outturn for the year.

Consultation

11. The Leader of the Council has been consulted on this report.

Alternative Options

12. There are no alternative options, as the Treasury Management mid-year performance report recommended for approval is required to comply with the policy on delegation, review requirements and reporting arrangements as outlined in the Treasury Policy Statement and Treasury Strategy.

Implications of Recommended Options

13. **Resources:**

   a) Financial Implications - The Strategic Director, Resources and Digital confirms that the financial implications are set out in this report. There are no additional financial implications associated with the report itself.

   b) Human Resources Implications - There are no human resources implications arising from this report.

   c) Property Implications – There are no property implications arising from this report.

14. **Risk Management Implications**

    The Treasury Policy and Treasury Strategy which informs activity in this area were prepared with the primary aim of minimising risk to ensure that the Council's principal sums are safeguarded. Maximising income is considered secondary to this main aim.

15. **Equality and Diversity Implications**

    There are no equality and diversity implications arising from this report.

16. **Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

17. **Health Implications**

There are no health implications arising from this report.

18. **Climate Emergency and Sustainability Implications**

There are no climate emergency or sustainability implications arising from this report.

19. **Human Rights Implications**

There are no human rights implications arising from this report.

20. **Ward Implications**

There are no direct area and ward implications arising from this report.

APPENDIX 2

Mid-Year Report - Performance to 30 September 2021

1. Investment Performance

1.1 The latest projection of gross investment income for 2021/22 based on interest earned to date and expected interest to March 2021 is £0.132m, compared to an original estimate of £0.076m.

1.2 This gross investment interest is adjusted to account for £0.041m interest payable to third parties and interest receivable of £1.401m from various third parties. This gives a projected net interest to the General Fund 2020/21 of £1.492m compared to the budget of £1.343m. The variance to budget is mainly as a result of higher levels of interest received on loans to third parties than was anticipated when the 2021/22 budget was set.

2. The Economy

2.1 The corona virus outbreak has created huge economic damage to the UK and around the world. The Bank of England took emergency action in March 2020 to cut the Bank Rate to first 01.25% then to 0.10%. The 0.10% rate continues unchanged following the Bank of England Monetary Policy Committee meeting on 5 September 2021. The forecast now includes increases in Bank Rates in quarter 2 of 2022 of 0.25%, then quarter 2 of 2023 to 0.50% and a further increase in quarter 1 of 2024 to 0.75%.

3. Rate of Return

3.1 The average rate of return is monitored for each investment type the Council enters into and these are used to calculate an average rate of return for the year to date. The current rate of return is 0.17%, which is an improvement on the original estimate of 0.07%.

3.2 The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across Local Authorities. In the most recent report received, June 2021, the Council achieved a weighted average rate of return of 0.18% on its investments for Quarter 1 2021/22 which is in line with the risk adjusted expectations (0.12% to 0.23%) defined in the Benchmarking Report for our Group.

3.3 The rate of return would be expected to decrease during the year as investment balances reduce and deposits are replaced for shorter terms with lower yielding returns.

3.4 It is currently a difficult investment market and the council will be unable to match levels of interest rates achieved in previous financial years. The majority of available interest rates up to 12 months duration are at or below the bank rate of 0.10%. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current financial year 31st March 2023, investment returns are expected to remain low.

4 Borrowing

4.1 The total borrowing for the Council and HRA as at 30 September 2021 was £649.151m, which was within the operational borrowing limit of £850.000m. This borrowing is made up of £596.651m Public Works Loans Board (PWLB) loans and £52.500m market loans.

4.2 The Treasury Strategy estimates for the 2021/22 financial year were based on a borrowing requirement of £107.351m with £77.602m relating to the GF and £29.749m the HRA. However due to the council holding high levels of cash reserves no borrowing has been taken in the year to date. The timing of borrowing will depend on a combination of cash flow requirements to support the capital programme and achieving preferential borrowing rates.

4.3 The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	**HRA**
Interest Payable	£11.572m	£12.022m
Average rate of interest	3.18%	3.89%

This represents a gross saving of £0.863m on the original estimate, of which £0.644m is a saving for the General Fund and £0.219m is for the HRA.

5 PWLB Government Intervention

5.1 The Government undertook a consultation exercise on the Prudential Code for PWLB borrowing during summer 2020. This resulted in the Treasury no longer allowing local authorities to borrow money from the PWLB primarily for commercial yield

5.2 An additional consultation on the Prudential Code was announced on 24 September 2021 to further clarify and update the position on local authority commercial investment and introduce new affordability indicators.

6 Summary of Mid-Year Performance

6.1 The projected net impact of investment and borrowing activity on the revenue budget in 2021/22 is an underspend of £1.012m, comprising £0.793m General Fund and £0.219m HRA.

	General Fund			**HRA**		
	Estimate **£m**	Projected Outturn **£m**	Variance **£m**	Estimate **£m**	Projected Outturn **£m**	Variance **£m**
Investments	(1.343)	(1.492)	(0.149)	(0.020)	(0.020)	0.000
Borrowing	12.216	11.572	(0.644)	12.241	12.022	(0.219)
Premia	0.046	0.046	0.000	0.000	0.000	0.000
Net Position	**11.335**	**10.542**	**(0.793)**	**12.221**	**12.033**	**(0.219)**

6.2 Investment returns are likely to remain relatively low during 2021/22 and beyond and interest rates are expected to be below long term borrowing rates therefore value for money considerations indicate that best value can be obtained by delaying new external borrowing and by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing).

6.3 The current approach of borrowing internally provides benefits in terms of reduced credit risk, as the Council has less cash invested than if it had gone to the markets and borrowed externally. This means that cash balances and investment returns, are historically low resulting in reduced levels of income, which at present is outweighed by the savings achieved from avoiding external borrowing. The additional element of interest rate risk will continue to be monitored.