

**ANNUAL REPORT ON TREASURY MANAGEMENT
ACTIVITY 2020/21 AND
ANNUAL INVESTMENT STRATEGY 2021/22**

Presented by the Head of Finance

EXECUTIVE SUMMARY

This report provides a summary of treasury management activity during 2020/21 and seeks approval to the investment strategy and target rate of return for 2021/22.

RECOMMENDATIONS

- Members Note: (1) treasury management activity during 2020/21;
- Members Approve: (2) the Annual Investment Strategy set out in Appendix A to this report; and
- (3) a target rate of return of 0.10% on investments in 2021/22, as detailed in paragraph 19 of this report.

BACKGROUND

- 1 Treasury management is the management of the Authority's cash flows, banking and investment decisions and the effective control of the risks associated with those activities; with the aim of optimising performance/returns whilst minimising the associated risks.
- 2 This report looks at the Authority's performance over the past year and proposes an Annual Investment Strategy and a target rate of return for investments for 2021/22.

ANNUAL PERFORMANCE

- 3 Treasury management activity is governed by the Authority's Treasury Management Policy which has the aim of managing risk, avoiding volatility and optimising returns, while maintaining a high degree of accessibility from the accounts to enable the cash requirements of the Authority to be met. Members of the Authority last reviewed and approved the Treasury Management Policy in

April 2021 (Paper A/4297/21).

- 4 Capital investment in 2020/21 has been funded from the Authority's accumulated cash balances and, as a result, no new external long term borrowing has been undertaken.
- 5 The Authority's cash position is reviewed on a daily basis and funds are invested or withdrawn as necessary in order to minimise the level of un-invested cash/bank overdraft.
- 6 During the course of this year around 260 transactions have been completed, mainly through the Special Interest Bearing Account (SIBA) of the Authority's current bankers (Nat West).
- 7 No short term borrowing has been required during 2020/21. Short term investments have ranged in size from £10,000 to £3 million; and from periods of one day to 12 months. Interest earned in 2020/21 will total £20,074.

ANNUAL INVESTMENT STRATEGY 2021/22

- 8 In 2004 the Department of Communities and Local Government issued Guidance on Local Government Investments for local authorities in England and this was updated in 2010. The Local Government Act 2003 requires the Authority to have regard to this guidance and any subsequent guidance received from the Secretary of State.
- 9 Central to the guidance is an Annual Investment Strategy that each authority must produce and approve. Key to that strategy should be the principal of security, liquidity and then yield.
- 10 The Annual Investment Strategy sets out the general policy objective for investments, the procedures for determining which investments in the specified and non-specified categories the Authority will use in the forthcoming financial year, and the maximum periods for which funds may be committed in each asset class.
- 11 The Authority is expecting to borrow short-term in the next two financial years to fund the redevelopment of the Ice Centre, before taking out long term borrowing to finance this over the asset life. However, it will adopt a policy of borrow as required, so as to minimise interest payable in the short term. This will mean that there will be little investment income achieved from this borrowing, other than a few days cash flow.

Officers will however, continue to monitor long-term borrowing interest rates, and should these start to increase, may take the option to borrow long term earlier than anticipated. Whilst early borrow will allow the Authority to generate additional investment income, it will also start to incur repayment costs ahead of venue opening, which will impact on cash balances.

- 12 Attached at Appendix A to this report is the Annual Investment Strategy for 2021/22 for Members consideration and approval. Definitions for specified and non-specified investments are also set out in Appendix A.

2020/21 INVESTMENT PORTFOLIO**13 Short to Medium Term Investments**

The Authority uses an investment firm (Tullet Prebon) to invest funds, in line with the Treasury Management Policy in the short to medium term (up to 2 years) at the best achievable rate. The sums invested during 2020/21 were:

Investment	Amount	Interest Rate	Comments
Coventry BS	£2.2m	0.74%	Matured October 2020
West Brom BS	£2.2m	0.18%	Six month to April 2021
Principality BS	£2.0m	1.15%	April 2020
Principality BS	£3.0m	1.20%	May 2020
Principality BS	£3.1m	0.09%	June 2020
Principality BS	£3.1m	0.09%	July 2020
Principality BS	£3.1m	0.08%	August 2020
Principality BS	£3.1m	0.08%	September 2020
Principality BS	£3.1m	0.07%	October 2020
Principality BS	£3.1m	0.10%	November 2020
Principality BS	£3.1m	0.06%	December 2020
Principality BS	£3.1m	0.04%	January 2021
Principality BS	£3.1m	0.03%	February 2021
Principality BS	£2.0m	0.03%	March 2021

14 Day to Day Investments

These are managed on a day to day basis with the Authority's bankers, Nat West. Surplus funds are moved on a day to day basis between the current account and a SIBA, currently achieving a rate of 0.01%. Funds currently stand at approximately £3.5 million.

- 15 On two occasions during 2020/21 the Authority breached its limit of £5million held at any one institution. On both occasions this was due to cash flow timing, where investments had matured and were held overnight at Nat West awaiting re-investment. The Chief Executive and Director of Finance & Resources had agreed in April 2020 to a temporary extension to the £5m limit if required during the Covid-19 crisis for cash flow purposes.

2020/21 INVESTMENT PERFORMANCE

- 16 At this time last year (Paper E/671/20) Members of this Committee agreed to a target return on investments of 0.25% for 2020/21. The main accounts achieved the following:

Account	Period of Investment	Average Interest Rate Achieved During 2019/20	Average Interest Rate Achieved During 2020/21
		%	%
Nat West SIBA	On-Call	0.3	0.07
Principality BS	1 month	1.16	0.22
Coventry BS	9 months	1.04	0.74
West Bromwich BS	6months	0.93	0.18
Weighted Average		0.95	0.24

- 17 The Authority's average rate of investment return for 2020/21 was 0.24% (0.25% target rate). The Bank of England base rate has remained static at 0.1% since 19 March 2020.
- 18 The current economic forecasts in the light of the current Covid-19 crisis confirm interest rates and inflation are predicted to remain low until at least 2022.
- 19 Following 2020/21 annual investment performance; use of resources required to fund revenue and the capital programme activity in 2021/22 (which requires relatively instant access to monies); the current economic uncertainty as we exit the recent lockdown, and potential still for further waves once the current restrictions are fully relaxed in the summer; and the lack of potential interest rate movements over the next twelve months; the proposed target figure for investment returns for 2021/22 is **0.10%**.

ENVIRONMENTAL IMPLICATIONS

- 20 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 21 The Authority implemented an Emergency Budget in April 2020 as a result of the Covid-19 pandemic. This worst case budget forecast cash balances could reduce as low as £3million by March 2021, from a position of £10.1million in April 2020.

As a result of prudent expenditure, and with some relaxation of restrictions in the late summer 2020, the Authority's cash balances never fell below £6.7million (in November 2020), and rose to £8million in March 2021.

The Authority has adopted a cautious approach to the 2021/22 financial year with its budget, but still anticipates cash balances remaining around the £8million level for the next two financial years.

- 22 The Annual Investment Strategy forms one part of the wider Revenue and Capital Strategy, along with the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision Statement, as well as the Revenue and Capital Budgets. Officers will look to review and consolidate these ahead of determining the 2022/23 budget.

HUMAN RESOURCE IMPLICATIONS

- 23 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

- 24 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 25 The risk of investment is considered within the existing Treasury Management

Policy. The Authority tries to minimise risk by capping the total investment with any one financial institution to £5 million and limiting investments to UK clearing banks and the top seven building societies or where the building society assets exceed £10 billion.

The Authority, mindful of the potential need for access to short term cash during the 2020/21 financial year as a result of the Covid-19 pandemic, adopted a prudent approach to not investing all its surplus cash in longer term (6 month +) investments. Whilst this reduced the amount of investment interest, it meant the risk of running short of cash was alleviated.

- 26 Treasury Management is audited by the internal auditors to ensure procedures and investment decisions comply with the Policy and Investment Strategy approved by Members. The audit was conducted in March 2021, and we are awaiting the issue of the final report. However, the internal auditors have previously provided a "full assurance" rating to the Authority which is the highest level of assurance that can be achieved. The work carried out by the internal auditors is also tested by the external auditors.

EQUALITY IMPLICATIONS

- 27 There are no equality implications arising directly from the recommendations in this report.

Author: Keith Kellard, 01992 709 859, kkellard@leevalleypark.org.uk

BACKGROUND REPORTS

CIPFA "Treasury Management in the Public Services Code of Practice & 2017 Cross Sectoral Guidance Notes"

PREVIOUS COMMITTEE REPORTS

Executive	E/671/20	Annual Report on Treasury Management Activity 2019/20 & Annual Investment Strategy 2020/21	21 May 2020
Executive	E/625/19	Annual Report on Treasury Management Activity 2018/19 & Annual Investment Strategy 2019/20	23 May 2019

APPENDIX ATTACHED

Appendix A Annual Investment Strategy 2021/22

LIST OF ABBREVIATIONS

CIPFA	Chartered Institute of Public Finance and Accountancy
DCLG	Department of Communities and Local Government
SIBA	Special Interest Bearing Account
AI	Annual Investment Strategy
LVRPA	Lee Valley Regional Park Authority

LEE VALLEY REGIONAL PARK AUTHORITY

Annual Investment Strategy 2021/22

1. This Authority has regard to the MHCLG's Guidance on Local Government Investments and CIPFA's Treasury Management in Public Services: Code of Practice and Cross Sector Guidance Notes 2017.
2. This Annual Investment Strategy states which investments the Authority may use for the prudent management of its treasury balances during the financial year. In short these will only be specified investments.
3. This strategy sets out this Authority's policies for managing its investments and for giving priority to the security and liquidity of those investments.

Investment Objectives

4. All investments will be in sterling. The general objective, as set out in the Treasury Management Policy for this Authority, is the prudent investment of its treasury balances. The Authority's investment priorities are the security of capital and liquidity of its investments. The Authority will aim to achieve the optimum return on its investments commensurate with the proper levels of security and liquidity.
5. The MHCLG maintains that the borrowing of monies purely to invest or on-lend and make a return is unlawful and this Authority will not engage in such activity.

Specified Investments

6. The idea of specified investments is to identify investments offering high security and high liquidity. These investments can be made with minimal procedural formalities. All these investments should be in sterling and normally with a maturity of no more than two years.

Non – Specified Investments

7. The aim is to ensure that proper procedures are in place for undertaking risk assessments of investments made for longer periods or with bodies which do not have a "high" credit rating. Such investments are not proposed for this Authority for 2021/22 and where such investments were to be made they would require the prior approval of Members.
8. Based upon its cash flow forecasts, the Authority anticipates its fund balances in 2021/22 to range between £2m and £6m. A prime consideration in the investment of fund balances is liquidity and the Authority's forecast cash flow. Any in-house investment of more than one month needs the approval of the Chief Executive or Deputy Chief Executive.

Provisions for Credit – related losses

9. If any of the Authority's investments appeared at risk of loss due to default the Authority will make revenue provision of an appropriate amount.

End of year Investment Report

10. At the end of the financial year, the Head of Finance will prepare a report on the Authority's investment activity as part of its treasury management activity report and report this to Executive Committee by the end of June. The Annual Investment Strategy will need approval by Executive Committee.