

**ANNUAL REPORT ON TREASURY MANAGEMENT
ACTIVITY 2019/20 AND
ANNUAL INVESTMENT STRATEGY 2020/21**

Presented by the Head of Finance

EXECUTIVE SUMMARY

This report provides a summary of treasury management activity during 2019/20 and seeks approval to the investment strategy and target rate of return for 2020/21.

RECOMMENDATIONS

- Members Note: (1) treasury management activity during 2019/20;
- Members Approve : (2) the Annual Investment Strategy set out in Appendix A to this report; and
- (3) a target rate of return of 0.25% on investments in 2020/21, as detailed in paragraph 20 of this report; and
- (4) review of existing Treasury Management Policy and Prudential Indicators as part of the budget process.

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 2020/21.

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 July 2015 (Paper A/4214/15).
- 4 Capital investment in 2019/20 has been funded from the Authority's accumulated cash balances and, as a result, no new external long term borrowing has been undertaken.
- 5 External borrowing at 31 March 2020 totalled £0.
- 6 The Authority's cash position is reviewed on a daily basis and funds are invested or withdrawn as necessary in order to minimise the level of un-invested cash/bank overdraft.
- 7 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).
- 8 No short term borrowing has been required during 2019/20. 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 2019/20 will total £99,611.

ANNUAL INVESTMENT STRATEGY 2020/21

- 9 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.
- 10 Central to the guidance is an Annual Investment Strategy (AIS) that each authority must produce and approve. Key to that strategy should be the principal of security, liquidity and then yield.
- 11 The AIS 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.
- 12 Attached at Appendix A to this report is the Annual Investment Strategy for 2020/21 for Members consideration and approval. Definitions for specified and non-specified investments are also set out in Appendix A.

2019/20 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 2019/20 were:

- Coventry Building Society (4th largest) £2.2m @ 1.10% for 1 year – (now 0.74% for 9 months maturing October 2020);
- Principality Building Society (6th largest) £2.0m @ 1.15% for 1 year – (now matured and held overnight in SIBA);
- Principality Building Society (6th largest) £3.0m @ 1.20% for 1 year – (now matured and held overnight in SIBA);
- West Bromwich Building Society (7th largest) £1.0m @ 0.83% for 3 months (now matured and utilised as part of 2019/20 expenditure); and
- West Bromwich Building Society (7th largest) £1.1m @ 0.95% for 6 months (now matured and utilised as part of 2019/20 expenditure).

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 0.3%. Funds currently stand at approximately £6.5 million.

2019/20 INVESTMENT PERFORMANCE

- 15 At this time last year (Paper E/625/19) Members of this Committee agreed to a target return on investments of 1.0% for 2019/20. The main accounts achieved the following:

| 16 | Account | Period of Investment | Average Interest Rate Achieved During 2018/19 | Average Interest Rate Achieved During 2019/20 |
|----|------------------|----------------------|---|---|
| | | | % | % |
| | Nat West SIBA | On-Call | 0.21 | 0.3 |
| | Principality BS | 6 -12 months | 0.84 | 1.16 |
| | Coventry BS | 1 year | 1.10 | 1.04 |
| | Skipton BS | 6 – 12 months | 0.74 | N/A |
| | West Bromwich BS | 3 – 6months | 0.77 | 0.93 |
| | Weighted Average | | 0.68 | 0.95 |

- 17 The Authority's average rate of investment return for 2019/20 was 0.95% (1.0% target rate). The Bank of England base rate remained static at 0.75% from August 2018 and has since dropped to 0.25% on 11 March 2020 and then further reduced to 0.1% on 19 March 2020.
- 18 Comparison of published statistics show the Authority has performed consistently compared to the range for Inner/Outer London Boroughs and Hertfordshire and Essex, who generally have significantly larger funds to invest

Average Interest Earned on all External Investments

| | 13/14 | 14/15 | 15/16 | 16/17 | 17/18 | 18/19 | 19/20 |
|-------|---------|---------|---------|---------|---------|---------|-------|
| | % | % | % | % | % | % | % |
| Herts | No Data | No Data | No Data | No Data | No Data | No Data | - |
| Essex | 0.7 | 0.6 | 0.7 | 0.8 | 0.6 | No Data | - |

| | | | | | | | |
|--------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| Outer London | 0.31.6 | 0.6-1.4 | 0.6-1.5 | 0.3-1.6 | 0.4-1.9 | No Data | - |
| Inner London | 0.3-1.0 | 0.5-1.0 | 0.5-0.8 | 0.4-0.8 | 0.3-1.5 | No Data | - |
| LVRPA | 2.18 | 1.51 | 0.86 | 0.81 | 0.56 | 0.68 | 0.95 |

- 19 The economic forecasts published in March 2020 in the light of the current Covid-19 crisis confirm interest rates and inflation are predicted to remain low.
- 20 Following 2019/20 annual investment performance; use of resources required to fund revenue and the capital programme activity in 2020/21 (which requires relatively instant access to monies); the reduction in income due to closure of venues as a result of the Covid-19 lockdown; and the lack of potential interest rate movements over the next twelve months; the proposed target figure for investment returns for 2020/21 is **0.25%**.

ENVIRONMENTAL IMPLICATIONS

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

FINANCIAL IMPLICATIONS

- 22 These are dealt with in the main body of the report.

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.

Since the outbreak of Covid-19 the Authority has in the short term sought to liquidise investments to ensure business operations are maintained. The Chief Executive and the Director of Finance & Resources have, for the short-term, jointly agreed to exceed the policy (limiting the value of cash (£5m) with any one institution) and hold cash in the overnight SIBA account with the Authority's bank (Nat West), to prevent shortfalls in cash during the current crisis. This balance currently stands at £5.5m.

It is likely that cash balances will fall to £2.5m to £3m over the next twelve months. This will be an important factor when determining the levy for 2021/22 and when making future capital investment decisions which will require borrowing. It means that the Authority will need to review its Treasury

Management Policy alongside the Prudential Indicators ahead of determining the budget for 2021/22.

- 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 auditors have 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.

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BACKGROUND REPORTS

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

PREVIOUS COMMITTEE REPORTS

| | | | |
|-----------|-----------|--|--------------|
| Executive | E/625/19 | Annual Report on Treasury Management Activity 2018/19 & Annual Investment Strategy 2019/20 | 23 May 2019 |
| Executive | E/564/18 | Annual Report on Treasury Management Activity 2017/18 & Annual Investment Strategy 2018/19 | 24 May 2018 |
| Executive | E/497/17 | Annual Report on Treasury Management Activity 2016/17 & Annual Investment Strategy 2017/18 | 25 May 2017 |
| Executive | E/448/16 | Annual Report on Treasury Management Activity 2015/16 & Annual Investment Strategy 2016/17 | 26 May 2016 |
| Executive | E/405/15 | Annual Report on Treasury Management Activity 2014/15 & Annual Investment Strategy 2015/16 | 21 May 2015 |
| Authority | A/4214/15 | Treasury Management Policy & Annual Investment Strategy 2015/16 | 09 July 2015 |

APPENDIX ATTACHED

Appendix A Annual Investment Strategy 2020/21

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 2020/21

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 2020/21 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 2020/21 to range between £2m and £7m. 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 three months needs the approval of the Director of Finance & Resources and in his absence the Chief Executive Officer.

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 Director of Finance & Resources 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.