Runnymede
BOROUGH COUNCIL

Overview and Scrutiny Select Committee

Thursday 1 October 2020 at 6.30pm

This meeting will be held remotely via MS Teams with audio access to the public for the items via registered dial-in only

Members of the Committee

Councillors J Furey (Chairman), T Gracey (Vice-Chairman), A Alderson, M Brierley, J Broadhead, S Dennett, R Edis, L Gillham and S Mackay.

In accordance with Standing Order 29.1, any Member of the Council may obtain remote access via MS Teams to the meeting of this Committee, but may speak only with the permission of the Chairman of the Committee, if they are not a member of this Committee.

(N.B. PLEASE NOTE, THIS MEETING WILL COMMENCE UPON THE CONCLUSION OF THE CRIME AND DISORDER COMMITTEE MEETING WHICH COMMENCES AT 6.30.P.M.)

AGENDA

Notes:

1) Any report on the Agenda involving confidential information (as defined by section 100A(3) of the Local Government Act 1972) must be discussed in private. Any report involving exempt information (as defined by section 100I of the Local Government Act 1972), whether it appears in Part 1 or Part 2 below, may be discussed in private but only if the Overview and Scrutiny Select Committee so resolves.

2) The relevant 'background papers' are listed after each report in Part 1. Enquiries about any of the Agenda reports and background papers should be directed in the first instance to **Mr J Gurmin, Democratic Services Section, Law and Government Business Centre, Runnymede Civic Centre, Station Road, Addlestone (Tel: Direct Line: 01932 425624). (Email: john.gurmin@runnymede.gov.uk).**

3) Agendas and Minutes are available on a subscription basis. For details, please ring Mr B A Fleckney on 01932 425620. Agendas and Minutes for all the Council's Committees may also be viewed on www.runnymede.gov.uk.

Continued……….

4) If you wish to hear the debate for the items on this Agenda by audio via MS Teams you must register by 10.00 am on the day of the meeting with the Democratic Services Team by emailing your name and contact number to be used to dial-in to democratic.services@runnymede.gov.uk

5) **Audio-Recording of Meeting**

As this meeting will be held remotely via MS Teams, you may only record the audio of this meeting. The Council will not be recording any remote meetings.

LIST OF MATTERS FOR CONSIDERATION

PART I

Matters in respect of which reports have been made available for public inspection

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection.

a) Exempt Information

(No reports to be considered under this heading)

b) Confidential Information

(No reports to be considered under this heading)

1. **NOTIFICATION OF CHANGES TO COMMITTEE MEMBERSHIP**

2. **MINUTES**

To confirm the Minutes of the meeting of the Committee held on 21 July 2020 attached at Appendix ‘A’. As this meeting is being held remotely, the Chairman will ask Members of the Committee if they approve these Minutes which will then be signed when this is physically possible.

(To resolve)

Background papers

None

APPENDIX 'A'

Runnymede Borough Council

OVERVIEW AND SCRUTINY SELECT COMMITTEE

21 July 2020 at 6.00.p.m. via MS Teams

Members of the Committee present:	Councillors J Furey (Chairman), T Gracey (Vice-Chairman), A Alderson, J Broadhead, S Dennett, R Edis, and L Gillham.
Members of the Committee absent:	Councillors M Brierley and S Mackay

Councillors T Burton, M Heath, I Mullens, J Olorenshaw and N Prescot also attended.

110 MINUTES

The Minutes of the meetings of the Committee held on 2 and 14 July 2020 were confirmed as correct records. As the meeting was being held remotely using MS Teams, the Chairman would sign these two sets of minutes when this was physically possible.

111 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor S Mackay

112 CORONAVIRUS RESPONSE REVIEW

The Committee considered those matters in its terms of reference for the review of the response to the coronavirus pandemic that it agreed should be considered at its third meeting. This would provide it with information so that it could decide whether any of the recommendations in the draft Coronavirus Response Debrief Report which it had noted at its meeting on 2 July and 14 July 2020 should be amended or whether any additional recommendations should be made in the Report.

The Committee had at its previous two meetings received information on the exact work Officers and Members had undertaken during the peak of the pandemic. Officers were now looking and preparing for the future by considering actions to take for a possible second wave of the pandemic. To improve, Officers felt that the MHCLG was of particular importance as it needed to disseminate information to local authorities quickly, particularly in relation to PPE. It was also felt that central government should give more responsibility and enabling powers to local government, which would be more effective. Officers were currently working with Applied Resilience on an Action Plan for a second wave. In general, feedback from residents on the co-ordinated effort at Runnymede had been very good.

The Committee was concerned to learn that due to a national data sharing arrangement not being in place, local authorities were unable to obtain local COVID results. This data would be crucial in monitoring a potential second wave of the virus and therefore strongly felt that central government should look at allowing this data to be shared as a matter of urgency, this was vital in controlling the spread of the virus.

Members received an update from the Corporate Head of Customer, Digital and Collection Services. The Committee was pleased to note that due to the introduction of Citrix and Microsoft Office 365 in December last year from a technical point of view Runnymede had fared well. At the peak of the pandemic over 200 staff were working from home. Unfortunately, the telephony system however is over 15 years old and some difficulties with ‘hunt calls’ had occurred. This meant that FOH had taken over managing calls on a temporary basis. The Committee thanked Digital Services for all their hard work and felt the department's response had been excellent and they should be commended.

The Committee received an update from the Corporate Head of Human Resources and Organisational Development. On being asked what might be improved upon if there were a second wave of the virus, the Corporate Head of Human Resources and Organisation Development suggested that the time should be used to expand out the number of staff who could be used for the on-site welfare cell and vulnerable people calls. This would ensure that not only more staff were available as needed, but they had the right skills and qualities for the specific roles. Training would also be provided. With regards to the recommendation in the agenda that agile working should be introduced from 1st April 2021, the Committee was advised that the telephony system needed to facilitate an adequate telephony service for home working. Digital Services were commencing the procurement process in the autumn and the new system would not be implemented until December 2021. At present, staff working from home had to switch their phone extension to their mobile or home phone and that had caused issues for some staff. However, work was progressing on agile working. At present, a questionnaire was being drafted to send out to all Managers to establish which roles were suitable for home working and which were not. Whilst the Committee supported this, they asked Officers to send the questionnaire to other Officers too to get a broader indication of how home working worked for them.
It was noted that staff working on emergency situations such as the pandemic did so on a volunteer basis, it was not written into staff contracts. Whilst most staff approached helped, a minority were unwilling to work outside their homes on emergency work due to fear of being infected. It was also noted that some staff had declared medical conditions/caring responsibilities which HR had not previously been made aware of.

The Committee noted the list of essential services which continued to be carried out as well as delivering the COVID response. Of particular note, was the refuse/waste collection service, in order to maintain social distancing in refuse vehicles, community buses had been utilised to transport refuse collectors between rounds.

Councillor Prescot, Leader of the Council wished to thank everyone for all their efforts including: SLT, Officers, Members and Volunteers. He felt Runnymede responded excellently to the pandemic with a true can-do attitude. He particularly wanted to thank those who had gone 'above and beyond' and it was hoped that their efforts could be in some way rewarded in due course. He stressed again the importance of COVID cases being shared in future when dealing with potential smaller localised lockdowns. He felt the thoroughness of the review had been very good.

It was noted that whilst some Members had been involved in dealing with the pandemic, it was appreciated that some had medical conditions which prevented them from assisting. However, every Member who could help did so with some going 'above and beyond'. Members felt that the day to day working with Officers worked well and Members all worked together whatever their political persuasions.

It was noted that after the flooding in the borough in 2014 it was agreed in emergency situations there should be a Member Liaison Officer (MLO). The MLO would be the designated Member who would disseminate information out to each party. This had not occurred at every stage during COVID. The Chief Executive felt the idea of an MLO was good one and would review to ensure ongoing communications.

With regards to working with partners it was noted that on the whole good collaborative working had taken place and information needed from SCC, for example, was forthcoming.

Members appreciated the daily update email they received from the Corporate Head of Business Planning and Performance Review and the Chief Executive expressed his thanks for all her work and proactive communications to Members.

Regarding internal governance and monitoring it was considered that a review of the Council's response to the pandemic by this Committee, so soon after the event was very positive. The Advisory Panel had been set up quickly and the Leader of the Council had been very responsive to any calls. It was felt that all had gone well, and a similar approach would be used for another similar crisis with the improvement of the implementation of a MLO.

Members were keen to ensure that staff had been able to take leave. Officers advised the Committee that staff were encouraged to take leave where necessary. Staff had also been given a longer amount of time to take their leave (2 years). A wider cohort of staff would be needed in future which would also broaden staff skills and confidence.

With regards to staff returning to work, whilst agile working may not be introduced fully until December 2021, the way staff worked would now undoubtedly change. Along with this change staff would be expected to respond in case of emergency, which was in most cases something 'inbred' in staff as public servants.

The meeting was closed by the Chairman who wanted to express his thanks to all concerned at the 'amazing' job Runnymede had done.

RESOLVED that-

the amended Debrief Report as set out at Appendix 'G' be approved and recommended to Corporate Management Committee

(The meeting ended at 7.16 p.m.)

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Chairman

3. **APOLOGIES FOR ABSENCE**

4. **DECLARATIONS OF INTEREST**

If Members have an interest in an item, please record the interest on the form circulated with this Agenda and e-mail it to the Legal Representative or Democratic Services Officer by 5.00 p.m. on the day of the meeting. **Members are advised to contact the Council's Legal section prior to the meeting if they wish to seek advice on a potential interest.**

Members are reminded that a non-pecuniary interest includes their appointment by the Council as the Council's representative to an outside body and that this should be declared. Membership of an outside body in their private capacity as a director, trustee, committee member or in another position of influence thereon **should be regarded as a disclosable pecuniary interest, as should an appointment to an outside body by the Council as a trustee.**

Members who have previously declared interests which are recorded in the Minutes to be considered at this meeting need not repeat the declaration when obtaining remote access to the meeting. Members need take no further action unless the item in which they have an interest becomes the subject of debate, in which event the Member must withdraw from the meeting if the interest is a disclosable pecuniary interest or if the interest could reasonably be regarded as so significant as to prejudice the Member's judgement of the public interest.

5. **TREASURY MANAGEMENT ANNUAL REPORT 2019/20 (FINANCE – PAUL FRENCH)**

Synopsis of report:
This is the annual report on treasury management activity and performance for the 2019/20 financial year.

Recommendation:
That Full Council on 22 October 2020 notes the Treasury Management Annual Report 2019/20.

1. <u>Background Information</u>

1.1 The Council's treasury management activity is underpinned by CIPFA's (Chartered Institute of Public Finance and Accountancy*)* Code of Practice on Treasury Management ("the Code"), and the CIPFA Prudential Code for Capital Finance in Local Authorities ("the Prudential Code"). These require local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year

1.2 The Council's Treasury Management Strategy for 2019/20 was approved by this Committee at its meeting on 24 January 2019 and was subsequently approved at Full Council on 12 February 2019. This report sets out the Council's performance against the criteria in these reports for 2019/20.

1.3 Treasury management is defined as: "The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.4 No treasury management activity is without risk; The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities focuses on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

1.5 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.6 This report was considered by the Corporate Management Committee at its meeting on 30 July 2020. That Committee noted that during the year the Council operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy and recommended that Full Council noted the report.

1.7 This report would normally be considered by this Committee in July. It was not possible for this Committee to consider this report during the summer as the Committee held a series of meetings during July to consider the local response to the coronavirus pandemic.

2. Prudential and Treasury Indicators and Compliance

2.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2019/20. Officers can confirm that during the year, the Council complied with all its legislative and regulatory requirements and its Treasury Management Statement and Treasury Management Practices.

2.2 During the year the Council operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy and in compliance with the Council's Treasury Management Practices and a prudent approach was taken in relation to all investment activity with priority being given to security and liquidity over yield.

2.3 A full set of prudential and treasury indicators for 2019/20 are set out in Appendix 'B' attached.

3 Risk management

3.1 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, sets out the Council's investment priorities as being:

Credit risk
Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price.

Liquidity risk
In keeping with the CLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts.

Yield
The Council sought to optimise returns commensurate with its objectives of security and liquidity.

4 Economic background

4.1 The following section was provided by the Council's Treasury Advisors, Link Asset Services and reflects the market position as at 24 April 2020:

4.2 The main issue in 2019 was the repeated battles in the House of Commons to agree on one way forward for the UK over the issue of Brexit. This resulted in the resignation of Teresa May as the leader of the Conservative minority Government and the election of Boris Johnson as the new leader, on a platform of taking the UK out of the EU on 31 October 2019. The House of Commons duly frustrated that renewed effort and so a General Election in December settled the matter once and for all by a decisive victory for the Conservative Party: that then enabled the UK to leave the EU on 31 January 2020. However, this still leaves much uncertainty as to whether there will be a reasonable trade deal achieved by the target deadline of the end of 2020. It is also unclear as to whether the coronavirus pandemic may yet impact on this deadline; however, the second and third rounds of negotiations have already had to be cancelled due to the virus.

4.3 Economic growth in 2019 has been very volatile with quarter 1 unexpectedly strong at 0.5%, quarter 2 dire at -0.2%, quarter 3 bouncing back up to +0.5% and quarter 4 flat at 0.0%, +1.1% year on year. 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the General Election in December settling the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus pandemic. It now looks likely that the closedown of whole sections of the economy will result in a fall in GDP of at least 15% in quarter two. What is uncertain, however, is the extent of the damage that will be done to businesses by the end of the lock down period, when the end of the lock down will occur, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover.

4.4 After the Monetary Policy Committee (MPC) raised Bank Rate from 0.5% to 0.75% in August 2018, Brexit uncertainty caused the MPC to sit on its hands and to do nothing until March 2020; at this point it was abundantly clear that the coronavirus outbreak posed a huge threat to the economy of the UK. Two emergency cuts in Bank Rate from 0.75% occurred in March, first to 0.25% and then to 0.10%. These cuts were accompanied by an increase in quantitative easing (QE), essentially the purchases of gilts (mainly) by the Bank of England of £200bn. The Government and the Bank were also very concerned to stop people losing their jobs during this lock down period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the Government providing guarantees to the banks against losses), to tide them over the lock down period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. At the time of writing, this is a rapidly evolving situation so there may be further measures to come from the Bank and the Government in April and beyond. The measures to support jobs and businesses already taken by the Government will result in a huge increase in the annual budget deficit in 2020/21 from 2%, to nearly 11%. The ratio of debt to GDP is also likely to increase from 80% to around 105%. In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lock down is ended. Provided the coronavirus outbreak is brought under control relatively swiftly, and the lock down is eased, then it is hoped that there would be a sharp recovery, but one that would take a prolonged time to fully recover previous lost momentum.

4.5 Inflation has posed little concern for the MPC during the last year, being mainly between 1.5 – 2.0%. It is also not going to be an issue for the near future as the world economy will be heading into a recession which is already causing a glut in the supply of oil which has fallen sharply in price. Other prices will also be under downward pressure while wage inflation has also been on a downward path over the last half year and is likely to continue that trend in the current environment. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

4.6 Employment had been growing healthily through the last year but it is obviously heading for a big hit in March – April 2020. The good news over the last year is that wage inflation has been significantly higher than CPI inflation which means that consumer real spending power had been increasing and so will have provided support to GDP growth. However, while people cannot leave their homes to do non-food shopping, retail sales will also take a big hit.

4.7 The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019, as any downturn in China would spill over into impacting countries supplying raw materials to China. Concerns were particularly focused on the synchronised general weakening of growth in the major economies of the world. These concerns resulted in Government bond yields in the developed world falling significantly during 2019. In 2020, coronavirus is the big issue which is going to sweep around the world and have a major impact in causing a world recession in growth in 2020.

5 Borrowing Activity in 2019/20

5.1 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2019/20 unfinanced capital expenditure, and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

5.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council

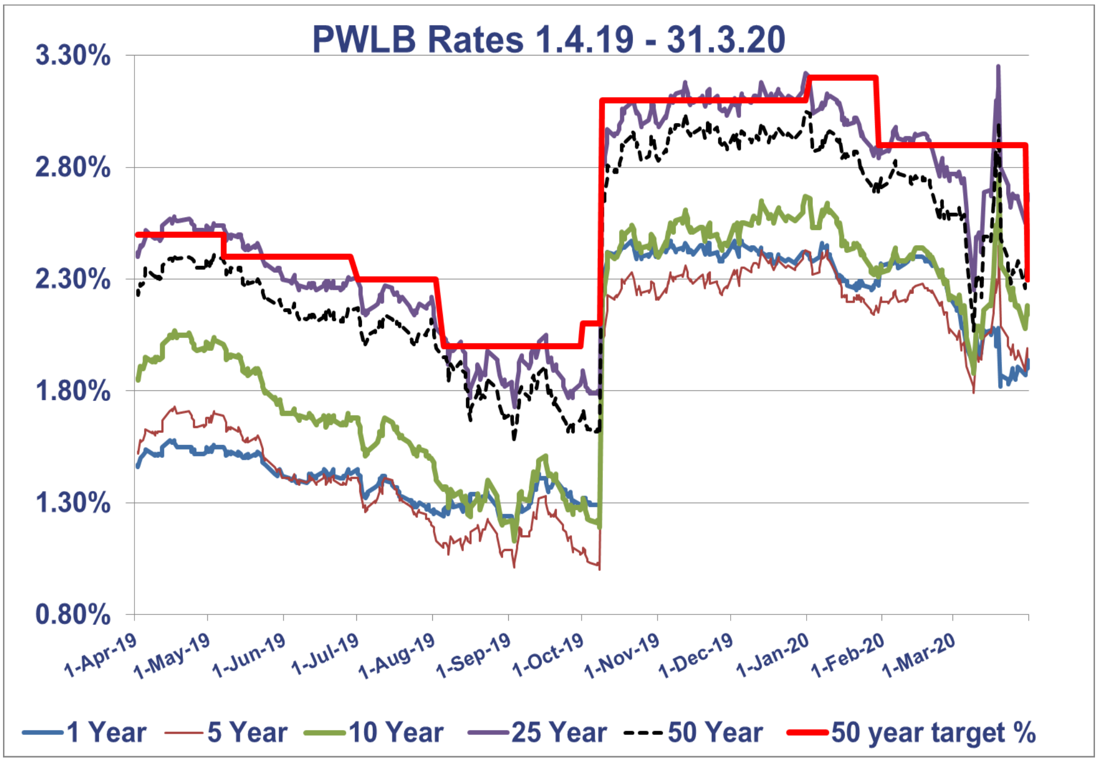
5.3 During 2019-20, the Council maintained an under-borrowed position. This meant that the capital borrowing need, the CFR, was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

5.4 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, with interest rates fluctuating wildly on a daily basis, an uncertain future in regards to the fallout from Coronavirus and Brexit and with the temporary borrowing market failing to cope with the year end demands, officers took the opportunity at the year end to convert £15 million of internal borrowing into actual debt to avoid incurring higher borrowing costs in the future.

5.5 Table 1 sets out the borrowing activity for the year.

Table 1 – Borrowing activity in 2019/20				
	Opening Balance £'000	New borrowing £'000	Borrowings repaid £'000	Closing balance £'000
HRA - PWLB	101,956	0	0	101,956
General Fund - PWLB	469,336	56,000	0	525,336
General Fund - Other	0	5,000	0	5,000
	571,292	**61,000**	**0**	**632,292**

5.6 As depicted in the graph below and table on the next page, PWLB 25 and 50 year rates have been volatile during the year with little consistent trend varying day to day depending on the latest news on Brexit negotiations.



5.7 The above graph reflects the fact that HM Treasury has imposed two changes in the margins over gilt yields for PWLB rates in 2019-20 without any prior warning; the first on 9 October 2019, added an additional 1% margin over gilts to all PWLB rates. That increase was then partially reversed for some forms of borrowing on 11 March 2020. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this ended on 4 June. It is clear that the Treasury intends to put a stop to local authorities borrowing money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.

5.8 There is likely to be little upward movement in PWLB rates over the next two years as it will take national economies a prolonged period to recover all the momentum they will lose in the sharp recession that will be caused during the coronavirus shut down period. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020-21.

5.9 The table below shows PWLB rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year. These are skewed slightly by the sharp increase in rates in October 2019:

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

5.10 For comparative purposes the Council undertook the following borrowing during the year:

Table 2 – Borrowing activity in 2019/20						
Lender	Start date	End date	No of years	Fixed / Variable	Interest Rate	Total Borrowing
PWLB	20/12/19	20/12/28	9	Fixed	2.50%	6,000,000
LB Barking & Dagenham	20/12/19	20/12/22	3	Fixed	1.80%	5,000,000
PWLB	30/03/20	30/03/31	11	Fixed	2.26%	10,000,000
PWLB	30/03/20	30/03/70	50	Fixed	2.33%	40,000,000

5.11 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

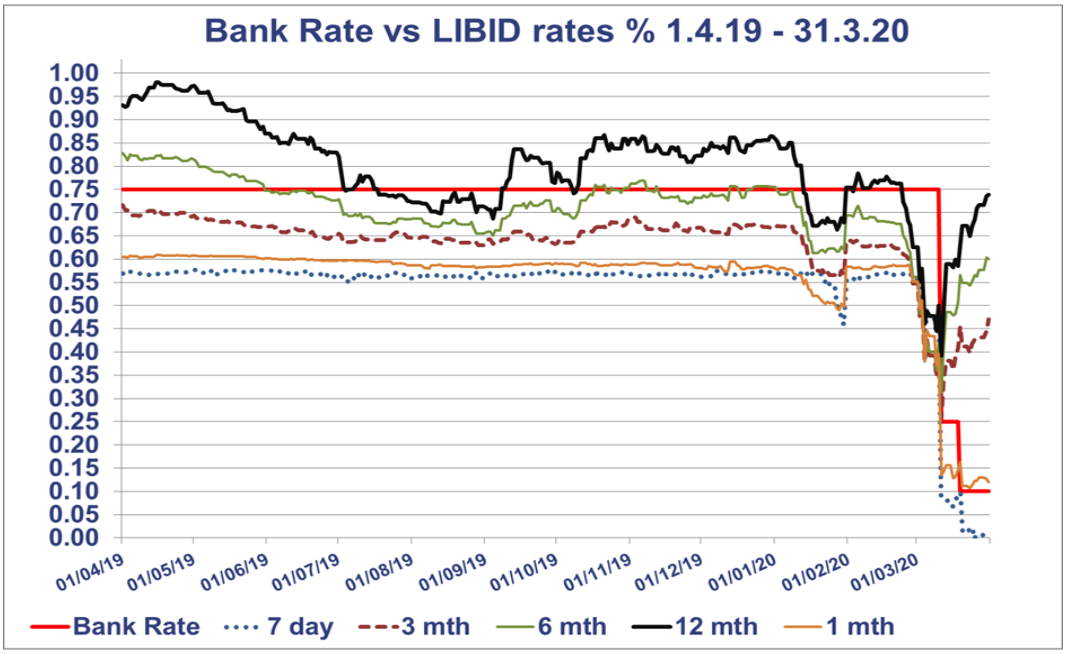
5.12 The Council operates two “loans pools”, one for the HRA and one for the general fund to comply with the HRA ring fence requirements. The HRA average interest rate for the year as 3.36% and the General Fund as 2.31%. A schedule of the outstanding loans at the end of the year is set out at Appendix ‘C’ attached.

6 Interest rates in 2019/20

6.1 Investment returns remained low during 2019/20. The expectation for interest rates within the treasury management strategy for 2019/20 was that Bank Rate would stay at 0.75% during 2019/20 as it was not expected that the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled but would only rise to 1.0% during 2020.

6.2 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets.

6.3 Interest rates during the period were as follows:



6.4 The Council's actual interest rate performance during the year was 0.91%. The Council's overall performance compares favourably with the Council's benchmark rates which were as follows:

Table 3 - Comparison of investment returns in 2019/20	
Index	Annualised Return %
Average Bank Base Rate	0.72
7 day LIBID average	0.54
3 month LIBID average	0.64
12 month LIBID average	0.80
Runnymede Borough Council rate	**0.91**

LIBID - The London Interbank Bid Rate is a bid rate; the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks.

6.5 One of the reasons for this good performance was the decision by officers to place a majority of its spare money for periods of 9-12 months with local authorities during the year when the money market rates started to dip (see table 6 below). Lending to local authorities is one of the safest forms of investment and authority to authority lending generally saw an upturn during the year as rates offered by local authorities out stripped the general market.

6.6 Another reason this favourable rate was achieved was due to the Council's investment in its two Pooled Funds. These allow the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments. Investments in these funds are long term in nature and over long term horizons they provide investors with strong levels of interest (in the form of dividends) relative to other forms of investment. However past performance has also shown that the capital values of these assets can be subject to large fluctuations (both up and down) over relatively short time frames. March 2020 was one such occasion as markets showed high levels of volatility with significant changes (of greater than 1%) on a day to day basis. Officers expect this volatility to continue over the medium term as the consequences of Brexit and the Coronavirus play out.

6.7 The movement of the Council's two CCLA pooled funds is as follows:

Table 4 – Pooled Funds in 2019/20

	Original Investment £	**Value 31 March 2019 £**	**Value 31 March 2020 £**	**Average Return %**
CCLA Property Fund	2,000,000	2,408,177	2,322,121	3.22
CCLA Diversified Income Fund	2,000,000	2,013,852	1,833,032	3.23

The differences between the Original Sums invested and the Values at 31 March 2020 are held on the Council's Balance Sheet in the Pooled Investments Adjustment Account.

6.8 The Council's Treasury Management Strategy sets out a lower rate of interest for the Housing Revenue Account based on the risk free nature of the account. This lower rate is achieved by deducting the credit risk margin from the actual rate achieved by the Council. The resulting interest rate applicable to the HRA during 2019/20 was 0.416%.

7 Investment Outturn for 2019/20

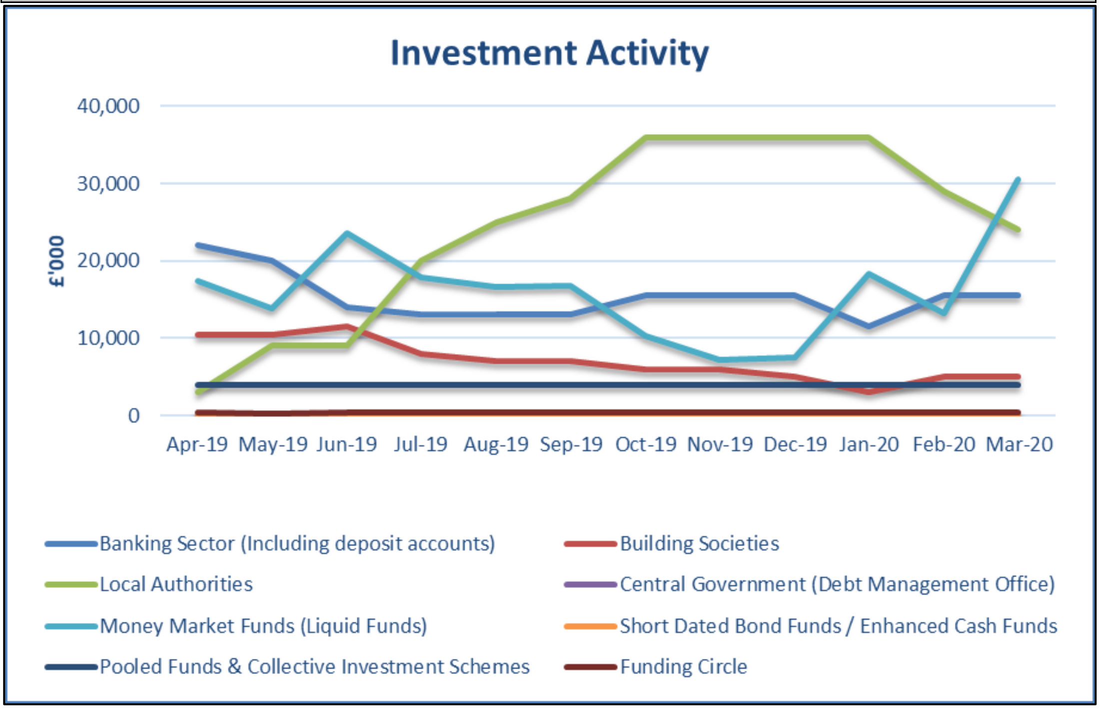
7.1 The Council's investment policy is governed by MHCLG investment guidance and is reflected in the Annual Investment Strategy approved by the Council each year. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.2 Investments of £79.561million were held by the Council at 31 March 2020. Investment turnover in 2019/20 has been principally driven by the availability of counterparties that meet the criteria set out in the Annual Investment Strategy. Table 5 at Appendix 'D' attached summarises investment activity during the course of the year, split between the sectors of the counterparties that the funds were invested with.

7.3 The high year end balance was due to officers swapping internal borrowing of £15 million for actual debt undertaken at the year end (see paragraph 5.4 above).

7.4 The monthly movement in balances between these categories is set out in Table 6 on the next page and reflects the available counterparties and investment rates at that time.

Table 6 - Movement between investments during 2019/20



7.5 A full list of investments held at 31 March 2020 is set out in Appendix 'E' attached.

7.6 Investment balances have risen over the last year due a slow build up in balances as MRP is set aside to repay borrowing in the future when it becomes due. The increase in balances will be an ongoing problem going forward and may mean the Council will need to revisit its counterparty lending criteria in future years to account for it.

7.7 The Council's cash balances comprise revenue and capital resources and cash flow monies (creditors etc). Interest earned on these balances is derived from in-house managed investments. The table below shows gross investment income achieved in 2019/20 alongside the interest paid on borrowings:

Table 7 – Net investment income / Debt interest 2019/20

	Original Estimate £'000	Revised Estimate £'000	Outturn £'000
Investment income earned	484	478	545
Interest on loans to RBC companies	1,414	1,436	1,414
Gross investment income	**1,898**	**1,914**	**1,959**
Management expenses	(35)	(35)	(56)
Interest paid on deposits and other balances	(6)	(6)	(7)
Debt interest	(17,961)	(15,072)	(14,350)
Net Investment Income / (Debt interest)	**(16,104)**	**(13,199)**	**(12,454)**

This is broken down between services as follows:

General Fund	(12,910)	(10,005)	(9,152)
Housing Revenue Account	(3,194)	(3,194)	(3,302)
Net Investment Income / (Debt interest)	**(16,104)**	**(13,199)**	**(12,454)**

7.8 Aside from the parameters set in the Annual Investment Strategy, the main factors that determine the amount of investment income are the level of interest rates, cash flow and the level of reserves and balances. The impact of capital cash flows – receipts from sales and timing of capital projects – also has a significant impact on cash flows.

7.9 The variances between the estimate, revised estimate and outturn in the table above mainly stem from delayed property purchases and regeneration schemes. At the start of the year it was assumed that the Egham regeneration scheme would be under way and the Council would have spent £200m on investment property acquisitions. Delays to these schemes have meant increased cash balances and a reduced borrowing requirement. When the Council has needed to borrow, it has also benefitted from lower borrowing rates than originally forecast.

8. Legal Implications

8.1 The powers for a local authority to borrow and invest are governed by the Local Government Act 2003 and associated Regulations. A local authority may borrow or invest for any purpose relevant to its functions, under any enactment, or for the purpose of the prudent management of its financial affairs. The Regulations also specify that authorities should have regard to the CIPFA Treasury Management Code, the Department for Communities and Local Government (DCLG) Investments Guidance and the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their treasury management functions.

9. Council Policy

9.1 This is set out in the Treasury Management Policy Statement, the Annual Investment Strategy, and associated Practices and Schedules.

9.2 The Council's treasury management policy statement states:

"The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks."

9.3 It is the security of investments that has always been the main emphasis of our treasury strategy. In balancing risk against return, Officers continue to place emphasis on the control of risk over yield.

10. Conclusions

10.1 The financial year continued the challenging investment environment of previous years, namely low investment returns and continuing uncertainty. The management of counterparty risk remains our primary treasury management priority. The criteria in the Annual Investment Strategy are continuously reviewed to minimise risk as far as reasonably possible whilst retaining the ability to invest with secure institutions.

10.2 This practice of investing over short-term with high quality institutions recognises the principal investment risk at this time, i.e. counterparty default risk. However, this is not an approach for the longer-term. Hopefully, liquidity and confidence will return to money markets and investor confidence in general. When this happens, it is proposed that our investment portfolio will start to again follow an approach that recognises all types of investment risk in a holistic way as set out in our treasury management strategy.

(To recommend)

Background papers

None stated

Treasury Indicators 2019/20

Capital Expenditure – This prudential indicator is a summary of the Council's capital expenditure plans, and financing requirements which have been updated in line with the phased borrowing requirements of the new property investment plans. Any shortfall of resources results in a funding borrowing need.

Capital Expenditure	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Revised £000s	2019/20 Actual £000s
HRA	4,890	7,771	6,331	3,517
General Fund	31,598	56,438	23,147	14,555
Non-Financial Investments				
- Investment Properties	183,862	9,575	76,474	45,342
- Capital Loans	16,497	1,395	0	36
Total	**236,847**	**75,179**	**105,952**	**63,450**
Financed by:				
Capital Receipts	18,650	11,882	4,889	4,301
Earmarked Reserves	0	1,500	2,000	799
Capital Grants & Contributions	729	545	672	424
Revenue	4,063	5,711	4,853	3,301
Total	**23,442**	**19,638**	**12,414**	**8,825**
Net financing need for the year	**213,405**	**55,541**	**93,538**	**54,625**

The net financing need for non-financial investments included in the above table against expenditure is shown below:

	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Revised £000s	2019/20 Actual £000s
Capital expenditure	200,359	10,970	76,474	45,378
Financing costs met	16,497	1,509	0	36
Net financing need for the year	**183,862**	**9,461**	**76,474**	**45,342**
Percentage of total net financing need	86%	14%	82%	83%

The Council's borrowing need (the Capital Financing Requirement) - The Council's Capital Financing Requirement (CFR), is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure, which has not immediately been paid for, will increase the CFR.

	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Revised £000s	2019/20 Actual £000s
CFR: - HRA	101,956	101,956	101,956	101,956
- General Fund	63,727	60,631	91,695	91,695
- Non-Financial Investments	216,550	509,610	398,825	398,825
CFR at 1 April	**382,233**	**672,197**	**592,476**	**592,476**
Net financing need for the year	213,405	55,541	93,538	54.625

Less MRP/VRP and other financing movements	(3,162)	(4,576)	(3,776)	**(3,289)**
CFR at 31 March	**592,476**	**723,162**	**682,238**	**643,812**

The CFR does not increase indefinitely, as the Minimum Revenue Provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life and so charges the economic consumption of capital assets as they are used.

The CFR includes any other long term liabilities (e.g. PFI schemes, finance leases). Whilst these increase the CFR, and therefore the Council's borrowing requirement, these types of schemes include a borrowing facility and so the Council is not required to separately borrow for these schemes. The Council currently has no such schemes, however the introduction of International Financial Reporting Standard 16: Leases during 2020/21 will change that as assets embedded into contracts are brought on to the Council's balance sheet as finance leases.

Current Portfolio Position - The Council's treasury portfolio position is summarised below. The table shows the actual external debt (the treasury management operations), against the underlying capital borrowing need (the Capital Financing Requirement - CFR), highlighting any over or under borrowing.

	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Revised £000s	2019/20 Actual £000s
External Debt at 1 April	356,989	660,400	665,083	-
Expected change in Debt	214,557	50,541	136,69	-
Actual gross debt at 31 March	**571,546**	**710,941**	**801,152**	**632,292**
Capital Financing Requirement	592,476	723,162	815,043	643,812
Under / (over) borrowing	**20,930**	**12,221**	**13,891**	**11,520**

The under borrowed position at 31 March 2019 is due to internal borrowing. This is temporary funding of capital expenditure using positive cash flows and internal balances. A small part of this difference (£254,000) represents the value of balances held on behalf of local trusts (e.g. Cabrera Recreation Ground Trust, Runnymede Pleasure Ground Trust etc). This gives the Trusts certainty of income and quick access if needed.

Within the above figures, the level of debt relating to non-financial investments is:

	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Revised £000s	2019/20 Actual £000s
Debt at 1 April	356,989	555,638	571,546	441,171
Percentage of total external debt	61%	78%	70%	70%

The Operational Boundary – This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt. **The authorised limit for external borrowing.** – A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under Section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all Councils' plans, or those of a specific Council, although this power has not yet been exercised

	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Revised £000s	2019/20 Actual £000s
Operational Boundary	-	712,939	698,029	-
Authorised Limit	-	720.939	731,329	-
Actual Borrowings	571,546	-	-	632,292

This limit includes a "cushion" to allow for the non repayment of any borrowing at the required time and headroom for rescheduling of debts (i.e. borrowing new money in advance of repayment of existing). This was not required during the year.

Interest Rate exposure - The upper limits on variable interest rate exposure indicator is set to control the Council's net exposure (taking borrowings and investments together) to interest rate risk. Its intention is to ensure that the Council is not exposed to interest rate rises which could adversely impact the revenue budget.

	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Revised £000s	2019/20 Actual £000s
Upper limits on **fixed** interest rates based on net debt	542,292	710,940	680,196	598,792
Upper limits on **variable** interest rates based on net debt	0	0	0	0

The Upper Limit on fixed interest rates is calculated using the maximum allowed debt (The Authorised Borrowing Limit/Actual borrowing) less Fixed Term investments.

As the Council does not borrow at variable rates of interest, the Upper limits on variable interest rates are zero.

Investment Treasury Indicator and Limit - total principal funds invested for greater than 364 days. These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	2018/19 Actual £000s	2019/20 Estimate £000s	2019/20 Revised £000s	2019/20 Actual £000s
Upper limits on Principal sums invested for over 364 days	0	3,000	3,000	0

There were no investments made for a period of greater than 364 days at the 31 March 2018.

Maturity structure of fixed interest rate borrowing (Upper Limit)

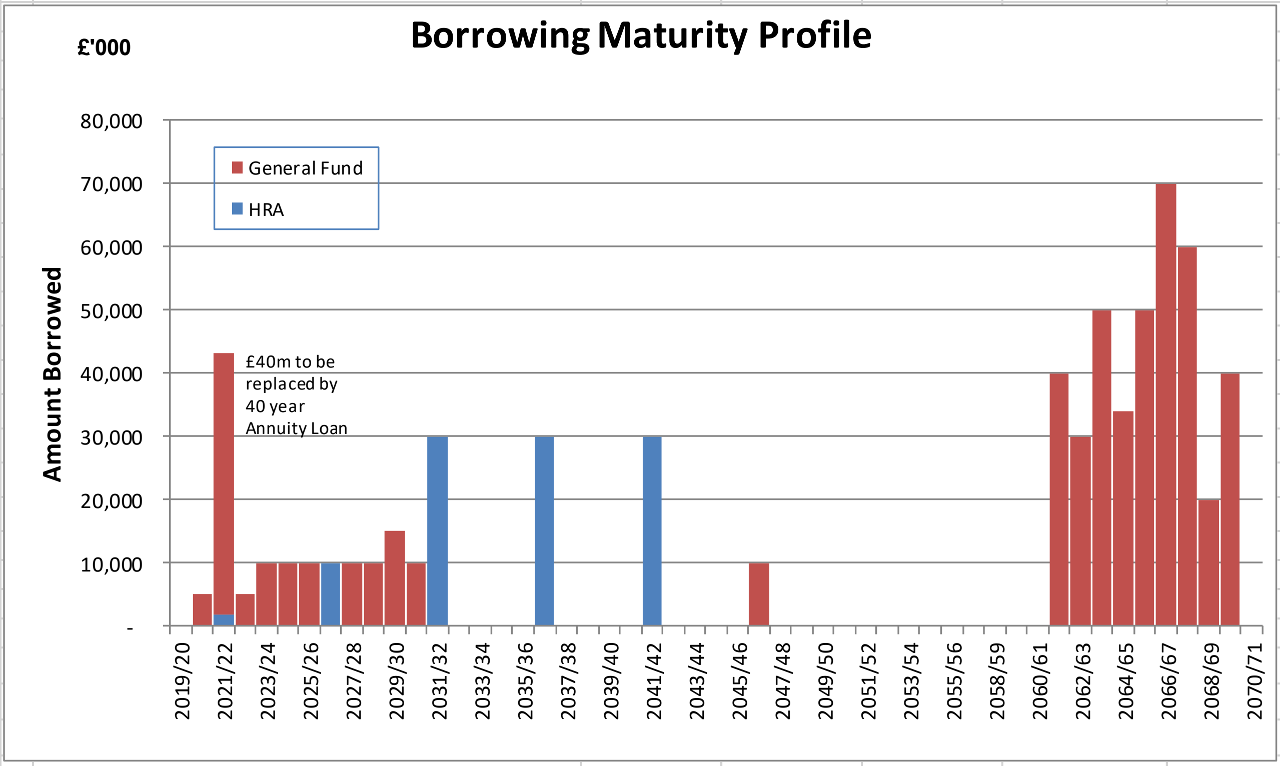
	2018/19 Actual %	2019/20 Estimate %	2019/20 Revised %	2019/20 Actual %
Under 12 months	0	25	25	1
12 months to 2 years	1	25	25	7
2 years to 5 years	9	25	25	4
5 years to 10 years	8	50	50	6
10 years to 20 years	13	100	100	14
20 years to 30 years	7	100	100	6
30 years to 40 years	0	100	100	0
40 years to 50 years	62	100	100	62

As the Council does not borrow at variable rates of interest, the upper limit on this type of debt will always be nil, therefore no table has been produced for variable interest rate borrowing.

Borrowings as at 31 March 2020

	Principal Sum £'000	Original Term (Years)	Annual Interest £	MATURITY	%
Housing Revenue Account					
PWLB - 500502 (part)	1,956	10	46,944	28 Mar 2022	2.40%
PWLB - 500495	10,000	15	301,000	28 Mar 2027	3.01%
PWLB - 500498	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500500	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500501	10,000	20	332,000	29 Mar 2032	3.32%
PWLB - 500493	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500496	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500503	10,000	25	344,000	27 Mar 2037	3.44%
PWLB - 500494	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500497	10,000	30	350,000	28 Mar 2042	3.50%
PWLB - 500499	10,000	30	350,000	28 Mar 2042	3.50%
	101,956		**3,425,944**	**Average Rate:**	**3.36%**
General Fund					
PWLB - 504311	5,000	5	98,500	17 Aug 2020	1.97%
PWLB - 507406	40,000	3	672,000	02 May 2021	1.68%
PWLB - 500502 (part) - Appropriated from HRA	1,336	10	32,064	28 Mar 2022	2.40%
London Borough of Barking & Dagenham	5,000	3	90,000	20 Dec 2022	1.80%
PWLB - 507919	10,000	5	195,000	17 Oct 2023	1.95%
PWLB - 507920	10,000	6	205,000	17 Oct 2024	2.05%
PWLB - 504312	10,000	10	256,000	17 Aug 2025	2.56%
PWLB - 506855	10,000	10	219,000	23 Jan 2028	2.19%
PWLB - 505012	4,000	12	86,400	08 Jun 2028	2.16%
PWLB - 507919	6,000	9	150,000	22 Dec 2028	2.50%
PWLB - 504520	15,000	15	414,000	04 Dec 2030	2.76%
PWLB - 176998	10,000	11	226,000	30 Mar 2031	2.26%
PWLB - 505233	10,000	30	244,000	12 Jul 2046	2.44%
PWLB - 505335	20,000	45	376,000	01 Sep 2061	1.88%
PWLB - 508328	10,000	43	247,000	31 Dec 2061	2.47%
PWLB - 508377	10,000	43	249,000	18 Jan 2062	2.49%
PWLB - 505968	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505969	15,000	45	351,000	04 Apr 2062	2.34%
PWLB - 505972	20,000	46	470,000	05 Apr 2063	2.35%
PWLB - 505433	10,000	47	207,000	29 Sep 2063	2.07%
PWLB - 508192	10,000	45	243,000	12 Dec 2063	2.43%
PWLB - 508226	10,000	45	239,000	13 Dec 2063	2.39%
PWLB - 505434	14,000	48	289,800	29 Sep 2064	2.07%
PWLB - 505668	20,000	48	514,000	20 Jan 2065	2.57%
PWLB - 507420	40,000	47	980,000	29 May 2065	2.45%
PWLB - 507145	10,000	48	228,000	27 Mar 2066	2.28%
PWLB - 507416	40,000	48	984,000	25 May 2066	2.46%
PWLB - 505611	20,000	50	524,000	16 Dec 2066	2.62%
PWLB - 506991	10,000	50	240,000	05 Mar 2067	2.40%
PWLB - 507425	20,000	49	480,000	30 May 2067	2.40%
PWLB - 506125	10,000	50	230,000	12 Jun 2067	2.30%
PWLB - 506887	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 506888	15,000	50	367,500	08 Feb 2068	2.45%
PWLB - 507407	20,000	50	490,000	23 May 2068	2.45%
PWLB - 177081	40,000	50	932,000	30 Mar 2070	2.33%
	530,336		**12,247,764**	**Average Rate:**	**2.31%**
Total Borrowings	**632,292**		**15,673,708**	**Annual Interest**	

Borrowings as at 31 March 2020

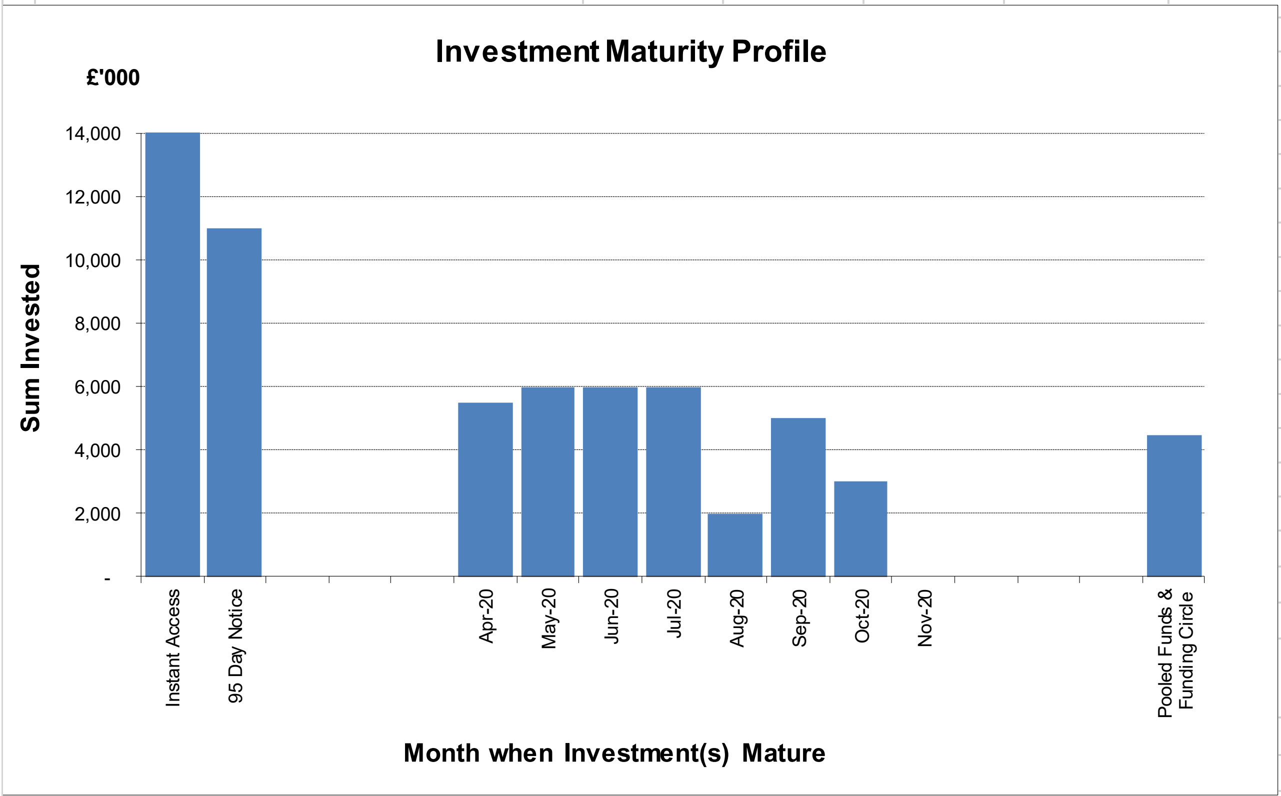


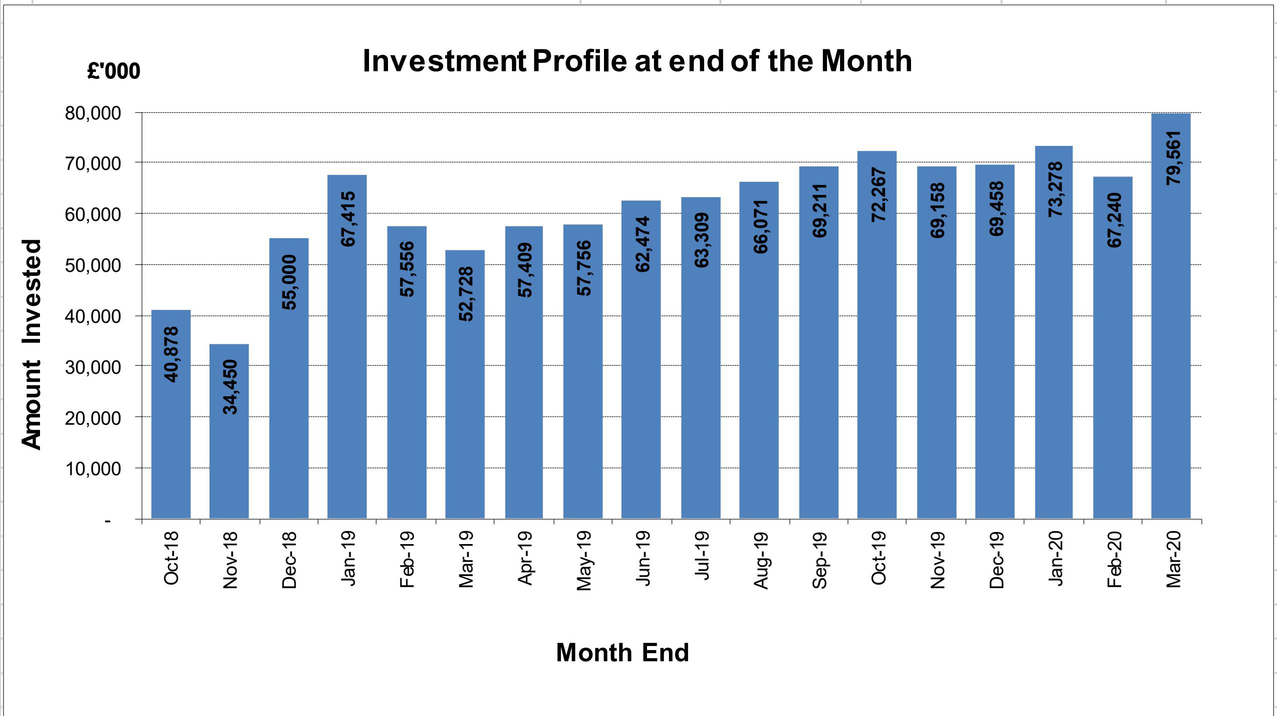
Advance Loan Deal (Refinancing existing loan)	£'000	(Years)		MATURITY	%
Phonenix Life Limited	40,000	40	Annuity Basis	02 May 2061	2.88%

Table 5 - Investment activity in 2019/20				
	Opening Balance	New Investments	Investments Recalled	Closing Balance
	£000	£000	£000	£000
Specified Investments				
Banking sector	22,000	15,500	22,000	15,500
Building societies	10,000	18,500	23,500	5,000
Local Authorities	4,000	36,000	16,000	24,000
Central Government	0	0	0	0
Money Market Funds	12,270	147,435	129,105	30,600
Unspecified Investments				
Pooled Funds & Collective Investment Schemes	4,000	0	0	4,000
Funding Circle	458	11	8	461
	52,728	217,446	190,613	79,561

Investments as at 31 March 2020					
	£'000		ORIGINAL TERM	MATURITY	%
Banks					
Access Accounts					
Santander Business Reserve Account	1,800		**** 95 Day Notice A/C ****		0.900
Santander Business Reserve Account	2,200		**** 95 Day Notice A/C ****		0.900
Goldman Sachs International Bank	3,000		**** 95 Day Notice A/C ****		0.720
Lloyds Bank PLC	4,000		**** 95 Day Notice A/C ****		0.450
Term Deposits					
Certificates of Deposit					
DBS	1,000		9 mth	03 Apr 2020	0.910
Nat West Bank	1,000		1 yr	03 Jul 2020	0.870
Standard Chartered Bank	2,500		6 mth	22 Apr 2020	0.880
Total Banks	**15,500**	**19%**			
Building Societies					
Coventry BS	1,000		3 mth	30 Apr 2020	0.650
Nationwide BS	2,000		6 mth	06 Aug 2020	0.760
Coventry BS	2,000		3 mth	18 May 2020	0.650
Total Building Society	**5,000**	**6%**	(50% Limit)		
Local Authorities					
Corby Borough Council	1,000		1 yr	22 Apr 2020	1.000
Coventry City Council	3,000		1 yr	09 Oct 2020	1.000
Fife Council	3,000		1 yr	29 Jun 2020	0.900
Lancashire County Council	2,000		1 yr	13 May 2020	0.920
Lancashire County Council	2,000		1 yr	11 May 2020	0.920
London Borough of Croydon	2,000		1 yr	01 Jul 2020	0.880
North Lanarkshire Council	3,000		9 mth	20 Apr 2020	0.800
Plymouth City Council	5,000		11mth	28 Sep 2020	0.850
Salford CC	3,000		1 yr	29 Jul 2020	0.870
Total Local Authorities	**24,000**	**30%**			
Money Market Funds					
Aberdeen Liquidity Sterling Fund	10,000		********** On Call **********		Variable
Aviva Investors Sterling Liquidity Fund - Class 3	10,000		********** On Call **********		Variable
CCLA - Public Sector Deposit Fund	2,000		********** On Call **********		Variable
Insight Liquidity Fund PLC	8,600		********** On Call **********		Variable
Total Money Market Funds	**30,600**	**38%**			
Pooled Funds & Collective Investment Schemes					
CCLA Property Fund	2,000		**** 1 mth settlement ****		Variable
CCLA Diversified Income Fund	2,000		**** 1 mth settlement ****		Variable
Total Pooled Funds	**4,000**	**5%**			
Funding Circle					
Lending to small and medium sized companies	461		**** up to 5 years ****		Variable
Total Other Investments	**461**	**1%**	(with the ability to sell loans)		
Total Investments	**79,561**				

Investments as at 31 March 2020





6. **EXCLUSION OF PRESS AND PUBLIC**

OFFICERS' RECOMMENDATION that –

the press and public be excluded from the meeting during discussion of the following report (s) under Section 100A(4) of the Local Government Act 1972 on the grounds that the report (s) in question would be likely to involve disclosure of exempt information of the description specified in appropriate paragraphs of Schedule 12A of the Act.

(To resolve)

PART II

Matters involving Exempt or Confidential Information in respect of which reports have not been made available for public inspection

a) Exempt Information

(No reports to be considered under this heading)

b) Confidential Information

(No reports to be considered under this heading).