Runnymede Borough Council

OVERVIEW AND SCRUTINY SELECT COMMITTEE

1 October 2020 at 7.45.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

226 MINUTES

The Minutes of the meeting of the Committee held on 21 July 2020 were confirmed as a correct record. As the meeting was being held remotely using MS Teams, the Chairman would sign these minutes when this was physically possible.

227 TREASURY MANAGEMENT ANNUAL REPORT 2019/20

The Committee considered the Treasury Management Annual Report 2019/20 which summarised the Council's treasury management activity and performance for 2019/20. It was noted that this report had been considered by the Corporate Management Committee at its meeting on 30 July 2020. That Committee had recommended that Full Council noted the report and had noted that during the year the Council had operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy.

The Committee noted that it would normally consider the Treasury Management Annual Report at its July meeting. However, it had not been possible for the Committee to consider this report during the summer as it had held a series of meetings during July to consider the local response to the coronavirus pandemic. The Committee noted that the economic analysis provided within the report was now out of date because of the pace of events.

The Council's underlying need to borrow for capital expenditure was termed the Capital Financing Requirement (CFR) and represented the capital expenditure of prior years that had not been paid for and the current year's unfinanced capital expenditure. One of the Council's treasury activities was to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, Officers organised the Council's cash position to ensure that sufficient cash was available to meet the capital plans and cash flow requirements. During 2019/20, the Council had maintained an under-borrowed position. This meant that the capital borrowing need, the CFR, had not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow had been used as an interim measure.

The policy of avoiding new borrowing by running down spare cash balances had served the Council well over the last few years. However, with interest rates fluctuating wildly on a daily basis, and an uncertain future in regard to the fallout from Coronavirus and Brexit, officers had taken the opportunity at the end of 2019/20 to convert £15 million of internal borrowing into actual debt to avoid incurring higher borrowing costs in the future. This was done at a rate of 2.33%. Equivalent rates today were 2.48%. Doing this had effectively delayed the need to borrow for the Egham Gateway scheme in the current year, and it was hoped that reduced Public Works Loan Board (PWLB) rates for regeneration schemes would be introduced by the time additional money was required. It was noted that the Council could no longer borrow from the PWLB in order to acquire commercial assets. During 2019/20 the Council had borrowed £61m. This meant that the Council ended the year with borrowings of £632m, £102m of which related to the longstanding Housing Revenue Account (HRA) debt. No further borrowing had been undertaken in the current year.

Investment returns had remained low in 2019/20 and had then plummeted at the year end as the base rate was cut to 0.1%. The Council's actual interest rate performance during last year (i.e. 2019/20) was a healthy 0.91% which compared favourably with the Council's benchmark rates. However, with base rates so low, Finance officers were now predicting a sharp fall in the current year with the Council's returns for the first 6 months of 2020/21 averaging around 0.60%. This would plummet further during the second half of the year as forthcoming maturities were reinvested at much lower rates. One of the reasons for last year's good performance was the decision by officers to lend a majority of the Council's spare money for periods of 9-12 months with local authorities when the money market rates started to dip.

Another reason for the favourable actual interest rate performance which had been achieved in 2019/20 was the Council's investment in its two pooled funds. Investments in these funds were long term in nature and over long term horizons they offered investors with strong levels of interest in the form of dividends. However, the capital values of these assets could be subject to large fluctuations over relatively short time frames. March 2020, when the Coronavirus lockdown had started, was one such occasion as markets showed high levels of volatility with significant changes on a day to day basis. Officers expected this volatility to continue over the medium term as the consequences of Brexit and the Coronavirus became clearer over time. Equivalent values of the funds as at the end of August 2020 were £2.2m for the Property Fund with a yield of approximately 4 - 4.5% and £2.0m for the Income Fund with a yield of approximately 3.2%. The Committee noted a full list of investments totalling £79m held by the Council at 31 March 2020. The high year end balance was due to officers swapping internal borrowing of £15 million for actual debt.

Taking both borrowings and investment together, overall the Council had made a £3.7m betterment on its original net debt forecast for the year. This variance mainly stemmed from delays to property purchases and regeneration schemes which had led to increased cash balances and a reduced borrowing requirement. However, what this also meant was that there was less rental income being received which offsetted most of this betterment.

In 2019/20 the Council had operated within the boundaries set out in the Treasury Strategy and investment returns and borrowing rates had been better than anticipated with no additional risk to the Council. The Committee considered that the borrowing rates for the HRA appeared to be high when compared to the General Fund and it was explained that these were specially introduced low rates at the time the loans were taken out, which showed how far the market had since fallen. The Council had not lost any of the principal on its investments and always gave priority to security and liquidity over yield. The Committee congratulated Finance officers on excellent Treasury management performance for the year 2019/20 and asked that its appreciation of the efforts of the Finance Team during 2019/20 be conveyed to those staff.

The Committee also received a verbal update on the Council's current position in respect of Treasury Management in 2020/21. In April 2020, the Government had paid the Council £14m so that the Council could make grants to businesses that had been affected by the Covid-19 lockdown. After receiving representations from the Council, the Government had agreed to defer the Council's payments to the Government of Business Rates until later in 2020/21. As a result of these two items, the Council's cash flows had increased significantly at the start of 2020/21 and the Council's investments had reached £87m by the end of April. However, the Council's investments had reduced to £70m at the end of September 2020 due to the payment of the grants to businesses and reduced income from commercial properties and business rates caused by Covid-19. The value of the Council's investments would reduce further as the Council started making deferred payments to the Government over the next 6 months.

Not including the grants to businesses, there had been a drop of £3m in Council investments during the first 6 months of 2020/2021, which was in stark contrast to last year where the equivalent period saw the first six months of investments rise from £57m to £69m. The increase in money at the start of 2020/21 had been mainly invested short term in Money Market Funds as officers awaited the fallout from the Coronavirus. This investment practice had continued throughout the year.

The investment income target for 2020/21 was based on the Council achieving an average interest rate of 0.75%. As base rates were now at 0.10% and likely to remain there for the foreseeable future, that would no longer be achievable, as all investment rates up to 12 months were either negative or barely above zero. Taking this into account and the predicted reduced level of balances that the Council would have for the year, it was now expected that investment income for 2020/21 would be £87,000 which was down nearly £300,000 on that estimated at the start of the year.

The Committee noted the adverse effects of Coronavirus on the Council's investment income. It was noted that the Extraordinary Meeting of Full Council which had been held on Monday 28 September 2020 had received the latest update available on the effects of Covid-19 on the Council's financial position which included the current treasury position. It was also noted that the Government was proceeding currently on the basis that the country would be back to somewhere near a "business as usual" pattern by around April 2021.

RECOMMEND to Full Council that-

the Treasury Management 2019/20 Annual Report be noted.

(The meeting ended at 8.04.p.m.) Chairman