

**HARLOW COUNCIL**  
**TREASURY MANAGEMENT STRATEGY**  
**MID-YEAR REVIEW 2020/21**

**Summary of the Report**

1. This report provides an update on economic conditions impacting on the Council and focusses on any major issues affecting borrowing and investments.
2. A full commentary is provided within this report by the Council's treasury management advisors, Arlingclose Ltd.
3. The economy is functioning within uncertain times. The Covid-19 pandemic has had a significant impact on the economy and the ongoing Brexit negotiations have led to a lack of clarity over the long term economic picture.
4. At all times the Council will take steps to protect its investment portfolio by placing security (the reduction of risk in order to protect the return of capital sums) and liquidity (being able to have immediate access to a reasonable amount of funds so that cashflow obligations may be met) above yield (i.e. the interest paid on investments).
5. In setting the Council's strategy for 2021/22, a full report will be presented to Cabinet and Council in January / February 2021. This will be in conjunction with the 2021/22 budget proposals and Capital Strategy.
6. The Treasury Management Strategy for 2020/21 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's 'Treasury Management in the Public Services: Code of Practice' (the CIPFA Code) which requires the Council to approve treasury management half-year and annual reports.
7. The Council is supported by treasury management advisors, Arlingclose Ltd., in decision making.

**Background**

8. The Council's treasury management strategy for 2020/21 was approved at a meeting of Council on 30 January 2020. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is

therefore central to the Council's treasury management strategy.

9. The Council operates within the framework of CIPFA's 'Prudential Code for Capital Finance in Local Authorities' (Prudential Code), the 'Treasury Management Code of Practice' and, the Ministry of Housing Communities and Local Government (MHCLG) Investment Guidance.
10. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by Council on 30 January 2020.

**External Context: Based upon commentary provided by the Council's Treasury Management advisors, Arlingclose Ltd. (October 2020)**

11. **Economic background:** the spread of the coronavirus pandemic has dominated the economic outlook throughout the first half of the 2020/21 financial year as the government has tried to manage the balancing act of containing transmission of the virus while easing lockdown measures and getting the economy working again.
12. The Bank of England maintained the bank rate at 0.1% and the potential use of negative interest rates has not been ruled in or out by the bank policymakers. The headline rate of Consumer Price Inflation (CPI) fell to 0.2% year on year in August, further behind the Bank of England's 2 % target.
13. Government initiatives have continues to support the economy with the furlough (Coronavirus Job Retention) scheme keeping almost 10 million workers in jobs, grants and loans and business rates reliefs being made to businesses.

**Local Context**

14. On 31 March 2020, the Council had net investments of £25.1m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	<b>31.3.20 Actual £m</b>
General Fund CFR	62.655
HRA CFR	187.370
<b>Total CFR</b>	<b>250.025</b>
Less: Other debt liabilities	(-)1.714
<b>Loans CFR</b>	<b>248.311</b>
External borrowing	(-)211.837
<b>Internal borrowing</b>	<b>36.474</b>
Less: Usable reserves	(-)67.724
Less: Working capital	6.139
<b>Net investments</b>	<b>(-)25.111</b>

15. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.
16. The treasury management position at 30 September 2020 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	<b>31.3.20 Balance £m</b>	<b>Movement £m</b>	<b>30.9.20 Balance £m</b>	<b>30.9.20 Rate %</b>
Long-term borrowing: Public Works Loan Board	211.837	-	211.837	3.309
<b>Total borrowing</b>	<b>211.837</b>	<b>-</b>	<b>211.837</b>	<b>3.309</b>
Long-term investments	(-)4.000	-	(-)4.000	2.53
Short-term investments	0	-	-	-
Cash and cash equivalents	(-)22.100	(-)2.425	(-)19.675	0.75
<b>Total investments</b>	<b>(-)26.100</b>	<b>(-)2.425</b>	<b>(-)23.675</b>	
<b>Net borrowing</b>	<b>180.137</b>	<b>(-)2.425</b>	<b>188.162</b>	

**Borrowing Strategy during the period**

17. At 30 September 2020 the Council held £211.837m of loans as part of its strategy for funding previous years' capital programmes. Outstanding loans on 30 September are summarised in Table 3 below.

Table 3: Borrowing Position

	<b>31.3.20 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.20 Balance £m</b>	<b>30.9.20 Weighted Average Rate %</b>	<b>30.9.20 Weighted Average Maturity (years)</b>
Public Works Loan Board	211.837	-	211.837	3.309	14.8
<b>Total borrowing</b>	<b>211.837</b>	<b>-</b>	<b>211.837</b>		

18. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

### Treasury Investment Activity

19. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the six-month period, the Council's investment balances ranged between £22.780m and £42.420m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	<b>31.3.20 Balance £m</b>	<b>Net Movement £m</b>	<b>30.9.20 Balance £m</b>	<b>30.9.20 Income Return %</b>
Banks & building societies (unsecured)	3.480	(-)0.480	3.000	0.05
Government	-	2.980	2.980	0.01
Local authorities	5.000	(-)5.000	-	-
Money Market Funds	13.620	0.075	13.695	0.05
Other Pooled Funds				
Cash plus funds	2.000	-	2.000	0.76
Property funds (CCLA)	2.000	-	2.000	3.70
<b>Total investments</b>	<b>26.100</b>	<b>(-)2.425</b>	<b>23.675</b>	

20. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

21. In furtherance of these objectives, and given the increasing risk and falling returns from short-term unsecured bank investments, the Council is not routinely placing unsecured deposits with individual banks and building societies preferring instead to spread risk in Money Market Funds, a Cash Plus Fund and a Property Fund. It has found local authority investment to be a secure means of investment.
22. The Council expects to receive significantly lower income from its cash and short-term money market investments and from its externally managed funds than it did in 2019/20 and earlier years due to the impact of the Covid-19 pandemic on interest rates.

### **Non-Treasury Investments**

23. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

### **Service Investments: Loans**

32. The Council lends money to its subsidiary and a local business, to support local public services and stimulate local economic growth.
33. HTS (Property and Environment) Ltd is a wholly owned subsidiary of Harlow Council which began trading on 1 February 2017. The Council provided a start-up loan to the business of £1.209m repayable over five years, two months, approved on 21 July 2016. The balance outstanding as at 31 March 2020 was £0.468 (£0.702m at 31 March 2019)
34. Harlow Property Limited was provided with two loans to support the development of the Enterprise Zone, approved on 23 January 2014. The amounts loaned were £1m on 15 March 2016 and a further £1.5m on 3 March 2017 secured against the value of the properties at the KAO Park facility. Interest accrues on these loans with the total outstanding as at 31 March 2020 being £2.935m (£2.802m at 31 March 2019)
35. Accounting standards require the Council to set aside loss allowance for loans, reflecting the likelihood of non-payment. The Council considers that this loss should be zero because, (1) the Council is the sole shareholder of HTS; (2) HPL loans are a charge secured against property which considerably exceeds the value of the loan.

### Commercial Investments: Property

36. The Ministry of Housing, Communities and Local Government (MHCLG) defines property to be an investment if it is held primarily or partially to generate a profit.
37. The Council has historically held nine commercial and residential properties with the intention of making a profit that will be spent on local public services. These include a Golf Club, and three other properties with a total value of £1.419m. Annual income from all these assets is about £125,000.

### Loan Commitments and Financial Guarantees

38. Although not strictly counted as investments, since no money has exchanged hands yet, loan commitments and financial guarantees carry similar risks to the Council and are included here for completeness.
39. In 1987 and 1992 the Council agreed to undertake joint liability with a number of other local authorities to guarantee loans of £66.3 million and £17.3 million to Home Housing Association (previously called North Housing Association) in support of their private initiative for the provision of housing in Harlow and surrounding authorities. The guarantee is for a 50-year period ending 2037. The Council's proportion of the total liability is £4.5 million. The Council considers that the probability of the guarantee being called upon is low.

### Compliance

40. The Deputy to the Chief Executive and Head of Finance & Property reports that all treasury management activities undertaken during the first six months of 2020/21 financial year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.