

## THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

### AUDIT AND TRANSPARENCY COMMITTEE – 8 MARCH 2021

#### REPORT BY THE EXECUTIVE DIRECTOR OF RESOURCES AND ASSETS

#### QUARTER 3 TREASURY OUTTURN REPORT 2020/21

The Council's treasury management practices require this report to be made to the Lead Member for Finance and Modernisation and to the Audit and Transparency Committee. The latter is the body identified as being responsible for the scrutiny of treasury management.

**FOR INFORMATION**

#### **1. Introduction**

- 1.1 This is the treasury management activity report for the period to 31 December 2020.
- 1.2 The purpose of this report is to present the Council's treasury management activity to 31 December 2020 (Q3).
- 1.3 The treasury management activity report covers:
  - The economic background
  - 31 December 2020 treasury position
  - The treasury management strategy for 2020/21
  - Treasury borrowing and investment
  - Capital expenditure and borrowing limits
  - Compliance with treasury limits

#### **2. Economic Background**

- 2.1 During the quarter, two COVID-19 vaccines were given approval by the UK Medicines and Healthcare Products Regulatory Agency (MHRA). The UK MHRA provided authorisation for emergency supply of two COVID-19 vaccines in December 2020 and the rollout to individuals in the highest priority groups began.
- 2.2 A trade deal with the European Union was agreed with only days to spare before the 11pm 31<sup>st</sup> December 2020 deadline. The trade deal was voted through the House of Commons by 521 votes to 73 and then written into law after passing through the House of Lords and given Royal Assent.

- 2.3 The Bank of England (BoE) maintained the Bank Rate at 0.1% during the quarter and extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its December 2020 interest rate announcement, the BoE noted that plans to roll out COVID-19 vaccines would reduce some of the downside risks to the economic outlook, but that recent rises in the number of infections is likely to lead to weaker GDP growth than had been predicted in its November 2020 Monetary Policy Report.
- 2.4 GDP growth rebounded by 16.0% (upwardly revised from first estimate of 15.5%) in Q3 2020 (Jul-Sep 2020) according to the Office for National Statistics (ONS), revising the annual growth rate up to -8.6% from -20.8% in Q2. Construction rose by a huge 41% over the quarter and services output was up by almost 15%, as was production output. However, recent monthly estimates of GDP have shown that growth is slowing and only a 1.1% monthly rise was managed in September 2020.
- 2.5 The headline rate of UK Consumer Price Inflation (CPI) rose to 0.6% year/year in December 2020, up from 0.3% in November 2020, still well below the Bank of England's 2.0% target.
- 2.6 The Council's treasury management adviser, Arlingclose, expects the Bank Rate to remain at the current 0.10% level. The central case for the Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.
- 2.7 Gilt yields will almost certainly remain low in the medium term. Shorter term gilt yields are currently negative and are expected to remain around zero or below until either the Bank expressly rules out a negative Bank Rate or growth/inflation prospects improve.
- 2.8 Downside risks remain and appear heightened in the near term as the economy adapts to the UK's transition period from the EU concluding.

### 3. Treasury Position at 31 December 2020

3.1 The Council's debt and investment positions at the beginning and end of the quarter were as follows:

	<b>Principal 31-Dec-20 £m</b>	<b>Rate 31-Dec-20 £m</b>	<b>Principal 30-Sep-20 £m</b>	<b>Rate 30-Sep-20 £m</b>
<b>Fixed Rate Borrowing</b>				
Public Works Loan Board	263.83	4.03%	263.83	4.03%
<b>Total Weighted Average</b>	<b>263.83</b>	<b>4.03%</b>	<b>263.84</b>	<b>4.03%</b>
<b>Investments</b>				
Fixed Term deposits	97.50	0.38%	122.50	0.92%
Money Market Funds	80.30	0.07%	75.25	0.09%
<b>Total Weighted Average</b>	<b>177.80</b>	<b>0.24%</b>	<b>197.75</b>	<b>0.61%</b>
<b>Net Cash Balance</b>	<b>-86.03</b>		<b>-66.09</b>	

3.2 The following table shows a summary of how the portfolio was invested at 31 December 2020:

<b>Counterparty Type</b>	<b>Investment Type</b>	<b>Amount £m</b>	<b>Percentage of Total Investment</b>	<b>Weighted Average Rate of Return</b>
Banks	Fixed Deposit	55.0	30.9%	0.10%
Other Local Authorities	Fixed Deposit	42.5	23.9%	0.75%
Money Market Funds	MMF	80.3	45.2%	0.07%
<b>Total</b>		<b>177.8</b>	<b>100.0%</b>	<b>0.24%</b>

**Appendix B** shows the volume and value of investments made with approved lending list counterparties.

#### 4. Treasury Management Strategy Statement (TMSS) for 2020/21

- 4.1 The TMSS for 2020/21, approved by the Council on 4 March 2020, was based on the expectation that the bank base rate would be more likely to be cut if the global growth did not pick up and the uncertainty over the UK's trade agreement with the EU.
- 4.2 The Council has continued with its strategy, especially since the COVID-19 outset, to keep investments short-term and invest with only highly rated or UK Government backed institutions, resulting in capital preservation and relatively low returns.
- 4.3 Benchmark rates remained flat during Q3 of 2020/21, with the Council's returns comfortably exceeding the LIBID Seven-Day rate. The following table shows the weekly average of the Council's performance against the LIBID Seven-Day rate.

Quarter Ended	Average Balance £m	Weighted Average Rate	Average 7 Day Rate
30-Jun-20	238.72	0.81%	-0.04%
30-Sep-20	223.87	0.61%	-0.07%
31-Dec-20	198.98	0.36%	-0.08%
<b>Average</b>	<b>220.46</b>	<b>0.61%</b>	<b>-0.06%</b>

- 4.4 As illustrated, the council outperformed the benchmark by 67 bps. The Council's budgeted investment return for the year on external investments is £1.61m. Investment income for the year to 31 December 2020 is £0.90m, and the full year projection to 31 March 2021 is estimated at £0.98m.
- 4.5 While most local authority counterparties are not independently credit rated, they are considered to offer very high security. No local authority or joint authority has ever defaulted on a loan repayment. Under section 13 of the Local Government Act 2003, 'all money borrowed by a local authority, together with any interest on money borrowed, shall be charged indifferently on all the revenues of the authority'.
- 4.6 This means that any loan which is not paid back on the due date is a charge on future revenues until such time as it is discharged in full. The Council, along with its Tri-Borough colleagues, operates a rating methodology for determining the financial robustness of the authorities to which it will lend. This is reviewed on a regular basis.
- 4.7 The estimated balance of cash equivalents and deposit balances held by the Council will be £158.9m at 31 March 2021. It is anticipated that new borrowing

will not be undertaken and £11.6m existing loans will be allowed to mature without replacement.

## 5 Treasury Borrowing

- 5.1 The Council has an increasing capital financing requirement (CFR) and officers continue to monitor long term interest rates for suitable borrowing opportunities. In November 2020, the PWLB published its response to the consultation on 'Future Lending Terms'. On 26 November 2020 the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8%, provided that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years.
- 5.2 Following the implementation of the self-financing initiative, the HRA has continued to be partly funded using the Council's general fund cash reserves. The HRA has paid interest to the general fund for the use of this money. This is charged, based on PWLB three-month variable rates, and will decrease as HRA internal borrowing decreases.

## 6 Capital Expenditure and Borrowing Limits

- 6.1 The total original budget figure for capital spend in 2020/21 was £205.50m. At Quarter 3, a variance of £67.29m was reported and budgets were updated accordingly to the current budget of £138.21m. An update to this position will be reported to Leadership Team as part of the Quarter 3 Budget Monitoring process.

## 7 Compliance with Treasury Limits

- 7.1 During the financial year, the Council operated within the treasury limits. The detailed outturn for Treasury Management Prudential Indicators is shown in **Appendix A**.
- 7.2 Other non-Treasury related Prudential Indicators are set and monitored as part of the Council's Budget process.

**FOR INFORMATION**

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**Background papers:** CIPFA Code of Practice on Treasury Management for the Public Sector

MHCLG Guidance on Local Government Investments

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## APPENDIX A

### RBKC – TREASURY MANAGEMENT PRUDENTIAL INDICATORS 2020-21

Indicator	Approved Limit	Actual Debt at 31 December 2020	No. of days Limit Exceeded
	£m	£m	
Authorised Limit <sup>1</sup>	415.0	263.8	None
Operational Boundary <sup>2</sup>	395.0	263.8	None
<b>Interest Rate Exposure</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Actual at 31 December 2020</b>
Fixed Rate Debt	0%	100% of total debt	100% total debt
Variable Rate Debt	0%	50% of total debt	0
<b>Maturity Structure of Borrowing</b>	<b>Lower Limit</b>	<b>Upper Limit</b>	<b>Actual at 31 December 2020</b>
Under 1 year	0%	30%	11%
1 year to 2 years	0%	30%	2%
2 years to 5 years	0%	30%	9%

<sup>1</sup> The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

<sup>2</sup> The Operational Boundary is the expected normal upper requirement for borrowing in the year.

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5 years to 10 years	0%	60%	8%
Over 10 years	0%	100%	70%

# Principal Outstanding

Royal Borough of Kensington and Chelsea (Accounts: GENERAL FUND, HRA)

As At:  
31/12/2020

Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
20/03/20	18/03/21	North Tyneside Metropolitan Borough Council	1.0500%	-5,000,000.00
02/04/20	01/04/21	Worcestershire County Council	1.1500%	-7,500,000.00
28/02/20	26/02/21	North Lincolnshire Council	1.1500%	-3,000,000.00
05/03/20	04/03/21	Fife Council	1.3000%	-5,000,000.00
13/03/20	11/03/21	Moray Council	1.3000%	-5,000,000.00
19/10/20	19/03/21	Babergh District Council	0.0500%	-7,000,000.00
17/11/20	19/04/21	Cornwall Council	0.0500%	-5,000,000.00
27/11/20	26/11/21	North Lanarkshire Council	0.2100%	-5,000,000.00

**Local Authorities Total** **-42,500,000.00**

05/10/20	06/04/21	Goldman Sachs International	0.0650%	-10,000,000.00
16/10/20	16/04/21	Santander UK plc	0.3000%	-5,000,000.00
13/11/20	16/02/21	Standard Chartered Bank	0.1340%	-10,000,000.00
29/09/20	29/03/21	DBS Bank Ltd	0.1000%	-5,000,000.00
09/10/20	09/04/21	Australia and New Zealand Banking Group Limited	0.0600%	-10,000,000.00
17/11/20	17/05/21	National Bank of Canada	0.0500%	-5,000,000.00
31/12/20	30/06/21	DBS Bank Ltd	0.0600%	-10,000,000.00

**Banks Total** **-55,000,000.00**

20/12/17		Morg Stnly Sterling Liquidity Inst	0.0700%	-30,000,000.00
02/01/18		JPM Liq Sterling Liquidity Institutional Dis NAV GBP	0.1200%	-30,000,000.00
18/04/19		Aberdeen Sterling Fund Flexible Income F130 Fund	0.0100%	-20,300,000.00

**MMF Total** **-80,300,000.00**

**Deposit Total** **-177,800,000.00**