



<b>Report for:</b>	<b>Cabinet</b>
<b>Date of meeting:</b>	<b>15 December 2020</b>
<b>Part:</b>	<b>I</b>
If Part II, reason:	

<b>Title of report:</b>	<b>Treasury Management 2020/21 Mid-Year Performance Report</b>
Contact:	Cllr Graeme Elliot – Portfolio Holder for Finance & Resources  Nigel Howcutt, Assistant Director (Finance and Resources)  Fiona Jump, Group Manager (Financial Services)
Purpose of report:	To provide Members with mid-year information on Treasury Management performance for 2020/21 and to recommend increases to counter party investment levels.
Recommendations	It is recommended that Cabinet recommends to Council acceptance of this report on mid- year treasury management performance and prudential indicators for 2020/21.
Corporate objectives:	Ensuring efficient, effective and modern service delivery.
Financial Implications:	<u>Financial</u> A summary of performance against the Council's budgeted investment income is included in Section 5 of the report.  <u>Value for Money</u> The Council is required to invest surplus funds to ensure it maximises the benefit of cash flows.
Risk Implications:	A prudent approach to investment is required to minimise the risk to the Council of investment losses. The approach is outlined in the Councils Treasury Management Strategy 2020/21. The report provides an update on the delivery of that strategy.
Community Impact Assessment	The content of this report relates to the Council's treasury management performance. The content of this report does not require a Community Impact Assessment to be undertaken.

Health And Safety Implications:	There are no Health and Safety implications arising from this report.
Monitoring Officer / S151 Officer Comments:	<b>Monitoring Officer:</b> No comments to add to the report.  <b>Deputy S.151 Officer</b>  This is a Deputy Section 151 Officer Report.
Consultees:	Link Asset Services
Background papers:	Treasury Management Strategy 20/21 (Budget Report Appendix K) - Cabinet 11 February 2020
Glossary of acronyms and any other abbreviations used in this report:	Chartered Institute of Public Finance and Accountancy (CIPFA) Capital Financing Requirement (CFR) Monetary Policy Committee (MPC) Treasury Management Strategy Statement (TMSS) Debt Management Office (DMO) Public Works Loan Board (PWLB) Housing Revenue Account (HRA)

## 1. **Background**

1.1 The purpose of this report is to update Cabinet on the performance of this Council's treasury management function during the first half of 2020/21 and also to recommend the increasing of counterparty investment levels.

1.2 This mid-year report provides the following:

- An economic update for the first six months of 2020/21;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

1.3 Treasury management is defined as:

"The management of the local authority's borrowing, 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."

The Council's Treasury Management team manages the Council's cash-flows in order to strike the optimal balance between the following three elements:

- The liquidity requirements for the Council's day-to-day business;
- Funding the Council's capital programme;
- Investing surplus monies in line with the Treasury Management Strategy.

## **2. Governance**

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management in the Public Services (The Code).

2.2 The Code requires:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of treasury management practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;
- This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy, policies and monitoring before recommendation to Full Council.

## **3. Economic overview**

### Inflation

3.1 Inflation measures how much prices of goods and services have changed over a time period. The Consumer Price Index (CPI), has fallen below the Bank of England's target of 2% during 2020. This target of 2% is set by the Government and is held to represent a low and steady level of inflation. At September 2020, CPI stood at 0.5%. This low inflation rate is expected in the current economic climate where we have seen UK GDP fall 21.8% in the first half of 2020. The economy has been adversely impacted by coronavirus restrictions. The Bank of England have forecast CPI inflation to rise above the 2% target in Q3 2022.

### Interest rates

- 3.2 The Bank of England the Bank Rate in March 2020 first to 0.25%, and then to 0.10%. It has remained unchanged since then.

As shown in the forecast table below, no increase in Bank Rate is expected within the forecast period to 31st March 2023, as economic recovery is expected to be only gradual and, therefore, prolonged.

- 3.3 The Council's treasury management advisor, Link Asset Services has provided the following interest rate forecasts:

Link Asset Service Interest Rate Review	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
25yr PWLB borrowing rate	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70

#### Creditworthiness.

- 3.4 Credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the quarter ended 30 June 2020, due to risks to banks' earnings and asset quality during the economic downturn caused by the pandemic. However, the majority of ratings were unchanged during this period due to the continuing strong credit profiles of UK banks. During the first half of 2020, banks made provisions for expected credit losses. This was reflected in rating changes accordingly.
- 3.5 As we move through the year, more information will emerge on actual levels of credit losses. This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the year. These adjustments could be negative or positive. All three major credit rating agencies have reviewed banks around the world with similar results in many countries of most banks being placed on negative watch, but with a small number of actual downgrades.

#### **4. Treasury Management Strategy Statement and Annual Investment Strategy update**

- 4.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council on 11 February 2020.
- 4.2 The Council's Annual Investment Strategy, which is incorporated within the TMSS, outlines the Council's investment priorities as follows:
- Security of capital;
  - Liquidity;
  - Return on investment.
- 4.3 The Council aims to achieve the optimum return on investments within the context of the first two priorities. A breakdown of the Council's investment portfolio, as at 30 September 2020, is shown in Appendix 1 of this report.
- 4.4 Link Asset Services' full counterparty credit list as at September 2020 identifies those organisations with which the Council is able to place funds and is shown in Appendix 2.

- 4.5 All the Council's investments during the first six months of the year have been placed in accordance with the approved strategy.

**5. Investment Performance 2020/21**

- 5.1 It is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Forecast interest rates, shown at section 3.3, show that Bank Rate is at 0.10%. Rates of return on investment products available to the Council in line with its agreed Treasury Management Strategy are currently slightly above zero. Some entities, including the Debt Management Office's (DMO) Debt Management Account Deposit Facility (DMADF), are offering negative rates of return for deposits placed over shorter time periods.
- 5.2 Given this risk environment and the likelihood that increases in Bank Rate are unlikely to occur before the end of the 31st March 2023, investment returns are expected to remain low.
- 5.3 Inter-local authority lending and borrowing rates have also declined due to the increase in the levels of cash seeking a short-term home, along with difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.
- 5.4 The Council held £82.080m of investments as at 30 September 2020 (£69.110m at 31 March 2020). The average investment return for the first six months of the year was 0.40%. In comparison, the Council achieved 0.84% in the first 6 months of 2019/20.
- 5.5 The Council's investment return for the first half of 2020/21 displays a £139k unfavourable variance against half-yearly budgeted figure of £246k. This reflects the much lower rate of returns available as described in section 5.1.

**6. Borrowing**

The Capital Financing Requirement

- 6.1 The Council's Capital Financing Requirement (CFR) is the Council's underlying need to borrow for capital purposes. The CFR is currently forecast to be £354.853m as at 31/03/2021. This includes the fixed interest rate borrowing from the Public Works Loan Board (PWLB) following the introduction of HRA Self Financing, and fixed interest rate borrowing taken up for General Fund capital expenditure requirements.

Current Borrowing Arrangements

- 6.2 As a Local Authority, the Council is able to borrow funds from PWLB, which operates within the Debt Management Office, an Executive Agency of HM Treasury.
- 6.3 The PWLB charges interest on the loans it issues to local authorities. Any borrowing undertaken by the Council will be carried out in line with its approved Treasury Management Strategy. If required, the Council is in a position to be able to utilise existing cash balances to fund some of its future capital programme instead of undertaking new external borrowing.

Debt rescheduling

- 6.4 Debt rescheduling opportunities have been very limited in the current economic climate. No debt rescheduling has therefore been undertaken to date in the current financial year.

**7. The Council's Capital Expenditure (Prudential Indicators)**

- 7.1 Prudential indicators are set each year as part of the Council's Treasury Management Strategy. They set the annual limits on borrowing, and provide a basis for assessing the affordability of financing costs, external debt and capital expenditure.

Prudential Indicators for Capital Expenditure

- 7.2 The table below shows the revised estimates for capital expenditure with the changes since the capital programme was agreed at the Budget in February 2020, and the expected financing arrangements of this capital expenditure.

<b>Capital Expenditure by Service</b>	<b>2020/21 Original Budget £M</b>	<b>2020/21 Revised Forecast £M</b>
General Fund	11.346	11.351
HRA	29.698	20.624
<b>Total</b>	<b>41.044</b>	<b>31.975</b>
Financed by:		
Capital grants & S106	1.136	2.246
Capital receipts & reserves	31.649	23.524
Revenue	6.205	6.205
Borrowing	2.052	0.000
<b>Total financing</b>	<b>41.042</b>	<b>31.975</b>

- 7.3 The table below shows the CFR and the expected debt position over the period; termed the 'Operational Boundary'. The changes to the forecast CFR are due to revision of the Capital Programme, and incorporation of the actual outturn position from 2019/20 and programme slippage and underspends in 2020/21. In year slippage has arisen due to the coronavirus pandemic, including against works requiring access to HRA properties. Key in- year underspends in 2020/21 have arisen in respect of New Build Housing schemes, where projects have not required the use of budgeted contingencies.

	<b>2020/21 Original Estimate £M</b>	<b>2020/21 Revised Forecast £M</b>
<b>Prudential Indicator – Capital Financing Requirement</b>		
CFR – General Fund	18.306	18.925
CFR – HRA	337.98	335.928
Total CFR	356.286	354.853
<b>Net movement in CFR (from outturn 2019/20 CFR)*</b>	<b>2.587</b>	<b>1.154</b>
<b>Prudential Indicator – External Debt / the Operational Boundary</b>		
Borrowing	353.502	353.502
Other long term liabilities (leases)	0.188	0.188

<b>Total debt 31 March 2021</b>	<b>353.690</b>	<b>353.690</b>
---------------------------------	----------------	----------------

\*outturn 2019/20 CFR was £353.699m

#### Prudential Indicator for Borrowing Activity

- 7.4 The key control over treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year, plus the estimates of any additional CFR for 2020/21 and the next two financial years.
- 7.5 The table highlights that the Council's gross borrowing is forecast to be slightly below its CFR.

	<b>2020/21 Original Estimate £M</b>	<b>2020/21 Revised Estimate £M</b>
<b>Gross borrowing</b>	<b>353.502</b>	<b>353.502</b>
Plus other long term liabilities (leases)	0.188	0.188
Less investments	(76.279)	(46.374)
Net borrowing	277.411	307.316
<b>CFR (year-end position)</b>	<b>356.286</b>	<b>354.853</b>

- 7.6 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised annually by 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. As at 30 September 2020, the Council had borrowing and other long term liabilities of £358.641m, which is £51.359m under the authorised limit.

<b>Authorised limit for external debt</b>	<b>2020/21 Original Indicator £M</b>	<b>Current Position £M</b>
Borrowing	<b>400.000</b>	<b>358.441</b>
Other long term liabilities	<b>10.00</b>	<b>0.2</b>
<b>Total</b>	<b>410.00</b>	<b>358.641</b>

Appendix 1 - Investment Portfolio as at 30 September 2020

Borrower	Deposit Type	Principal	Date Lent	Date Repayable	Interest Rate	Duration (Days)	Approved Duration	DBC Limit(M)
National Westminster Bank Plc	Call Account	4,834,432	30/09/2020	01/10/2020	0.01%	1	12 months	12.5
Insight Liquidity Money Market Fund	MMF	6,750,000	30/09/2020	01/10/2020	0.01%	1	100 days	7
Lloyds Bank Plc	Investment	1,000,000	29/11/2019	27/11/2020	1.10%	364	12 months	10
National Westminster Bank Plc	Investment	5,000,000	15/05/2020	29/03/2021	0.59%	318	12 months	12.5
Nationwide Building Society	Investment	1,000,000	05/06/2020	04/12/2020	0.23%	182	6 months	9
Santander UK Plc	Investment	5,000,000	08/06/2020	19/11/2020	0.18%	164	6 months	9
Barclays Bank Plc	Investment	4,000,000	26/06/2020	15/12/2020	0.19%	172	6 months	9
Coventry Building Society	Investment	5,000,000	01/07/2020	21/12/2020	0.20%	173	6 months	9
Coventry Building Society	Investment	2,000,000	10/07/2020	18/12/2020	0.15%	161	6 months	9
Santander UK Plc	Investment	2,000,000	15/07/2020	08/01/2021	0.10%	177	6 months	9
Lloyds Bank Plc	Investment	4,000,000	17/07/2020	16/07/2021	0.30%	364	12 months	10
Sumitomo Mitsui Banking Corporation Europe Ltd	Investment	6,000,000	20/07/2020	18/01/2021	0.15%	182	6 months	9
Lancashire County Council	Investment	2,000,000	24/07/2020	19/01/2021	0.10%	179	60 months	NA
Santander UK Plc	Investment	1,000,000	28/07/2020	18/01/2021	0.07%	174	6 months	9
Coventry Building Society	Investment	2,000,000	31/07/2020	29/01/2021	0.11%	182	6 months	9
Sumitomo Mitsui Banking Corporation Europe Ltd	Investment	3,000,000	03/08/2020	19/01/2021	0.12%	169	6 months	9
Barclays Bank Plc	Investment	5,000,000	03/08/2020	16/11/2020	0.05%	105	6 months	9
Santander UK Plc	Investment	1,000,000	03/08/2020	27/01/2021	0.08%	177	6 months	9
Lloyds Bank Plc	Investment	1,000,000	21/08/2020	20/08/2021	0.20%	364	12 months	10
Lloyds Bank Plc	Investment	1,000,000	28/08/2020	27/08/2021	0.20%	364	12 months	10
Debt Management Office	Investment	3,000,000	01/09/2020	16/10/2020	0.01%	45	60 months	NA
Salford City Council	Investment	4,000,000	02/09/2020	05/01/2021	0.08%	125	60 months	NA
Skipton Building Society	Investment	3,000,000	07/09/2020	11/12/2020	0.08%	95	100 days	7
Skipton Building Society	Investment	1,000,000	08/09/2020	04/12/2020	0.07%	87	100 days	7
Skipton Building Society	Investment	1,500,000	10/09/2020	18/12/2020	0.08%	99	100 days	7
Close Brothers Ltd	Investment	5,000,000	15/09/2020	10/03/2021	0.45%	176	6 months	9
Debt Management Office	Investment	1,000,000	17/09/2020	16/10/2020	0.01%	29	60 months	NA
Leeds Building Society	Investment	1,000,000	28/09/2020	27/11/2020	0.05%	60	100 days	7



Appendix 2 – Link Asset Services’ Approved Lending List – UK Banks and Financial Institutions

<b>Country</b>	<b>Counterparty</b>	<b>Approved Duration</b>	<b>DBC Current Limit (M)</b>
U.K	Abbey National Treasury Services plc	12 months	10
U.K	Bank of Scotland PLC (RFB)	12 months	10
U.K	Barclays Bank PLC (NRFB)	6 months	9
U.K	Barclays Bank UK PLC (RFB)	6 months	9
U.K	Close Brothers Ltd	6 months	9
U.K	Goldman Sachs International Bank	6 months	9
U.K	Handelsbanken Plc	12 months	10
U.K	HSBC Bank PLC (NRFB)	12 months	10
U.K	HSBC UK Bank Plc (RFB)	12 months	10
U.K	Lloyds Bank Corporate Markets Plc (NRFB)	6 months	9
U.K	Lloyds Bank Plc (RFB)	12 months	10
U.K	NatWest Markets Plc (NRFB)	100 days	7
U.K	Santander UK plc	6 months	9
U.K	Standard Chartered Bank	6 months	9
U.K	Sumitomo Mitsui Banking Corporation Europe Ltd	6 months	9
U.K	Coventry BS	6 months	9
U.K	Leeds BS	100 days	7
U.K	Nationwide BS	6 months	9
U.K	Skipton Building Society	100 days	7
U.K	Yorkshire BS	100 days	7
U.K	National Westminster Bank PLC (RFB)	12 months	12.5
U.K	The Royal Bank of Scotland Plc (RFB)	12 months	12.5