REPORT OF THE REVIEW COMMITTEE

1 2020/21 MID YEAR TREASURY MANAGEMENT REVIEW

1.1 This item of business was referred by the Review Committee on 1 December 2020 to Council with a recommendation on the Mid Year Treasury Management Report. An extract of the key elements of the report to the Review Committee is attached at Appendix 1.

1.2 Members commended the fact that the treasury management strategy had remained unchanged. The Portfolio Holder for Finance pointed out that this area had been well managed by officers and that, in addition, around £80,000 of Government grants had been allocated within a two-month period.

1.3 It is proposed that Council **RESOLVES**

That the contents of the Treasury Management Mid Year Report be noted.

2020/21 MID YEAR TREASURY MANAGEMENT REVIEW

1 SUMMARY

1.1 The purpose of the report is to provide an update of the Council's treasury management activity for the period 1 April 2020 to 30 September 2020 in accordance with the Council's treasury management policy and good practice in treasury management.

1.2 It is recommended that the Review Committee notes the Council's treasury activities for the period ending 30 September 2020 and provide comments on the information presented in this report, before it is presented for approval by Council on 15 December 2020.

2 INTRODUCTION

2.1 The Council has adopted the Code of Practice on Treasury Management and a requirement of this is to produce a mid-year review looking at the Authority's performance in line with the strategy considered by this Committee on 4 February 2020.

2.2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

2.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending liabilities.

2.4 Accordingly, 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*."

2.5 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the following:

- An economic update for the 2020/21 financial year to 30 September 2020 (provided by our treasury advisers);
- A review of the Treasury Management & Capital Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure (prudential indicators);
- A review of the Council's investment portfolio for 2020/21;

- A review of the Council's borrowing strategy for 2020/21; and
- A review of compliance with Treasury and Prudential Limits for 2020/21.

2.6 The Council employs treasury advisers, Link Asset Services Ltd, to provide advice on its treasury management strategy and analysis of the economy and expectations for interest rates.

3 ECONOMIC UPDATE

3.1 The prospects for the UK economy have taken a serious knock from the ongoing impact of the Covid pandemic, a situation reflected in most other world economies. The UK government's response has been to support business and employment, with the Bank of England's Monetary Policy Committee (MPC) reducing the Bank Rate to 0.10% and an additional £300bn of quantitative easing (QE). This approach was broadly confirmed at the MPCs meeting on 5 November; however, it revised its economic forecasts to take account of a second national lockdown from 5 November to 2 December, which will further delay economic recovery. It therefore decided on a further tranche of quantitative easing (QE) of £150bn, to start in January, when the current programme runs out. Whilst there has been some speculation regarding negative Bank Rate, this does not seem a favoured option.

3.2 There are many risks to the MPC forecast. It anticipates that the economy recovers to reach its pre-pandemic level in Q1 2022, that there would be excess demand in the economy by Q4 2022, and so inflation (CP) would rise a little above its 2% target (currently 0.5%). The recovery will take time and risks around growth are skewed to the downside, with the risk of a more persistent period of elevated unemployment – in the range of 7% to 9% - and low wage growth, being material. Despite the introduction of the expected vaccination programme, risks could well include severe restrictions remaining in place with some or all of the lockdown being extended beyond 2 December. It is expected that some businesses that have barely survived the first lockdown will fail to survive the second lockdown, especially those dependant on a surge of demand in the run up to Christmas each year. This will mean that there will be some level of further permanent loss of economic activity, although the extension of the furlough scheme to the end of March will help. The background of Brexit and the trade negotiations with the EU should not be forgotten, with some hope that the outcome could turn out better than initially expected.

3.3 Annual public borrowing is likely to increase by about £30bn to around £420bn (21.7% of GDP) as a result of the new lockdown. In normal times such an increase in gilt issuance would lead to a rise in gilt yields, (and PWLB rates); however, the QE undertaken by the Bank of England has depressed gilt yields to historic low levels, (as has similarly occurred with QE and debt issued in the US, the EU and Japan).

3.4 In summary, it is not expected that the Bank Rate will change from 0.1% for the foreseeable future and as a consequence investment rates will remain close to 0%. However, borrowing interest rates will remain historically cheap. It should be noted that the HM Treasury/PWLB undertook a consultation recently which may result in the PWLB's margin over gilt yields reducing from the current 1.8%.

3.5 The latest Link Asset Service's forecast of Bank of England Base Rate and PWLB rates are shown in the tables below

Link Group Interest Rate View	Now	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%	0.10%
3 Month LIBID	-0.08%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
6 Month LIBID	-0.07%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-
12 Month LIBID	0.00%	0.20%	0.20%	0.20%	0.20%	0.20%	0.20%	-	-	-	-

	NOW	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate											
Link Group	**0.10%**	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	**0.10%**	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	-
5yr PWLB Rate											
Link Group	**1.77%**	1.90%	2.00%	2.00%	2.00%	2.00%	2.00%	2.10%	2.10%	2.10%	2.10%
Capital Economics	**1.77%**	1.90%	1.90%	1.90%	1.90%	1.90%	-	-	-	-	-
10yr PWLB Rate											
Link Group	**2.09%**	2.10%	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.30%
Capital Economics	**2.09%**	2.00%	2.00%	2.00%	2.00%	2.00%	-	-	-	-	-
25yr PWLB Rate											
Link Group	**2.66%**	2.50%	2.50%	2.50%	2.60%	2.60%	2.60%	2.70%	2.70%	2.70%	2.70%
Capital Economics	**2.66%**	2.30%	2.30%	2.30%	2.30%	2.30%	-	-	-	-	-
50yr PWLB Rate											
Link Group	**2.49%**	2.30%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.50%	2.50%
Capital Economics	**2.49%**	2.20%	2.20%	2.20%	2.20%	2.20%	-	-	-	-	-

4 KEY MOVEMENT/CHANGES TO THE CAPITAL AND TREASURY STRATEGIES

4.1 The Treasury Management & Capital Strategy Statement (TMCSS) for 2020/21 was approved by Council on 11 February 2020 as part of the Medium Term Financial Strategy.

4.2 There are no policy changes to the TMCSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 PRUDENTIAL INDICATOR FOR CAPITAL INVESTMENT

5.1 The table below shows the forecasted outturn for capital expenditure as at 30 September 2020 and the changes since the Capital Programme was agreed on 11 February 2020. The programme was reprofiled by Council on 20 October 2020.

Capital Expenditure	**2020/21 Original Estimate £'000s**	**2020/21 End of Year Forecast £'000s**
Total	**2,829**	**1,824**
Financed by:		
S106 income	25	22
Disabled Facilities Grant via Better Care Fund	475	332
Capital Finance Reserve	595	870
New Homes Bonus	300	155
Air Quality Grant Income	0	305
IT Reserve	0	45
Transformation Reserve	50	50
Hard/Soft Infrastructure Reserve	1,384	0
Match Funding	0	45
Total Financing	**2,829**	**1,824**

Changes to the Prudential Indicators for the Capital Financing Requirement and the Operational Boundary

5.2 Net external borrowing should not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. The Council currently has no external borrowing.

£000s	**2019/20 Actual**	**2020/21 Estimate**	**2021/22 Estimate**	**2022/23 Estimate**
CFR	777	777	777	777
Movement in CFR	-	-	-*	-*

** No movement is projected in the current estimates.*

5.3 The 2008 Capital Finance and Accounting Regulations include a requirement to make prudent annual provision for repayment of debt arising from capital expenditure (known as a Minimum Revenue Provision or MRP). This is to ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits. If the Council does decide to borrow externally in future an MRP policy will need to be agreed and implemented. This would be set out in the relevant Treasury Management Strategy Statement for the year.

5.4 There are no changes to the Authorised and Operational limits (upper limit beyond which external debt is prohibited) which is outlined in the Treasury Management Strategy and can only be revised by Council. As there has been no borrowing, there has not been any breach of these limits.

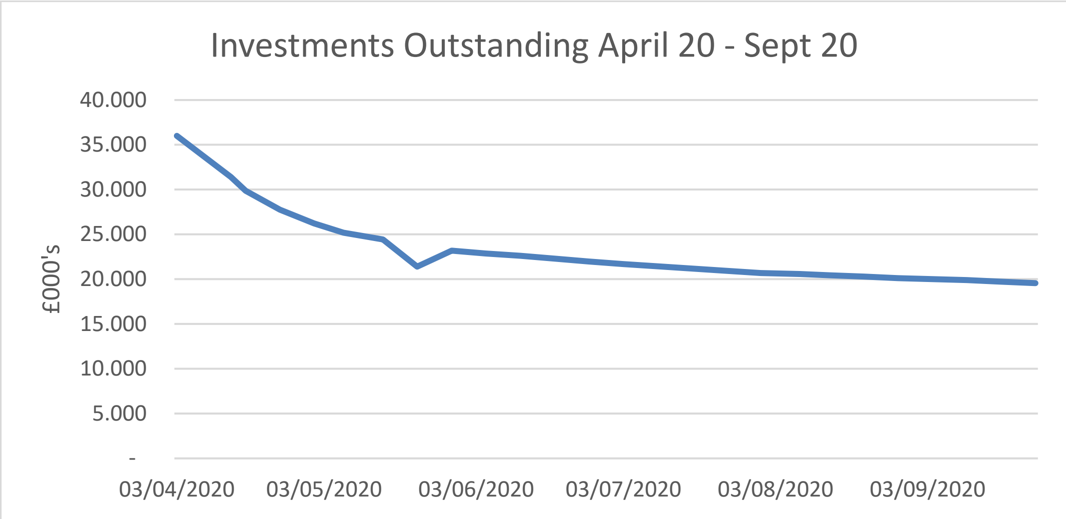
6 INVESTMENT PORTFOLIO 2020/21

6.1 In accordance with the Code, 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. Given this risk environment, investment returns are likely to remain low.

6.2 The Council started the year with £13.8m of investments and £2.35m in its main current account. The balance of investments held at 30 September 2020 was £15.0m, plus £0.775m in the main current account. The table below summarises the investment transactions that have taken place.

	Investments £000's	**Current Account £000's**	**No. of Investments**
Balance on Investments 1 April 2020	13,800	2,355	13
Investments placed 01/04/20 – 30/09/20	43,600	[redacted]	
Investments realised 01/04/20 – 30/09/20	42,400		
Balance on Investments 30 September 2020	15,000	775	5

6.3 The graph below shows the average investments held by the authority over the first six months of the year. Balances were unusually high at the beginning of the year when the government paid the Council c£18m to distribute in grants to businesses but reduced as these were paid out.



6.4 The five investments comprising the balance of £15.0m held at the end of September were placed with the following counterparties:

Counterparty	£000's of Investments	% of Investments
Santander 95 day account	5,350	36
Santander 95 day account	650	4
Lloyds 95 day account	3,000	20
Money Market Aberdeen	1,500	10
Handelsbanken	4,500	30

6.5 Interest earned to the end of September totalled £49,340. Forecast investment return for 2020/21 is £66,000. This is lower than the £130,000 originally budgeted due to the impact of COVID-19 on interest rates. The rates on all investments are now minimal. The income the Council has received relates to larger balances held at the start of the year from additional grants and reliefs when interest rates were higher. The table below shows the returns the Council is receiving compared to financial benchmarks.

Investment performance at 30 September 2020

Benchmark	Benchmark Return %	Council Performance %	Investment Interest Earned £
7 day	-0.06	0.00	-
1 month	-0.02	0.15	16,473
3 month	0.11	0.65	32,593
6 month	0.21	-	-
12 month	0.35	0.30	274

6.6 The Assistant Director, Resources (Section 151 Officer) confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2020/21. A review of the Council's investment strategy will be undertaken in the New Year and reported in the 2021/22 Treasury Management & Capital Strategy.

Investment Counterparty Criteria

6.7 The current investment counterparty criteria selection approved in the TMS is meeting the requirement of the treasury management function.

6.8 The financial institutions with which the Authority is investing are monitored on a regular basis in line with the risk document issued by Link, the treasury advisers.

7 RISK IMPLICATIONS

7.1 There are no new risk management implications arising from the contents of this report. However, Members will be aware of the uncertainty in the financial markets and the economy as a whole and the potential risks that this may have in general. The Council's TMS outlines the risks involved in the investments made by the Council and there have been no changes to the assessment of risk.

8 EQUALITY & DIVERSITY

8.1 There are none arising from this report.