

REPORT TO	ON
Governance Committee	17 November 2020



TITLE	REPORT OF
Treasury Management Activity Mid-year review 2020/21	Deputy Director of Finance and Deputy Section 151 Officer

Is this report confidential?	No
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### PURPOSE OF THE REPORT

1. To report on Treasury Management performance in financial year 2020/21 to the end of September

### RECOMMENDATIONS

2. That the report be noted.

### CORPORATE PRIORITIES

3. The report relates to the following corporate priorities:

An exemplary Council	✓
Thriving communities	
A fair local economy that works for everyone	
Good homes, green spaces, healthy places	

### BACKGROUND TO THE REPORT

4. The Annual Investment Strategy for 2020/21 was included in the Treasury Strategy 2020/21 to 2023/24, which was approved by Council on 26 February 2020. The report emphasised that the Council's investment priorities will be Security first, portfolio Liquidity second, and only then return (Yield).
5. The Treasury Management Annual Report 2019/20 was presented to Governance Committee on 22 September 2020. The report indicated that an average return on investments of 0.89% had been achieved, which exceeded the target rate of 0.61%, being seven day LIBID plus 15%. It also reported that, at the 31 March 2020, the Council held

£10m of temporary borrowing and that two breaches of the of the approved counterparty limit for investments had occurred during the year.

6. The Code of Practice for Treasury Management requires councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

## TREASURY ACTIVITY

7. Investment activity up to the end of September 2020 is summarised in the following table.

<b>Table 1 - Investment Activity</b>	<b>Average Daily Investment £000</b>	<b>Earnings to 30 September 2020 £</b>	<b>Average Rate %</b>
Debt Management Office	1,454	205	0.03
Other fixed term deposits	21,005	95,398	0.91
Notice Accounts	12,000	35,234	0.59
Call accounts	3,508	2,014	0.11
Money Market Funds	9,432	7,928	0.17
<b>Total</b>	<b>47,399</b>	<b>140,779</b>	<b>0.59</b>

8. Given the low (even relative to current rates generally) rate of interest available from the Debt Management Office, this counterparty is usually used only rarely, when the amounts that need to be kept at short notice are greater than what can be accommodated within the approved counterparty limits. However, during the first half of 2020/21, circumstances arising from the Covid 19 pandemic produced two major peaks in the Council's inward cash flows, the first at the beginning of the year and the second in September. As a result, significant sums were placed with the Debt Management Office at those times.
9. The average daily investment of £47.399m continues to be well above the £10m minimum balance invested for the Council to qualify as a professional investor under MiFID II requirements. As noted above, because of the impacts of cash flows resulting from the Covid 19 pandemic, balances during the year to date have been higher than would otherwise have been the case.
10. A full list of investment counterparties and their associated limits is shown at Appendix A.
11. A full list of investments as at 30 September 2020 is presented as Appendix B. With one exception, all investments throughout the first six months of the year were within the maximum limits per counterparty permitted by the approved Investment Strategy for 2020/21. The exception was not a new one, but one previously identified in the Treasury Management Annual Report for 2019/20, received by this Committee on 22 September 2020, where an amount of £2m had been lent to a local authority, taking the total placed with that counterparty to an amount £1m greater than the limit. The investment was made in February 2020 and repaid in July 2020.

12. The investment durations per bank or building society suggested by Link Asset Services as at November 2019 are presented in Appendix C. The Council receives weekly updates, and suggested durations are checked online at the time of placing any term deposits with banks or building societies. The limit per institution is as approved by Council on 27 February 2019.
13. The average interest earned of 0.59% would normally be measured against a target of the average LIBID 7-day rate plus 15%, but the exceptional market conditions applying in 2020/21 mean that this would produce a negative target figure. Link Asset Services have therefore produced the following table of benchmark returns. That actually achieved by the Council have exceeded these targets. It also exceeds the Link Asset Services suggested earnings rate of 0.10% for 2020/21 (see Table 4 below).

<b>Period</b>	<b>Benchmark Return</b>
7 day	-0.06%
1 month	-0.02%
3 months	0.11%
6 months	0.21%
12 months	0.35%

14. With the continuing expiry of investments placed at higher, pre-pandemic, interest rates and their replacement at significantly lower returns, it will not be possible to maintain the same level of performance during the second half of the year. The comparison to the interest receivable budget is as follows:

<b>Table 3 - Interest Receivable Budget</b>	<b>Budget for 2020/21</b>	<b>Actual to 30 September 2020</b>	<b>Forecast for year</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
Interest earned	200	141	185
<b>Total</b>	<b>200</b>	<b>141</b>	<b>185</b>

15. No long-term borrowing has been taken to the date of preparing this report. The funding of the 2020/21 Capital Programme requires a limited element of long-term borrowing and the cost of financing this has been included in the revenue budget for the year. Savings in interest payable may be achieved by delaying external borrowing, or by using the Council's cash balances as an alternative to taking external loans from the Public Works Loan Board (PWLB) or other source. Interest earned on cash balances would reduce as a consequence, but the Council would lose interest receivable at approximately 0.15% to 0.25%, while avoiding the relatively higher cost of paying interest to an external lender. For example, the rate on a 40-year annuity loan from the PWLB on 2 November was 2.60%.

## TREASURY CONSULTANTS ADVICE

16. Appendix D presents the advice of Link Asset Services in respect of economic matters and interest rates in the first half of 2020/21.
17. In addition, a detailed comparison of interest rate forecasts is presented as Appendix E. Bank rate and PWLB borrowing rate forecasts are given from the December quarter of 2019 through to the March quarter of 2022.
18. The Bank Rate is forecast to remain static, at 0.10%, through to the end of March 2023.
19. Link's suggested budgeted investment earning rates for investments up to about three months duration in each financial year are as follows:

<b>Table 4 - Average Earnings in each financial year</b>			
	<b>Revised August 2020</b>	<b>Revised July 2020</b>	<b>Original February 2020</b>
2020/21	0.10%	0.10%	0.75%
2021/22	0.10%	0.10%	1.00%
2022/23	0.10%	0.10%	1.25%
2023/24	0.25%	0.25%	1.50%
2024/25	0.75%	0.75%	1.75%
Later years	2.00%	2.00%	2.25%

20. The most recent estimate is compared to the estimated earnings rate available at the time the Treasury Management Strategy was presented for approval in February 2020, and Link's update in July 2020. The suggested earnings rates have fallen from 0.75% to 0.10% in this financial year, reflecting the significant reduction in rates which has occurred following the outbreak of the Covid 19 pandemic. This target was exceeded in the first half of 2020/21, with the average to 30 September 2020 being 0.59%, although this was with the benefit of higher fixed obtained on investments placed prior to the onset of the pandemic. The average is expected to be significantly lower in the second half of the year.

## CONSULTATION CARRIED OUT AND OUTCOME OF CONSULTATION

21. No consultation has been undertaken in preparing this report.

## AIR QUALITY IMPLICATIONS

22. The report has no air quality implications.

## COMMENTS OF THE STATUTORY FINANCE OFFICER

23. The report meets the requirement of the Treasury Management Code of Practice that the Treasury Strategy and activity should be reviewed half-yearly and so is a key element in the reporting under Council's financial management and administration framework.

## COMMENTS OF THE MONITORING OFFICER

24. The Monitoring Officer has no concerns or issues with what is proposed in this report.

## OTHER IMPLICATIONS:

<p>▶ Risk</p> <p>▶ Equality &amp; Diversity</p>	<p>The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.</p>
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## BACKGROUND DOCUMENTS

Treasury Strategy 2020/21 to 2023/24 (Council 26/2/20)

## APPENDICES (or There are no appendices to this report)

- Appendix A Investment Counterparties
- Appendix B List of Investments as at 30 September 2019
- Appendix C Suggested Investment Durations as at November 2019
- Appendix D Economics and Interest Rates – Treasury Advisors' advice
- Appendix E Comparison of Interest Rates Forecasts

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