

## **REPORT TO EXECUTIVE**

Date of Meeting: 01 December 2020

## **REPORT TO COUNCIL**

Date of Meeting: 15 December 2020

Report of: Director Finance

Title: Treasury Management 2020/21 Half Year Update

### **Is this a Key Decision?**

No

### **Is this an Executive or Council Function?**

Council

#### **1. What is the report about?**

- 1.1 To report on the current Treasury Management performance for the 2020/21 financial year and the position regarding investments and borrowings at 30 September 2020. The report is a statutory requirement and is for information only with no key decisions required.

#### **2. Recommendations:**

- 2.1 That Members of the Executive note the Treasury Management report in respect of the first six months of the 2020/21 financial year.

#### **3. Reasons for the recommendation:**

- 3.1 It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

#### **4. What are the resource implications including non-financial resources**

- 4.1 The report is an update on the overall performance in respect of Treasury Management for the first six months of the 2020/21 financial year. Therefore, there are no financial or non-financial resource implications.

#### **5. Section 151 Officer comments:**

- 5.1 Interest rates continue to be very low, indeed the Government's Debt Management Office has started to offer negative rates (you pay to deposit) for some durations. The Emergency budget added an extra £290,000 to the budget and it is pleasing to note that the current estimate is positive compared to this.

#### **6. What are the legal aspects?**

- 6.1 In February 2012 the Council adopted the updated *CIPFA Treasury Management in the Public Services: Code of Practice*, which requires the Council to report on its performance at the end of each financial year. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

## 7. Monitoring Officer's comments:

This report raises no issues for the Monitoring Officer.

## 8. Report Details:

### 8.1 Economic Context and Interest Rate Prospects

Interest rate forecasts, provided by our Advisors, are set out below.

Link Group Interest Rate View 11.8.20											
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting on 5<sup>th</sup> November although some forecasters had suggested that a cut into negative territory could happen. The Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary.

Investment returns are likely to remain exceptionally low during 2021/22 with little increase in the following two years.

Borrowing interest rates fell to historically very low rates as a result of the COVID crisis and the quantitative easing operations of the Bank of England: indeed, gilt yields up to 6 years were on negative yields during most of the first half of 20/21.

However, the unexpected increase of 100 bps in PWLB rates on top of the then current margin over gilt yields of 80 bps, required an initial rethink of local authority treasury management strategy and risk management. However, in March 2020, the Government started a consultation process for amending the margins over gilt rates for PWLB borrowing for different types of local authority capital expenditure. The result of this consultation will dictate future borrowing strategies.

### 8.2 Treasury Management Strategy

The Council approved the 2019/20 Treasury Management Strategy at its meeting on 26 February 2020. The stated investment strategy was to continue to hold only small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short dated deposits which would be placed with Local Authorities.

The Strategy stated that the on-going borrowing requirement would be monitored and a decision of whether to take the planned borrowing would need to be made in light of need and current and forecast interest rates. This decision was delegated to the Section 151 Officer and the Leader of the Council.

### 8.3 Net Interest Position

The General Fund shows an improvement against the estimate for net interest payable, the position is:

	<b>Estimate</b>	<b>Actual to 30 September 2020</b>	<b>Estimated Outturn</b>	<b>Variation</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
<b>Interest paid</b>	1,205,300	476,868	1,158,992	(46,308)
<b>Interest earned</b>				
Temporary investment interest	(308,000)	(149,866)	(172,357)	135,643
ECL Loan	(456,000)	(229,366)	(458,733)	(2,733)
Other interest earned	(9,300)	(4,650)	(9,300)	0
Science Park Loan	(25,780)	(12,890)	(25,780)	0
CVS Loan	(4,220)	0	(1,560)	2,660
<b>Less</b>				
Interest to HRA	250,000	123,563	247,126	(2,874)
Interest to S106 agreements	95,000	37,312	74,625	(20,375)
Interest to Trust Funds	4,900	2,487	4,974	74
Lord Mayors Charity	100	42	84	(16)
GF interest (received) / paid out	(453,300)	(233,367)	(340,921)	112,379
<b>Net Interest</b>	<b>752,000</b>	<b>243,319</b>	<b>818,071</b>	<b>66,071</b>
CCLA – LAPF Dividend	(225,000)	(98,508)	(144,826)	80,174
Investment Loss – General Fund	0	0	0	0
<b>Net Interest</b>	<b>527,000</b>	<b>144,811</b>	<b>673,245</b>	<b>146,246</b>

The emergency budget, approved by Council in July 2020, estimated that the net interest cost for 2020/21 would increase to £817k. The expected outturn at Q2 indicates an improvement on the emergency budget by £144k.

### 9. Investment Interest

- 9.1 The Council can utilise the Government's Debt Management Office (DMO) account and a reserve account with Barclays, these accounts have been utilised in the period to provide a low-risk temporary arrangement to hold surplus funds.

It should be noted that the DMO have started to offer negative interest rates on very short-term investments (1 to 2 weeks), the Council has not invested where negative rates are offered.

Appendix A sets out the institutions that the Council can use for deposits, this is known as our Counterparty list.

- 9.2 The Council had access to five Money Market Funds during the period, this has subsequently reduced to four as Amundi decided to close their money market fund on 15th October and return all funds. The money market funds allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.
- 9.3 The Council made investments in the CCLA's LAMIT Property Fund in 2016. It should be noted that investments in property funds are a long term commitment which means that there can be fluctuations on the return from the investment.
- 9.4 The Council's investments held at 30 September 2020 were:

#### **Money Market Funds**

Amount	Investment	Interest rate*
£10,000,000	Amundi Asset Management	0.01%
£10,000,000	Federated Investors	0.03%
£10,000,000	Aberdeen Standard Investments	0.06%
£10,000,000	CCLA - The Public Sector Deposit Fund	0.08%
£2,000,000	Black Rock Asset Management	0.01%

\* Interest rate is variable (therefore rates quoted were as at 30 September 2020)

#### **Fixed Term Deposits - Current**

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
£5,000,000	Thurrock Council	0.12%	14/08/20	16/11/20	94
£3,000,000	Standard Chartered – Sustainable deposit	0.16%	13/08/20	13/11/20	92
£3,000,000	Lancashire	0.95%	02/12/20	30/11/20	364
£5,000,000	Fife Council	0.85%	25/10/19	23/10/20	364
£5,000,000	Flintshire County Council	0.06%	30/09/20	05/01/21	97

The Standard Chartered Sustainable deposit guarantees that investment is referenced against sustainable assets aligned to the United Nations' Sustainable Development Goals (SDGs).

#### **Fixed Term Deposits – Forward Deals**

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
5,000,000	Blackpool Borough Council	0.13%	23/12/20	23/04/20	121
5,000,000	Thurrock Council	0.07%	16/11/20	16/02/21	92

### **Property Funds**

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	4.36%

## **10. Borrowings**

- 10.1 The Council's long term borrowing is currently £126.044 million (£53.8 million General Fund and £72.244 HRA) and there is no short-term borrowings. Details of loans are set out below.
- 10.2 The PWLB long-term borrowing rates fell in September 2019, prompting the decision on 26 September to borrow in readiness for the on-going capital programme. This was a timely decision as there was an announcement on 9 October to increase the interest rates offered on new PWLB loans by 1% with immediate effect.
- 10.3 At Spring Budget 2020, the Government announced a new, discounted rate of PWLB lending to support social housing, which enables the Council to borrow at 1% below the rate at which the local authority would usually borrow from the PWLB, specifically for social housing projects.
- On 5 April 2020, the Council took out a loan of £15.4 million from the PWLB to support the social housing programme and therefore took advantage of the discounted rate.
- 10.4 The current General Fund capital programme as at Quarter 2 indicates total borrowing will need to increase by £57.70 million over the next 3 years.
- 10.5 The ongoing borrowing requirement will be monitored and a decision of whether to take further borrowing will be made in light of need and current and forecast interest rates. If additional borrowing is required advice will be sought from the treasury management advisors in order that the most cost effective form of borrowing can be secured.

## 10.6 Existing loans

Principal Amount	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB (HRA)	3.48%	Maturity	28/03/2062
£2,200,000	PWLB	2.34%	Annuity	11/01/2044
£2,150,000	PWLB	2.08%	Annuity	04/04/2044
£4,650,000	PWLB	1.61%	Annuity	26/09/2049
£8,800,000	PWLB	1.71%	Annuity	26/09/2054
£36,000,000	PWLB	1.80%	Annuity	26/09/2069
£15,360,000	PWLB (HRA)	1.31%	Maturity	14/04/2070

## 11. Future Position

- 11.1 The short-term cash surplus will be invested in line with the Council's Treasury Management Strategy and will ensure that funds are available to meet demands, whilst also maximising returns.
- 11.2 The Council's Money Market Funds which are AAA rated, currently offer rates between 0.01% and 0.08%, the rates are liable to fluctuation in the year. The short term investments that are made through the money market funds ensure cash can be accessed immediately. This has a slight impact on returns but increases the security of cash.
- 11.3 The Council will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks, building societies and the Debt Management Office. The rates received currently average around 0.1%.
- 11.4 Officers have regular meetings with the Treasury Management advisors in order to seek advice on how to maximise investment returns and to minimise the need to borrow whilst taking into account investment risk.
- 11.5 Officers continually explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, they will be included in the Treasury Management strategy which is presented to committee for approval in February 2021.
- 11.6 Investment opportunities that provide attractive interest rates are somewhat limited in the current economic climate, following the impact of COVID 19.
- 11.7 In addition to the potential impact of COVID on the UK economy there is, at the time of writing, continuing uncertainty over a potential Brexit deal. If the UK leaves the EU without a deal, then this could place further downside pressure on the sovereign rating, which may have a knock-on impact on UK financial institution ratings.
- 11.8 This will be closely reviewed and advice will be sought from our financial advisors to ensure our counterparty list is adequate and robust enough. Any adjustments to the

list and the impact of this will be presented to committee for approval in the Treasury Management strategy 2021/22.

**12. How does the decision contribute to the Council's Corporate Plan?**

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

**13. What risks are there and how can they be reduced?**

The council uses Treasury Management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's Treasury Management strategy.

The impact of COVID 19 on the world economy and the potential for negative interest rates is being closely monitored and daily updates are provided by our financial advisors and investment brokers.

**14. Equality Act 2010 (The Act)**

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because: because

11.4.1 The report is for information only

**15. Carbon Footprint (Environmental) Implications:**

We are working towards the Council's commitment to carbon neutral by 2030. The environmental impact of each decision is considered prior to approval.

**16. Are there any other options?**

No

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**Local Government (Access to Information) Act 1972 (as amended)**

**Background papers used in compiling this report:**

None

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