2020/21 Quarter 3 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2020 – 30/06/2020 against the Council's Treasury Management Strategy, which was approved by Council on 25th February 2020.

The Councils Treasury Management operation ensures cash flows are adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

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, this is the element of the capital programme that is not financed from external grants, capital receipts or other contributions. Which when added to the Council's Capital Financing Requirement (CFR) shows the underlying borrowing need of the Council. This underlying borrowing need is managed by the treasury team through short and long term borrowing arrangements and the use of longer term cash flow surpluses.

Borrowing

No new borrowing has been undertaken in the year to date, therefore the Council has maintained external borrowing at £12.8 million. As a result, gross and net borrowing are below the capital financing requirement (CFR). This is a key indicator as it shows that the Council is not borrowing to fund revenue activities or borrowing to lend-on.

Table 1: Borrowing Limits

	£m
Actual borrowing	12.800
Authorised limit	30.415
Operational boundary	24.200
Capital Financing Requirement (CFR)	24.142

Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Councils borrowing is circa 124% (i.e. £1.244m per £1m repaid), which would take around 32 years to repay. This is not low enough to consider making an early repayment, however we will keep this under review.

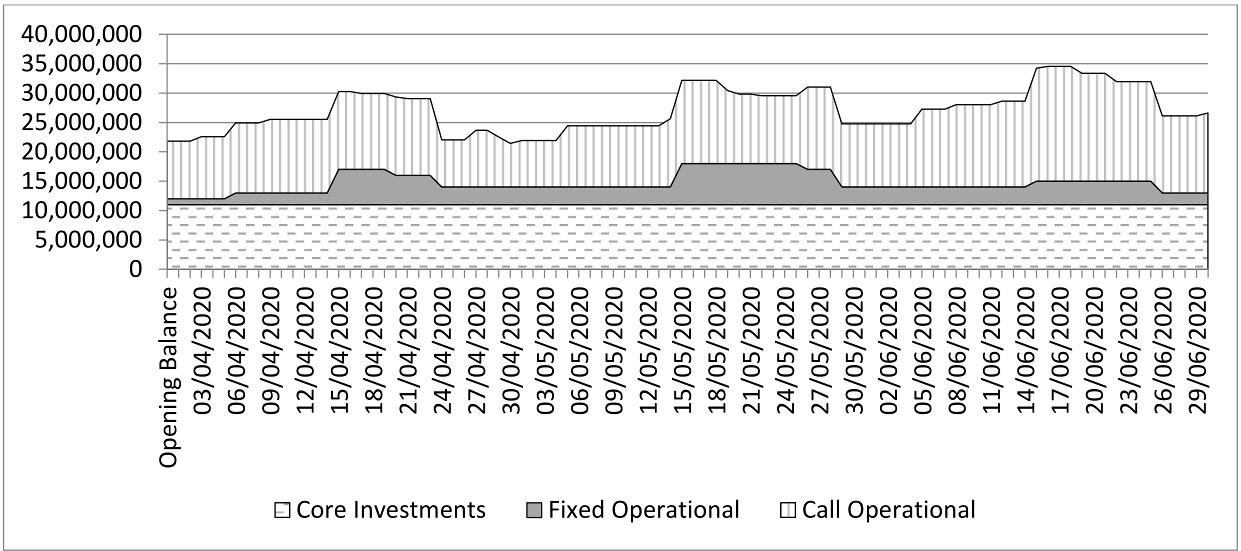
Our current internal borrowing position, is estimated to be £11.342million or 47% of the CFR at year end, this has risen from 32% of CFR in 2019/20. This position will be carefully monitored against changes to reserves to ensure that the position is sustainable.

Previously the Council's position has been to wait until the end of a financial year before borrowing for that years capital plans. Due to the unpresented times and the impact this has had on cash flows coupled with the uncertainty of capital cash flows we may need to borrow mid-year in 2020/21.

This should not impact negatively on the budget as it was set assuming we would borrow for 2019/20's capital programme which due to re-profiling we did not need to do. In fact because of this we are expecting to make a saving here which once you take into account the likely mid-year borrowing is estimated to be £150,000.

Investments

Graph 1 below shows the movement on the Councils investment portfolio between 01/04/20 and 30/06/2020.



The Council held £33.598m of investments as at 30 June 2020. Table 2 shows the outstanding investments by type.

Table 2 Investment Summary

Counterparty		**Value (£m)**
Call Operational		
	Blackrock	6.750
	CCLA	2.848
	Federated	4.000
Fixed Operational		
	Goldman Sachs	1.000
	Nationwide Building Society	3.000
	Principality Building Society	1.000
	Standard Chartered	1.000
	Sumitomo Mitsui	1.000
	West Bromwich Building Society	2.000
Fixed Core		
	Aberdeen City Council	2.000
	Bank of Scotland	1.000
	City of Liverpool	1.000
	London Borough of Barking and Dagenham	3.000
	Standard Chartered	2,000
	Sumitomo Mitsui Bank	2.000
		33,598

Graph 2 below shows the maturity profile of the Councils investment portfolio split between operational and core investment types

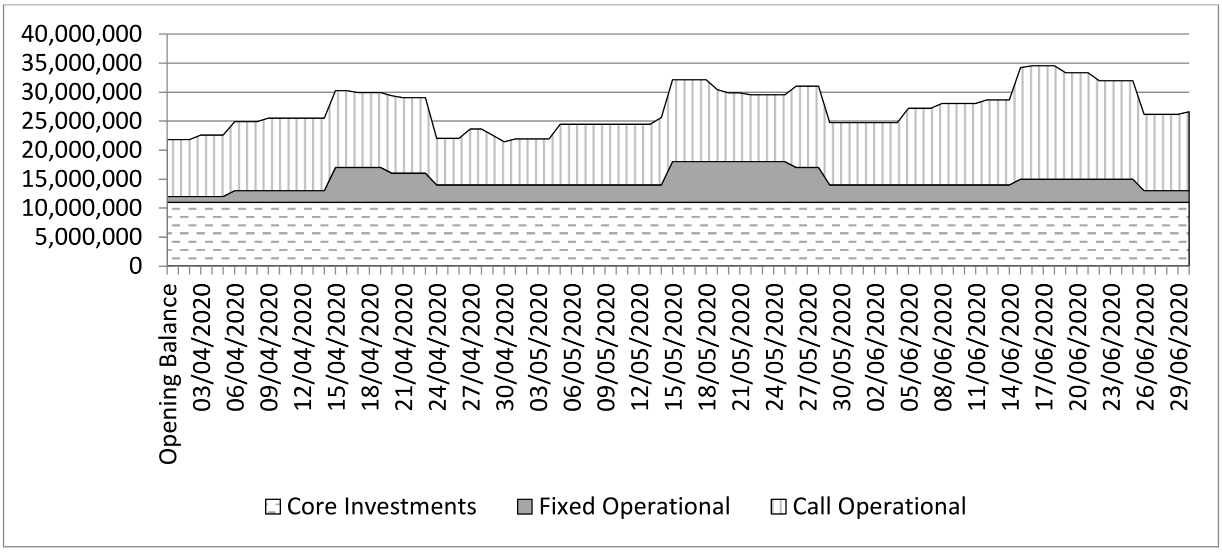


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the bench mark.

Table 3 Performance

	Average Return	Benchmark Rate	Variance
Call Operational	0.30%	-0.07%	0.37%
Fixed Operational	0.53%	0.20%	0.33%
Fixed Core (Long Term)	0.69%	0.34%	0.35%
Overall Average	**0.51%**		

All of the councils investments are performed in excess of their benchmarks, with the overall average outperforming the 6-month benchmark rate used for the Fixed Core (long term) investments.

Budget v Estimated Outturn

On March 2020 the Bank of England made two emergency cuts to the Bank Rate first to 0.25% and then to 0.10% in response to the Covid-19 crisis affecting world economies. Since them we have seen market rates follow suit with return on investments for new investments falling from around 0.70-0.80% in January 2020 to 0.10-0.20% by July 2020.

It is currently thought that the Bank of England will not go as far as to cut the Bank Rate into negative territory, although the Governor has failed to rule this out. The current market expectation is that the Bank Rate will stay at 0.10% for number of years yet with the unwinding of QE being the first priority when things return to normal.

At the time of the 2020/21 budget the Council was expecting the Bank Rate to be in the region of 0.50-0.75% and the budget of interest receivable of £230,890 was made on this basis. While the Council has performed well in the first quarter of 2020/21, due to maturing deals being at the higher interest rate, replacement investments are now at significantly lower rates than budgeted.

Current estimates are that we will only achieve £81,000 of interest receivable leaving a budget deficit of £149,890. This would have been worse if we didn't have a laddered maturity profile enabling us to be able to place investments for 3-9 months in the January – April 2020.

Despite shortfalls in income across the board during the first quarter of 2020/21, the Council has not had any cash flow shortfalls and this is expected to remain so until December 2020. After this if income does not start to return to more normal levels and/or we don't receive further Central Government support then we will have to use our core cash fund to meet day to day cash flows. This also assumes no borrowing for capital.

Counterparty Limits

At the end of March the government announced it was advancing the Council £74m to cover the Business rate Covid-19 grant scheme we were asked to administer on their behalf. This is around double the average treasury funds the finance team deal with on a regular basis. As a result on 31st March 2020, Emergency Decision 003, was taken to amend the Treasury Management Limits as follows:

a. To disregard grant funding from government to be redistributed in relation to Covid-19 when applying the counterparty limit with the Councils own bankers (Nat West)
b. To increase the counterparty limit for Money Market Funds (MMF) from £5m to £10m.

This enabled all Covid-19 grant money to be kept separate from the councils main cash flow while still ensuring enough liquidity that we could call this back to match grant payments.

The increase in the MMF limit has enabled the council to continue to maintain its liquidity when the money market for the short dates (sub 3-months) had all but disappeared due to the funding for lending scheme being increased. The market for sub 3-month and even sub 6-month cash is still very limited with regards to counterparties on the Councils list. We therefore request Council approve the continuation of the increased counterparty limit for MMF's to £10m for the remainder of 2020/21.

Economic Forecast

UK Economic Growth has been hit hard by the current crisis in particular the country wide lockdown and was down 24.5% year on year in April 2020. There are huge uncertainties as to how quickly the economy will recover to what was formally regarded as normal, with the full impact on business unknown. Consumer expenditure also reduced during lockdown which means savings increased and debts fell. This could provide fuel for a potential surge in consumer spending once some degree of normality returns.

Brexit still remains a major uncertainty for the UK as while we left the EU on 31st January 2020, little progress seems to have been made on agreeing a trade deal before the end of the transition period on 31st December 2020.

The annual inflation rate dropped to 0.5% in May from 0.8% in April and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy will be heading into a recession. Wage inflation is likely to continue to fall given the current environment where unemployment is expected to rise significantly

Conclusion

While the Council Investments have continue to perform well against benchmarks and borrowing has been maintained at £12.8 million within the debt indicators. 2020/21 will be a challenging year as a result of the fall in rates and the current market conditions, with a predicted budget deficit of £149k on interest receivable as a result. This is offset by a corresponding saving on interest payable.