2020/21 Quarter 3 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2020 – 31/12/2020 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.

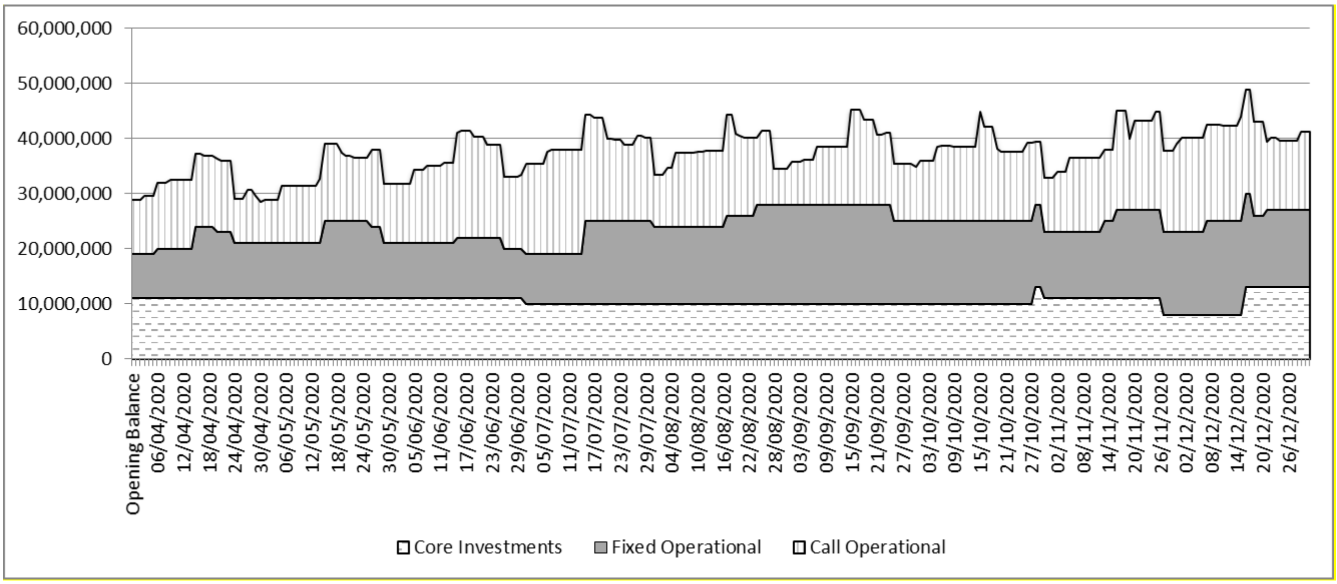
The current premium on the Councils borrowing is circa 112% (i.e. £1.12m per £1m repaid), which would take around 27½ years to repay. This is not low enough to consider making an early repayment, however we will keep this under review.

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.

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 31/12/2020.



The Council held £41.25m of investments as at 31 December 2020. Table 2 shows the outstanding investments by type.

Table 2 Investment Summary

Counterparty		**Value (£m)**
Call Operational		
	BlackRock	4.450
	Federated	9.800
Fixed Operational		
	Ashford Borough Council	2.000
	Coventry Building Society	3.000
	Leeds Building Society	2.000
	Nationwide Building Society	3.000
	Principality Building Society	2.000
	West Bromwich Building Society	2.000
Fixed Core		
	Aberdeen City Council	2.000
	Blaenau Gwent	3.000
	Cumberland Building Society	1.000
	Newcastle Building Society	2.000
	Surrey Heath BC	5.000
		41.250

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

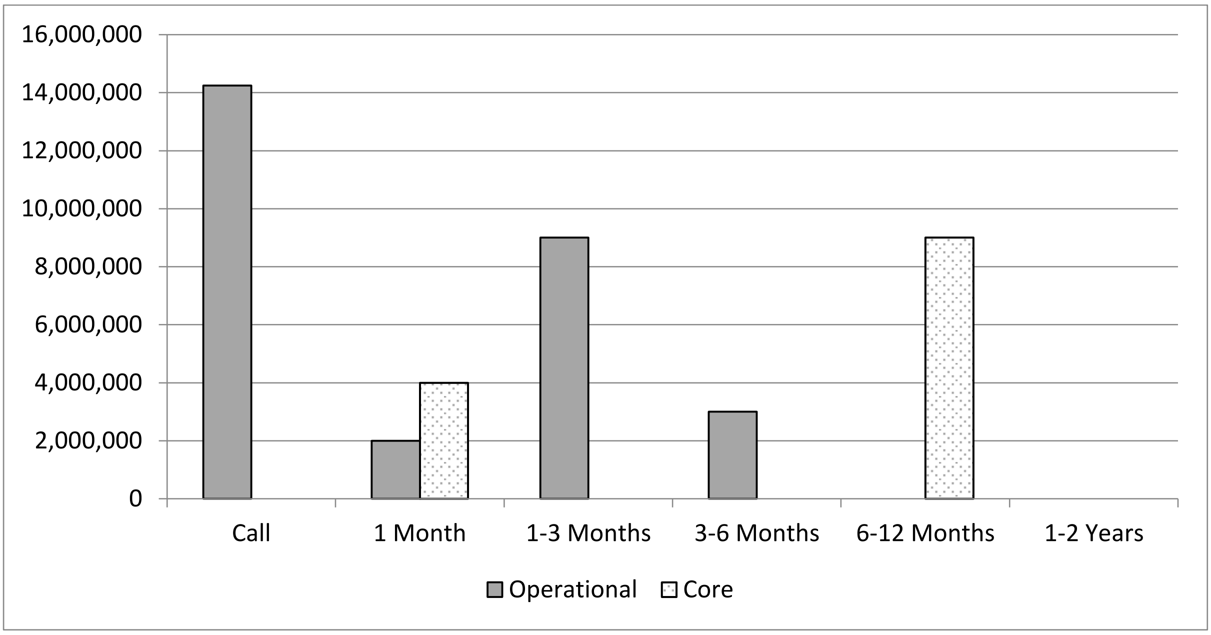


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the bench mark.

Table 3 Performance

	Average Return	**Benchmark Rate**	**Variance**
Call Operational	0.14%	-0.07%	0.21%
Fixed Operational	0.30%	0.04%	0.26%
Fixed Core (Long Term)	0.50%	0.11%	0.39%
Overall Average	**0.30%**		

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.

Public Works Loan Board (PWLB) Changes

Following release of PWLB circular 162 and the accompanying guidance notes on the 26th November 2020 "local authorities are only able to access the PWLB where **no part** of its capital programme can be deemed to be commercial in nature and falling under the "asset for yield" category, the current year and the following three years."

The guidance notes introduce the requirement for the capital programme to be split into 6 categories as below;

1. Service Spending;
2. Housing;
3. Economic Regeneration;
4. Preventative Action;
5. Treasury Management; or

6. Asset for Yield

There are specific criteria that individual schemes must meet to fall into categories 1-5, with category 6 being the catch all category. The decision as to which category a schemes main objectives best fits is for the authorities Section 151 officer to make.
An annual return will need to be completed and signed off by the Section 151 officer and summited to government. This will be included in the annual certainty rate return.

A review of the current capital programme is underway and has yet to identify any current scheme that would fall in the asset for yield scheme. Guidelines re being drawn up and process reviewed to integrate the new requirements into current processes and procedures.

At the same time the government announced it was reducing the margin over gilts by 1% back to previous levels, this makes borrowing from the PWLB more affordable but the new rules described above limit when a local authority can access this borrowing.

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 0.01-0.10% by December 2020.

It is currently thought that the Bank of England will not go as far as to cut the Bank Rate into negative territory before the end of the year although they have accessing the readiness of financial intuitions to cope with negative rates.

Our advisors are not expecting a rate cut and have provided us with the following interest rate forecast, which is broadly in line with what we are seeing when we go to the market

Link Group Interest Rate View 9.11.20													
These Link forecasts have been amended for the reduction in PWLB margins by 1.0% from 26.11.20													
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20

Following this we revisited our estimates for interest income and expenses for the year and there is no significant change in the outturn position of a £150k shortfall in interest receivable covered by a £150k underspend on the interest payable.

Despite shortfalls in income across the board during the first half of 2020/21, the Council has not had any cash flow shortfalls and this is expected to remain so for the whole of 2020/21. However depending on how income recovers we may have to use core cash funds to meet day to day cash flows in 2021/22.

Economic Forecast

As a result of the Covid-19 pandemic the UK Economy fell into recession with GDP levels not expected to reach pre pandemic levels until 2023. One major downside risk has been removed though with the reaching of a Brexit trade agreement on 24th December.

The new national lockdown announced on 5 January 2021 and expected to last until mid-February, means that the near term outlook for the economy is grim. However the distribution of vacancies and the expected removal of restrictions should allow GDP to rebound radidly in the second half of 2021, potentially allowing GDP to rise to pre pandemic levels as early as late 2022.

Unemployment continues to rise and is expected to peak at between 7% and 9%.

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.