



Report of	Meeting	Date
Deputy Director of Finance/Section 151 Officer	Governance Committee	25 November 2020

TREASURY MANAGEMENT ACTIVITY MID-YEAR REVIEW 2020/21

PURPOSE OF REPORT

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

RECOMMENDATION(S)

2. That the report be noted.

EXECUTIVE SUMMARY OF REPORT

3. During the first six months of 2020/21, the Council had an average daily cash balance of £13.25m and earned interest of £10.8k, a return of 0.16%. The investment balance at the end of September was £7.3m.
4. Both the average daily balance and the rates of interest available have been significantly affected by the impacts of the Covid 19 pandemic, with the former being substantially higher than would usually be the case, while the latter have been greatly reduced.
5. No new long-term borrowing has been undertaken in the first six months of 2020/21.
6. Forecast PWLB borrowing rates have also been reduced by the effects of the pandemic.
7. The Bank of England's Base Rate remains at 0.10% and is forecast to be unchanged through to the end of March 2023.

Confidential report Please bold as appropriate	Yes	No
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CORPORATE PRIORITIES

8. This report relates to the following Strategic Objectives:

Involving residents in improving their local area and equality of access for all		A strong local economy	
Clean, safe and healthy homes and communities		An ambitious council that does more to meet the needs of residents and the local area	✓

BACKGROUND

9. At its meeting on 25 February 2020, Council approved the Treasury Management Policy Statement; Treasury Management Practices; Prudential Indicators for 2020/21 to 2022/23; the Treasury Management Strategy and Treasury Indicators for 2020/21; the Annual Investment Strategy 2020/21; and the Annual Minimum Revenue Provision (MRP) Policy for 2020/21.
10. The Treasury Management Annual Report for 2019/20 was presented to Governance Committee of 16 September 2020.
11. 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

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

Table 1 - Investment Activity	Average Daily Investment £000	Earnings to 30 September 2020 £	Average Rate %
Debt Management Office	2,228	449	0.04
Other fixed term deposits	0	0	0.00
Call Accounts	4,019	3,394	0.17
Money Market Funds	7,000	6,993	0.20
Total	13,247	10,836	0.16

The average balance over the first six months of the year has been higher than would normally be the case. In turn, 2019/20, with an average balance in the first six months of £9.755m, was also exceptional, leaving 2018/19 as the most recent ‘normal’ comparator year, when the average balance was £6.200m. The reason for the difference in this year is the impacts on cash flow of measures taken in response to the onset of the Covid 19 pandemic, with additional temporary borrowing being entered into late in March 2020 and continuing into April and significant amounts of grant funding, associated with the payment of business support grants, being received early in April. Because of the need for investments to be kept at short notice in response to the ongoing circumstances of the pandemic, the increase in average balances did not give rise to the opportunity to make fixed term deposits at potentially higher rates of interest. Instead, use had to be made of the Debt Management Office facility, which pays only low (even relative to current rates generally) rates of interest.

13. A full list of investment counterparties and their associated limits is shown at Appendix A.
14. A full list of investments as at 30 September 2020 is shown below.

Table 2 - Investments as at 30 September 2020

Counterparty	Type	Amount £'000	Invested date	Maturity date
Aberdeen Standard	MMF	3,000	Various	On call
BlackRock	MMF	3,000	Various	On call
Barclays BPA	Call account	1,308	Various	On call
Total		7,308		

15. The amounts of daily balances held remained high, but had returned to closer to normal levels by the end of September, with the comparable figure for 2019/20 being £5.493m that for the end of September 2018 £5.766m.
16. To qualify as a professional investor under MiFID II requirements, the council needs to invest at least £10m, as well as meeting other requirements. Because of the exceptional circumstances referred to above, the £10m threshold was exceeded for almost the whole of the period from April to June 2020, and for a significant proportion of the remainder of the first half of the year. This is not expected to continue and, again as noted above, the situation which has given rise to the higher than usual levels of balances also mitigates against any opportunity to make investments for longer periods.
17. The average interest earned of 0.16% would normally be measured against a target of the average LIBID 7-day rate plus 15%, which given that the Council's deposits are typically placed only in call accounts and money market funds, it is usually unlikely to meet. However, the exceptional market conditions applying in 2020/21 mean that the LIBID based calculation would produce a negative target figure. Link Asset Services have therefore produced the following table of benchmark returns. Those actually achieved by the Council have exceeded these targets. They also exceed the Link Asset Services suggested earnings rate of 0.10% for 2020/21 (see Table 3 below).

Table 2 - Benchmark Investment Rates

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

18. No new long-term borrowing has been undertaken in the first six months of 2020/21, while ongoing repayments of principal have reduced the outstanding balance by £930k, from an opening amount of £64.026m to £63.096m.
19. No rescheduling of debt has been undertaken in the first six months of the year.

TREASURY CONSULTANTS' ADVICE

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

Table 3 - Average Earnings in each financial year			
	Revised November 2020	Revised July 2020	Original February 2020
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	0.10%	0.25%	1.50%
2024/25	0.25%	0.75%	1.75%
Later years	2.00%	2.00%	2.25%

24. 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 0.16%.
25. In the forecast interest rates shown at Appendix C, PWLB borrowing rates are now significantly lower than was expected when the Treasury Strategy for 2020/21 onwards was prepared, although the effect is reduced across the longer timeframes. This is again because of the impacts of the Covid 19 pandemic.

IMPLICATIONS OF REPORT

26. This report has implications in the following areas and the relevant Directors' comments are included:

Finance	✓	Customer Services	
Human Resources		Equality and Diversity	
Legal		Integrated Impact Assessment required?	
No significant implications in this area		Policy and Communications	

27. The Council's treasury management strategy and policies are designed to ensure the effective control and management of the risks associated with such activities.

COMMENTS OF THE STATUTORY FINANCE OFFICER

28. This report complies with the statutory requirement to review treasury strategies and activities half yearly.

COMMENTS OF THE MONITORING OFFICER

29. The Monitoring Officer has no comments

JAMES THOMSON
DEPUTY DIRECTOR OF FINANCE/SECTION 151 OFFICER

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OR

Background Papers		
Document	Date	File
Treasury Management Strategy 2020/21 to 2022/23 (Council 25/2/20)***	25 February 2020	***