

Appendix C Treasury Management Interim Report (30 September 2020)

This report ensures the council demonstrates best practice in accordance with CIPFA's recommendations in their Code of Practice for Treasury Management, by keeping members informed of treasury management activity.

1. The UK Economy

- The Covid-19 pandemic remains the dominating factor, the national 'lockdown' has ended and in its place we are seeing more localised lockdowns, which are less strict in terms of shops, pubs, restaurants and businesses being allowed to remain open but with restrictions on the number of people in those shops at any one time, table service and a 10pm closing time on licensed premises. There are also limits on the number of people who can meet at any one time. The Test and Trace app is now up and running and individuals are required to check in at venues.
- The UK furlough scheme with the government meeting 80% of the salary payments is changing to 60% government and 20% employer from the beginning of October. This follows on from employers being required to meet the cost of pension contributions and National Insurance for employees on the scheme which was effective from August.
- The Bank of England made two emergency rate reductions, from 0.75% to 0.25% on 11th March and a further cut to 0.10% on 19th March. There was no change to the interest rate or Quantitative Easing programme when the MPC met on 17th September. The Bank did warn that in addition to the Covid-19 pandemic, a lack of clarity over the UK's future trade relationship with the EU could further threaten economic recovery.

2. The Council's Investments

2.1 At 30 September 2020 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount £m
<u>Instant access bank accounts:</u>				
Handlesbanken	N/A	N/A	0.03%	5.00
NatWest	N/A	N/A	0.01%	0.25
<u>Instant Access Money Market Funds:</u>				
Federated	N/A	N/A	0.05%	5.00
Aberdeen Standard	N/A	N/A	0.08%	5.00
Insight	N/A	N/A	0.01%	5.00
Blackrock	N/A	N/A	0.01%	2.81
Morgan Stanley	N/A	N/A	0.01%	5.00
Invesco	N/A	N/A	0.04%	5.00
CCLA	N/A	N/A	0.12%	5.00

<u>95 Day Notice Bank Accounts:</u>				
Santander	N/A	N/A	0.85%	5.00
NatWest	N/A	N/A	0.15%	3.00
<u>Fixed Term Deposits:</u>				
Coventry Building Society	184 days	10/01/21	0.18%	5.00
Thurrock Council	185 days	18/01/21	0.15%	5.00
Lancashire County Council	243 days	14/04/21	0.30%	5.00
Blackpool Council	273 days	14/06/21	0.25%	5.00
Total			0.16%	66.06

2.2 The council continues to select counterparties suitable for investment based on the credit worthiness service provided by their treasury advisors, Link Asset Services. The service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Link Asset Services allocate a series of colour coded bands with suggested maximum durations for investments as shown below;

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

2.3 The council has earned interest on its investments as follows:

Month	Average amount invested		Average rate of interest earned		Amount of interest earned / Forecast £000	Budget £000	(Surplus) /Deficit £'000
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-20	78.5	40	0.50	0.50	30	17	(13)
May-20	63.2	40	0.47	0.50	25	17	(8)
Jun-20	67.0	40	0.39	0.50	21	17	(4)
Jul-20	79.4	40	0.24	0.50	16	17	1
Aug-20	75.7	40	0.20	0.50	13	17	4
Sep-20	72.2	40	0.17	0.50	10	16	6
Oct-20	40.0	40	0.50	0.50	5	17	12
Nov-20	40.0	40	0.50	0.50	5	16	11
Dec-20	40.0	40	0.50	0.50	5	17	12
Jan-21	40.0	40	0.50	0.50	5	17	12
Feb-21	40.0	40	0.50	0.50	5	15	10
Mar-21	40.0	40	0.50	0.50	5	17	12
Total					145	200	55

2.4 Interest income earned in the first quarter has been higher due to high balances following the receipt of COVID-19 grants from central government and the time taken to pay some of these grants over to businesses. However the average interest rate has fallen by 60% between April and September resulting in substantially lower returns than originally forecast.

2.5 In addition to investment income the council earns interest on the provision of loan finance to the waste disposal PFI provider, this is expected to generate loan interest payable to us of £2.2m in 2020/21, this will be recharged through the waste disposal PFI arrangement.

3. The Council's Borrowing

Short-term borrowing

3.1 The council is continuing its policy of using short-term borrowing (if required) from other local authorities for short-term liquidity needs. These short-term interest rates are significantly below levels available from other sources avoiding a large cost of carry when comparing fixed interest debt to current (variable) investment rates.

3.2 The council can only borrow up to its Capital Financing Requirement, which represents the need to borrow for capital spend, and cannot borrow beyond this to finance the revenue budget. This is approved at budget setting in the Treasury Management Policy.

3.3 At the end of September 2020 there were no short-term loans outstanding.

Long-term borrowing

3.4 At 30 September 2020 the council held long-term borrowing of £128.4m, no new long-term borrowing has been secured. Rates are monitored and discussed with our treasury advisors to determine the optimum timing of securing any new long-term borrowing.

3.5 The current capital financing budget position is summarised below:

Summary of Borrowing Budget	Budget	Forecast	(Surplus) /Deficit
	£m	£m	£m
Minimum revenue provision	7.6	7.4	(0.2)
Interest payable on all loans	6.2	5.6	(0.6)
Total	13.8	13.0	(0.8)

4. Summary of forecast outturn

4.1 The current net treasury forecast outturn is expected to be a surplus (underspend) of £0.7m, the main reason being the delayed need to borrow from a combination of high cash balances and slippage in capital investment spend.