

Appendix C Treasury Management Interim Report (31 December 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 continues to remain the dominating factor, the second national 'lockdown' ended and in its place were localised tier systems. Each tier has different regulations regarding what can be open in terms of shops, pubs, restaurants and businesses and those which are able to open continue to have restrictions.
- The UK furlough scheme, with the government meeting 80% of salary payments, has been extended to the end of April 2021 to give businesses and employees increased certainty.
- 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 Monetary Policy Committee met on 17th December.
- The EU exit process concluded within the agreed timeframe; with the UK ceasing to following EU rules as at 23:00 hours on 31st December 2020. Whilst this removed the uncertainty and instability that was dominating the markets in the lead up to the deadline, it will be a while before the outcomes become noticeable.

2. The Council's Investments

2.1 At 31 December 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% | 1.45 |
| <u>Instant Access Money Market Funds:</u> | | | | |
| Federated | N/A | N/A | 0.01% | 5.00 |
| Aberdeen Standard | N/A | N/A | 0.01% | 7.84 |
| Deutsche | N/A | N/A | 0.00% | 5.00 |
| Insight | N/A | N/A | 0.01% | 5.00 |
| Blackrock | N/A | N/A | 0.00% | 0.20 |
| Morgan Stanley | N/A | N/A | 0.00% | 5.00 |
| Invesco | N/A | N/A | 0.01% | 5.00 |
| CCLA | N/A | N/A | 0.04% | 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 |
| Barclays | N/A | N/A | 0.15% | 5.00 |
| <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 | | | 0.11% | 77.49 |

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 | 71.9 | 40 | 0.15 | 0.50 | 9 | 17 | 8 |
| Nov-20 | 82.2 | 40 | 0.10 | 0.50 | 7 | 16 | 9 |
| Dec-20 | 84.1 | 40 | 0.09 | 0.50 | 8 | 17 | 9 |
| Jan-21 | 60 | 40 | 0.10 | 0.50 | 5 | 17 | 12 |
| Feb-21 | 60 | 40 | 0.10 | 0.50 | 5 | 15 | 10 |
| Mar-21 | 60 | 40 | 0.10 | 0.50 | 5 | 17 | 12 |
| Total | | | | | 154 | 200 | 46 |

2.4 Overall a deficit on interest earned in 2020/21 is forecast. Even though cash balances held are higher than anticipated the interest rate is significantly lower than expected.

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 December 2020 there were no short-term loans outstanding.

Long-term borrowing

3.4 At 31 December 2020 the council held long-term borrowing of £128.2m, 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 | 5.9 | (0.3) |
| Total | 13.8 | 13.3 | (0.5) |

4. Summary of forecast outturn

4.1 The current net treasury forecast outturn is expected to be a surplus (underspend) of £0.5m, the main reason being the delayed need to borrow from a combination of high cash balances and slippage in capital investment spend.