MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1ST April 2020 – 30TH September 2020

A. TREASURY MANAGEMENT REPORT

1. Introduction

The Treasury Management Policy and Strategy for 2020-2021 was approved by Council on 3rd March 2020. Section B 1.1(2) stated that Treasury Management activity reports would be made during the year. This report outlines the Treasury Management activities in the period 1st April 2020 to 30th September 2020 and satisfies the reporting requirement stated above.

There are no policy changes to the Treasury Management Policy and Strategy for this period and this report updates the position in light of the updated economic position and budgetary changes already approved.

2. Economic update

As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August 2020. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

The fall in GDP in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.

The peak in the unemployment rate was revised down from 9% in Q2 to 7½% by Q4 2020.

It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

3. Prospects for Interest Rates

Based on the average projection from a number of sources we can expect the trend in base rates over the year to be as follows:

	Apr 2020	Jun 2020	Sep 2020	Dec 2020	Mar 2021
Base Rate %	0.10	0.10	0.10	0.10	0.10

(Source: LINK Asset Services)

Link Asset Services undertook its last review of interest rate forecasts on 11th August 2020 after the Quarterly Inflation Report of the Bank of England and Monetary Policy Committee (MPC) meeting 6th August 2020, where the decision was made to keep the Bank Rate unchanged at 0.10% due to the ongoing uncertainty surrounding the Coronavirus outbreak.

The revised projection based on this review:

	2020-21	2021-22	2022-23
	%	**%**	**%**
Revised Average Bank Rate	0.10	0.10	0.10
Original Average Bank Rate (TM Strategy 2020-21)	0.81	1.00	1.25

4. Investments

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily on the London Money Markets. The security of the investments is the main priority; appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

The total investments at 1st April 2020 and 30th September 2020 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.20				30.09.20			
	Call and notice £m	Fixed Term £m	Total £m	%	Call and notice £m	Fixed Term £m	Total £m	%
Banks	19.00	0.53	19.53	27	26.00	0.53	26.53	22
Building Societies	0.00	3.00	3.00	4	0.00	7.00	7.00	6
Money Market Funds	12.00	0.00	12.00	16	20.00	0.00	20.00	17
DMADF (DMO)	0.00	18.00	18.00	24	0.00	33.00	33.00	28
Local Authorities	0.00	21.00	21.00	29	0.00	32.00	32.00	27
TOTAL	**31.00**	**42.53**	**73.53**	**100**	**46.00**	**72.53**	**118.53**	**100**

Investments on call are available immediately on demand. Fixed term investments are fixed to a maturity date. The current longest investment is maturing on 31st March 2021.

The £118.53m includes £0.53m (13.33% of original claim) invested in Kaupthing Singer and Friedlander which has been reduced from the original £4.0m by distributions.

During the period the total investments made by the Council and repaid to the Council (turnover) amounted to £1,432.01m. This averaged approximately £54.78m per week or £7.83m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2020	73.53
Investments made during the period	738.50
Sub Total	**812.03**
Investments Repaid during the period	(693.50)
Total Investments 30th September 2020	**118.53**

The main aims of the Treasury Management Strategy is to appropriately manage the cash flows of the Council, the required short term and longer term market transactions and the risks associated with this activity. Lending on the money market secures an optimum rate of return and also allows for diversification of investments and hence reduction of risk, which is of paramount importance in today's financial markets.

The benchmark return for the London money market is the "7 day LIBID rate". For 2020-2021 the Council has compared its performance against this "7 day LIBID rate". For the period under review the average "7 day LIBID rate" was -0.05% whereas the actual rate the Council earned was 0.28%, an out performance of 0.33%.

This outperformance can be quantified to £249k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for the period amounted to £0.209m.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

5. Update on the investments with Kaupthing Singer & Friedlander (KSF)

As at 30th September 2020 the sum of £3.47m principal and £212k interest had been received from the Administrators, which equates to 86.67% of the claim submitted. The Administrators estimate total dividends payable to non-preferential creditors at 86.80%.

A further update will be provided in future reports.

6. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2020-2021, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions.

Attached at Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings (excluding the £0.53m in KSF) as at 30th September 2020.

7. Borrowing

One of the methods used to fund capital expenditure is long term borrowing. The principal lender for Local Authorities is the Public Works Loan Board (PWLB).

Under the Treasury Management Strategy, it was agreed to borrow when interest rates are at their most advantageous.

The total loans at 1st April 2020 and 30th September 2020 are shown in the following table:

Loans	Balance at 01.04.20 £m	Balance at 30.09.20 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	425.42	415.38	(10.04)
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	4.11	4.11	0.00
TOTAL	**432.53**	**422.49**	**(10.04)**

The Salix interest free loans have been provided by an independent publicly funded company dedicated to providing the public sector with loans for energy efficiency projects.

The interest free 'Invest-2-Save' funding is to assist in the conversion of traditional street lighting to LED, which will help deliver a legacy of reduced energy costs and associated carbon taxes.

The Home Improvement Loan Scheme (HILS) repayable funding is provided by the Welsh Government to help individual home owners, small portfolio landlords, developers and charities to improve homes and increase housing supply.

The Town Centre Loan (TCL) repayable funding is provided by the Welsh Government to provide loans to reduce the number of vacant, underutilised and redundant sites and premises in town centres and to support the diversification of the town centres by encouraging more sustainable uses for empty sites and premises, such as residential, leisure and for key services.

7.1 New Borrowing

No new loans were borrowed during the period.

7.2 Interest Paid

Interest paid on loans during the period was:

PWLB Interest Paid £m	Market Loan Interest Paid £m	Total Interest Paid £m
8.89	0.07	8.96

8. Rescheduling and Premature Loan Repayments

The current economic climate and the consequent structure of interest rates meant that no rescheduling opportunities arose during the period and there were no premature loan repayments.

9. Leasing

No leases were negotiated during the period 1st April 2020 to 30th September 2020.

B. PRUDENTIAL INDICATOR REPORT

1. Prudential Indicators

As part of the 2020-2021 Budget and the Treasury Management Policy and Strategy 2020-2021, the Council adopted a number of Prudential Indicators. These Indicators are designed to ensure that any borrowing or other long-term liabilities entered into for capital purposes were affordable, sustainable and prudent.

The Indicators are required by the Local Government Act 2003 and the Revised Prudential Code of Practice in order to control Capital Finance. The Prudential Code also required that those Prudential Indicators that were forward looking should be monitored and reported. Some of the indicators are monitored by officers monthly, and are only reported if they are likely to be breached, others are to be monitored quarterly by the Executive Board.

1.1 Affordability Prudential Indicator

1.1.1 Ratio of Financing Costs to Net Revenue Stream

The indicator set for 2020-2021 in the Budget was:

	2020-2021 %
Non-HRA	4.74
HRA	33.93

An examination of the assumptions made in calculating this indicator concluded that there have been no changes in this period.

1.2 Prudence Prudential Indicators

1.2.1 Capital Financing Requirement (CFR)

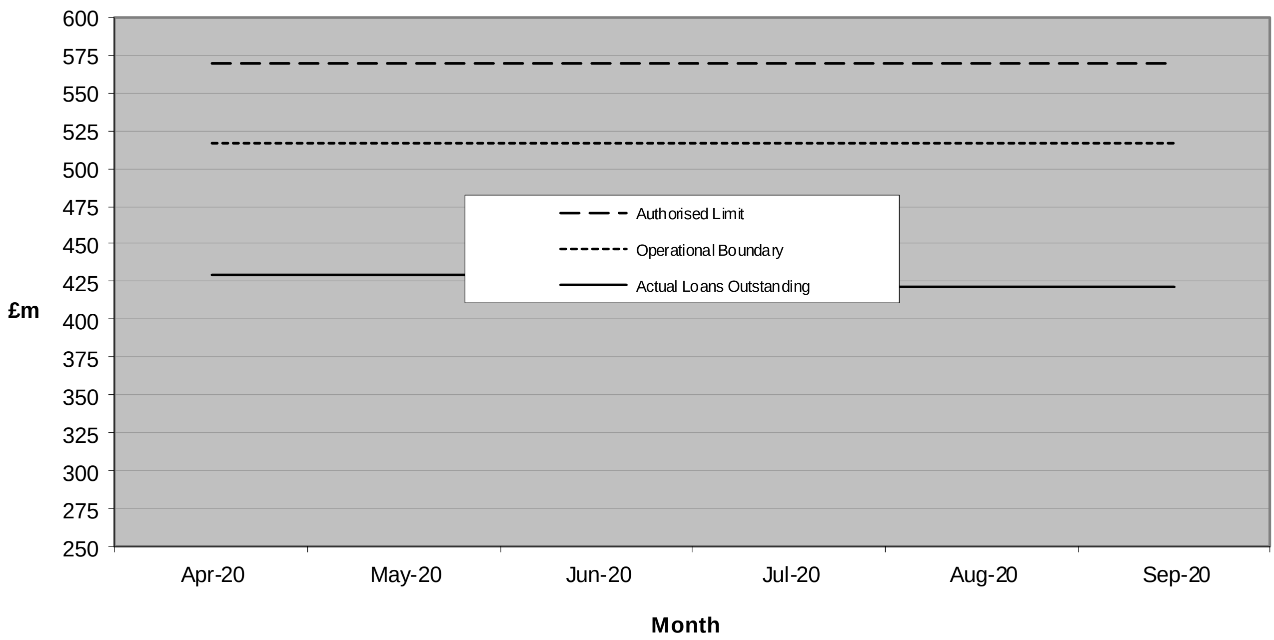
The Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2020-2021 Estimate £m	**As at 30.09.20 £m**	**2020-2021 Forecast £m**
Capital Financing Requirement			
CFR – non housing	282	272	272
CFR – housing	176	175	175
CFR - housing subsidy buy-out	71	71	71
Total CFR	**529**	**518**	**518**

1.2.2. Authorised Limit and Operational Boundary

The actual value of loans outstanding must not exceed the Authorised Limit. In normal activity actual loans outstanding should be close but less than the Operational Boundary. The Operational Boundary can be breached in the short term due to adverse cash flows.

	Authorised Limit for External Debt		Operational Boundary for External Debt	
	2020-21 Estimate £m	2020-21 Forecast £m	2020-21 Estimate £m	2020-21 Forecast £m
Borrowing	568.5	568.5	516.9	516.9
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
Total	569	569	517	517



	Apr-20 £m	May-20 £m	Jun-20 £m	Jul-20 £m	Aug-20 £m	Sep-20 £m
Authorised Limit	569	569	569	569	569	569
Operational Boundary	517	517	517	517	517	517
Loans Outstanding	430	430	430	422	422	422

Neither the Authorised Limit nor the Operational Boundary have been breached.

2.1 Treasury Management Prudential Indicators

2.1.1 Interest Rate Exposure

Position as at 30th September 2020:

	Fixed Interest Rate £m	Variable Interest Rate £m	TOTAL £m
Borrowed	419.49	3.00	422.49
Invested	(72.53)	(46.00)	(118.53)
Net	**346.96**	**(43.00)**	**303.96**
Limit	510.00	51.00	
Proportion of Net Borrowing Actual	**114.14%**	**(14.14)%**	**100.00%**
Limit	125.00%	5.00%	

The authority is within limits set by the 2020-2021 indicators.

2.1.2 Maturity Structure of Borrowing

	Structure at 30.09.20 %	Upper Limit %	Lower Limit %
Under 12 months	3.02	15	0
12 months to 2 years	3.73	15	0
2 years to 5 years	6.90	50	0
5 years to 10 years	9.45	50	0
10 years to 20 years	18.31	50	0
20 years to 30 years	18.84	50	0
30 years to 40 years	23.65	50	0
40 years and above	16.10	50	0

The authority is within the limits set by the 2020-2021 indicators.

2.1.3 Maximum Principal Sums Invested Longer than 365 Days

	2020-2021 £m
Limit	10
Actual as at 30th September 2020	NIL

RECOMMENDATION

That Executive Board considers and approves the report.