

## TRAFFORD COUNCIL

Report to: Accounts & Audit Committee – 26 November 2020  
Executive – 14 December 2020

Report for: Information

Report of: The Executive Member for Finance and Investment and the  
Corporate Director of Finance and Systems

### Report Title

**Treasury Management 2020-21 Mid-Year Performance Report**

### Summary

This report gives Members a summary of the Treasury Management activities undertaken for the first half of 2020/21 as follows;

#### **Debt Activity:-**

- The level of external debt rose from £377.3m at 31<sup>st</sup> March to £400.9m at 30 September 2020,
- Gross loan interest costs totalling £10.02m are to be contained within the Medium Term Financial Plan,

#### **Investment Activity:-**

- A shortfall in investment interest for 2020/21 of £0.13m is currently forecasted,
- A net loss of £5.193m MAG income due to Dividend £5.597m not being received offset by additional income from strategic investments of £404k.
- Both of these adverse movements reflect the impact Covid-19 has had on the economy.
- Overall Rate of Return achieved during the period April to September 2020 was 1.04%, or 1.10% £387k above the comparable performance indicator of average 7-day London Interbank **BID** interest rate of -0.05%
- The level of investments fell from £106m at 31<sup>st</sup> March to £62.5m at 30 September.

#### **Prudential indicators:-**

- The Council complied with its legislative and regulatory requirements and
- There were no breaches of prudential indicators.

### Recommendations

That the Accounts & Audit Committee & Executive be requested to:

1. Note the Treasury Management activities undertaken in the first half of 2020/21.

Contact person for background papers and further information:

Name: Graham Perkins

Extension: 4017 Background papers: None

Relationship to Policy Framework/Corporate Priorities	Value for Money
Financial	Treasury Management impacts on the Council's budget in terms of borrowing costs and investment returns. Earlier this year it was reported in the Council's bi-monthly Revenue monitor reports, that a shortfall in the treasury management budgets of £5.2m (primarily due to the Manchester Airport Group activities) is forecasted for 2020/21. This forecast remains the current position.
Legal Implications:	All actions undertaken during this period were in accordance with legislation, Ministry of Housing Communities and Local Government (MHCLG) Guidance, Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and CIPFA Treasury Management Code of Practice.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities.
Resource Implications e.g. Staffing / ICT / Assets	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. The Council's in-house treasury management team ensures that the overriding factor when undertaking any transaction remains the security of its monies. Interest rate movements are also monitored to ensure that any exposure to adverse fluctuations in interest rates is minimised. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

## **Executive Summary**

This report provides Members with a summary of the treasury management activities undertaken during the first half year of 2020/21.

### **Economic position (Section 2)**

- The COVID-19 pandemic has since March 2020 sent the World into recession and whilst a slow and gradual recovery is anticipated to take place in the UK during 2021, it is too early to say how the second lighter lockdown will impact on this.
- The Monetary Policy Committee (MPC) reduced the Bank Rate from 0.75% to 0.10% in March 2020 where it has been since and increased Quantitative Easing from £445bn to £895bn.
- Negotiations between the UK & EU continue to establish a suitable Brexit trade agreement ahead of the year-end deadline.

### **Debt (Section 4)**

- Total loan debt rose from £377.3m 31.03.2020 to £400.9m 30.09.2020 a net increase of £23.6m comprising of:
  - New loans totalling £9.6m (Long term) taken from the Public Works Loan Board (PWLB) and £70m (Short term) from Local Authorities to fund the Council's capital programme and further details on this can be found at paragraphs 4.3 to 4.5.
  - Loan repayments totalling £56m, were made consisting of £3.3m PWLB, £0.7m Salix and a further £52m to Local Authorities
- Total loan interest of £10.0m is forecasted to be paid in the year of which £4.5m relates to the Council's Asset Investment programme funded from rental income received. The balance of £5.5m relates to debt taken to fund historical and current capital spend.
- The average rate of interest payable has fallen from 2.68% 31.03.2020 to 2.48% 30.09.20. This fall in interest rate is due to high interest rated loans maturing and new low interest rate loans being taken.

### **Investments (See Section 5)**

- The level of investments fell from £106.0m 31.03.2020 to £62.5m 30.09.2020 a movement of £43.5m with the main factors for this are;
  - 2.5 years up-front employer pension contributions,
  - Temporary cash flow timing issues as a result of COVID-19 related transactions and
  - Council balances applied to fund short term capital spend enabling returns to be maximised.
- The Average Rate of Return for investments for the first half of 2020/21 was:
  - Short term 0.78% which was 0.83% or £0.278m above the recognised performance indicator of 7-day LIBID.
  - Long term 4.52% which was 4.58%.
- The Investment interest forecasted to be earned for 2020/21 is currently £0.13m below the budget set of £0.66m due to historically low interest rates.
- All investments were repaid on time without issue and placed in accordance with the Council's approved strategy.

### **Prudential Indicators and limits (Section 7)**

No breaches to any of these limits occurred during this period.

## **1. BACKGROUND**

- 1.1 This report has been produced in accordance with the requirements of the CIPFA Code of Practice on Treasury Management which requires that the Council receives 3 separate Treasury Management reports on an annual basis as follows;
- 3 year Strategy Statement including the Annual Investment Strategy and Minimum Revenue Provision Policy (issued February),
  - Mid-year Review (this report) and
  - Performance update, covering activities undertaken during the previous financial year (issued July).
- 1.2 This mid-year report highlights the treasury management activities undertaken during the first half year of 2020/21 as follows;
- Economic Update (section 2)
  - Treasury Position (section 3)
  - Debt Activity (section 4)
  - Investment Activity (section 5)
  - Risk Benchmarking (section 6)
  - Prudential and Performance Indicators (section 7)
  - Outlook 2020/21 (section 8)
  - Recommendations (section 9)
  - Appendices
- 1.3 The treasury management operation ensures;
- The Council's cash flows are effectively planned and funded,
  - That all surplus monies are invested in low risk counterparties, providing sufficient liquidity before considering investment return,
  - All new borrowing supporting the Council's multi-million pound capital programme is taken in the form of either long or short term loans or using longer term cash flow surpluses and
  - That debt previously taken is restructured when opportunities arise to meet Council risk or cost objectives.

## **2. ECONOMIC UPDATE**

- 2.1 During the first half of 2020/21, the main economic headlines are outlined below with a revised forecast of the key indicators for 2020 being provided at Appendix B for reference:

### **UK**

- As a result of the COVID-19 pandemic the first half of 2020 saw the annualised Gross Domestic Product (GDP) fall by 23% which is one of the largest falls in output of any developed nation.
- The MPC at each of its monthly meetings since March 2020 has left the bank rate at 0.10% and increased Quantitative Easing from £445bn to £895bn. Whilst some forecasters had suggested a cut to negative interest rates could happen, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage to the economy than good and that more quantitative easing is the favoured tool if further action becomes necessary.

- Consumer Price Index (CPI) was 0.7% in September 2020 which was 1.3% below the Government's target rate of 2.0%.
- Unemployment is currently set to peak at 7% in Qtr. 4 of 2020 from a low of 3.9% in March 2020.
- Uncertainty over the UK/EU trade negotiations (Brexit) remain ahead of the year-end deadline.
- A second albeit slightly lighter lockdown from that previously implemented in March 2020 was put in place on 5 November for 1 month and it is too early to determine how this will impact on the economy. Overall, the economic pace of recovery from the COVID-19 pandemic is not expected to be rapid and that it will be slow and gradual over the forthcoming couple of years.

### **USA**

- The number of new daily COVID-19 infections is increasing again and this will most likely restrict the economic recovery which was seen to be gaining momentum over the summer months.
- The Federal Reserve (Fed) central bank of the US, called on Congress to end its political disagreement over providing more support for the unemployed urging it to move to a more directed central government fiscal policy. It also at its August meeting, tweaked its inflation target from "2%" to "maintaining an average of 2% over an unspecified time period". This change is aimed to provide more stimulus for economic growth, higher levels of employment and to avoid the danger of getting caught in a deflationary "trap" like Japan. Inflation has been under the 2% target significantly for most of the last decade however financial markets are now expecting higher levels of inflation to come through.
- The tariff trade war with China continues to depress US and world growth and the increase in tension over the last year between these two countries is unlikely to lead to a positive outcome.
- It is too early to establish what impact the outcome of the recent Presidential election will have the economy.

### **Eurozone**

- A recovery in the economy was seen towards the end of Quarter 2 of 2020 however the second wave of the COVID-19 virus will cause a significant slowdown in the pace of this recovery, especially in countries which are more dependent on tourism.
- A fiscal support package, agreed by the EU after lengthy disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in the weaker countries.
- The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing.

## Other Countries

- Japan - Has been struggling for a number of years to get out of its deflation trap and to stimulate consistent significant GDP growth to enable inflation to get up to its target of 2%, despite huge monetary and fiscal stimulus. The recent resignation of Shinzo Abe with Yoshihide Suga replacing him as Prime Minister is not expected to result in any significant change in economic policy.
- China – A strenuous effort by the government to get on top of the COVID-19 virus outbreak in Quarter 1 resulted in its economy suffering as a result of this action however a strong recovery in Quarter 2 saw these losses reversed as a result of yet further spending by central government on more infrastructure projects.

2.2 The Council's treasury management advisors Link Group (LG), provide interest rate forecasts periodically through-out the year and the table below outlines the latest **average** forecasted rates, as issued in August 2020, for the periods stated:

	<b>2020-21 Original Forecast %</b>	<b>2020-21 Revised Forecast %</b>	<b>2021-22 Revised Forecast %</b>	<b>2022-23 Revised Forecast %</b>
Bank Rate	0.81	0.10	0.10	0.10
Investment Rates				
3 month	0.85	0.10	0.10	0.10
1 Year	1.15	0.20	0.20	0.20
PWLB Loan Rates				
5 Year	2.50	1.90	2.00	2.10
25 Year	3.48	2.50	2.60	2.70
50 Year	3.30	2.30	2.40	2.50

- 2.3 The original 2020-21 interest rate forecasts provided by LG were issued before the COVID-19 pandemic however the above table now reflects the impact this pandemic continues to have on the financial markets.
- 2.4 Whilst it is currently unlikely interest rates will go into a negative position it has to be acknowledged that the current economic climate is completely new territory and no scenario can be ruled out. As a consequence of this situation the levels of returns expected to be generated on the Council's investments over the forthcoming couple of years will be lower than originally anticipated and this revised position is reflected in the updated Medium Term Financial Plan for the period 2021/24.
- 2.5 To reduce any risk aspects arising from this situation the Council will continue its policy to take a cautious approach when undertaking all money market transactions.

## **3. TREASURY POSITION**

- 3.1 The Council's investment and debt positions at the beginning and mid-way through the current financial year are listed in the table below;

	31 March 2020		30 September 2020	
	Principal £m	Average Interest Rate %	Principal £m	Average Interest Rate %
<b>DEBT</b>				
<i>Short term (payable before 31.03.21)</i>				
PWLB	15.1	3.33	11.8	1.75
Market	17.0	1.52	35.0	0.41
Government Loans - Salix	1.4	0.00	0.7	0.00
Sub-total	33.5	2.27	47.5	0.73
<i>Long term (payable after 31.03.21)</i>				
PWLB	307.0	2.51	316.7	2.51
Market	36.0	4.56	36.0	4.56
Government Loans - Salix	0.8	0.00	0.7	0.00
Sub-total	343.8	2.72	353.4	2.71
<b>Total debt</b>	<b>377.3</b>	<b>2.68</b>	<b>400.9</b>	<b>2.48</b>
<b>INVESTMENTS</b>				
<i>Short term (less than 1 year duration)</i>				
- Instant access	32.8	0.52	9.9	0.08
- Notice accounts	2.5	0.10	2.4	0.20
- Term deposit	48.3	1.03	28.0	1.10
Sub-total	83.6	0.81	40.3	0.79
<i>Long term (greater than 1 year duration)</i>				
- CCLA	4.8	4.90	4.6	4.52
- Asset Investment programme (AIP)	17.6	n/a	17.6	n/a
Sub-total	22.4	4.90	22.2	4.52
<b>Total Investments</b>	<b>106.0</b>	<b>1.48</b>	<b>62.5</b>	<b>1.90</b>

- 3.2 Information in the above table reflects the;
- levels of investments which fluctuate on a daily basis as a result of monies being received ahead of spend and
  - increase in monies borrowed on a short term basis.

#### 4. DEBT ACTIVITY

- 4.1 The Council's total borrowing requirement as highlighted by the Capital Financing Requirement (CFR), reflects the underlying need to borrow for capital purposes and represents the level of capital expenditure incurred which has not yet been paid for by revenue or other capital resources, for example capital receipts or grants. As at 31st March 2020 the CFR was £417.3m which was higher than the actual level of external debt of £377.3m and reflects that the Council was under borrowed by the difference of £40m as at that date.

4.2 During the first half of 2020/21, a number of loan transactions were undertaken and as a result of which the Council's overall external debt increased as shown in the table below:

<b>Loans</b>	<b>31 March 2020</b>	<b>Borrowed</b>	<b>Debt Repaid</b>	<b>30 September 2020</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Short Term	33.5	70.0	56.0	47.5
Long Term	343.8	9.6	0.0	353.4
<b>Total</b>	<b>377.3</b>	<b>79.6</b>	<b>56.0</b>	<b>400.9</b>

4.3 From the table above it can be seen that;

- £70m of new short term loans were borrowed and these were taken from 9 different Local Authorities for periods ranging from 1 month to 6 months at rates of 0.15% to 1.05%. This action has enabled funding costs for short term capital requirements to be kept to a minimum.
- £9.6m of Long term loans, this loan was taken from the PWLB for a period of 40 years at a rate of 2.34% and is to fund longer term capital spend.
- Debt Repaid of £56m includes £4m of loans which had previously been borrowed by the Council for a period initially exceeding more than 1 Year and £52m in respect of short term loans referred to in the first point above.

4.4 The table below provides an outline of the Council's loan portfolio as at 30<sup>th</sup> September 2020;

<b>Lender</b>	<b>No. Loans</b>	<b>Interest rate range</b>	<b>Maturity</b>	<b>Total Principal £m</b>
PWLB	25	1.21% to 9.125%	Mar 2021 to Oct 2069	328.5
Market (short term)	4	0.15% to 1.05%	Oct 2020 to Feb 2021	35.0
Market (long term)	3	4.41% to 4.99%	Aug 2042 to Dec 2067	21.0
Market LOBO (long term)	2	4.20% to 4.27%	Dec 2036 to Dec 2038	15.0
Government Salix -	1	0.00%	Aug 2022	1.4
<b>Total</b>	<b>35</b>			<b>400.9</b>

4.5 As highlighted in the above table the Council holds, £71.0m of Market loans and of these £15.0m are held as variable rates of interest in the form of Lender's Option Borrower's Option (LOBO) loans. With regards to this type of loan, the lender has the option to propose an increase in the interest rate at set dates and should this situation occur then the Council can either accept the new rate or repay the loan at no additional cost. In accordance with the Corporate Director of Finance and Systems delegated authority, should an opportunity present itself to repay a LOBO loan then this option will be fully

examined to determine whether any financial benefit could be obtained including taking a replacement loan from another lender. The remainder of the Market loans, £56.0m are held at fixed rates of interest.

- 4.6 Short term transactions cover all periods up to 1 Year in duration and subsequently Long term relates to periods in excess of this. The Short term market is a very active one with institutions lending and borrowing all the time. For reference in the current economic climate debt can be obtained at historically low levels, typically a loan for 3 months can potentially be obtained at around 0.05%. The downside to this is that these interest rates are subject to market forces and if supply was to dry up then this would see interest rates go up sharply as encountered in March 2020 when the 3 month rate reached 2.50%.
- 4.7 For 2020/21 the total loan interest costs are £10.0m of which £5.5m is being met from an existing revenue provision within the Medium Term Financial Plan and £4.5m from applying a proportion of the rental returns generated from the commercial investment programme.
- 4.8 The PWLB has 2 main sets of interest rates which Public Sector organisations can borrow funds at referred to as Standard and Certainty rates and these are defined as:
- Standard rate - prevailing market gilt rate for each respective period plus 200pts (2.00%)and
  - Certainty rate - prevailing market gilt rate for each respective period plus 180pts (1.80%).
- 4.9 To ensure the Council continues to be eligible to take loans from the PWLB at the lower Certainty rate, the in-house treasury management team is required to complete and submit annually an application form for this facility. This process was successfully completed in May 2020 and based on the sums borrowed in the first half of 2020/21 of £9.67m this has enabled annual savings in interest payable of £19k ( $£9.67m \times 0.20\%$ ) or £760k over the life of the loan to be achieved.
- 4.10 Members may recall that in the Treasury Management 2019/20 Annual Performance report a reference was made to the Government's recent consultation exercise which sought the views of all Councils concerning the PWLB. A response to each of the points identified in the consultation paper was issued to the Government by the Council and the outcome of this exercise is still awaited. Members will be informed of any significant changes which may be introduced to the way PWLB operates as a result of this consultation.
- 4.11 As a consequence of low interest rates, debt rescheduling opportunities continue to be expensive to undertake due to the high breakage (premium) costs which would be incurred. During the first half of the year no debt restructuring was undertaken however this situation will continue to be monitored.

## **5. INVESTMENT ACTIVITY**

- 5.1 In compliance with the Council's Annual Investment Strategy, approved by Council in February 2020, the priorities when placing any temporary surplus

funds will continue to be that as adopted in previous years which is **Security** of capital, **Liquidity** and finally obtaining an appropriate level of **Yield**.

5.2 The table below highlights the level of investment transactions carried out during the first half of 2020/21;

<b>Investments</b>	<b>31 March 2020 £m</b>	<b>New £m</b>	<b>Repaid £m</b>	<b>Fund values £m</b>	<b>30 September 2020 £m</b>
Instant access	32.8	247.6	-270.5	0.0	9.9
Notice accounts	2.5	2.4	-2.5	0.0	2.4
Term deposit	48.3	13.0	-33.3	0.0	28.0
CCLA*	4.8	0.0	-0.0	-0.2	4.6
Long term - AIP	17.6	0.0	-0.0	0.0	17.6
<b>Total</b>	<b>106.0</b>	<b>263.0</b>	<b>-306.3</b>	<b>-0.2</b>	<b>62.5</b>

\* Note – Figures reflect reduction in valuation of holdings in fund by £0.2m.

5.3 The reduction in the level of investments as at 31 March 2020 to 30 September 2020 reflects the day to day cash flow movements including;

- 3 years upfront employer pension contributions,
- COVID-19 related transactions (as highlighted in the Council's Budget Monitoring Reports and
- Council balances applied to fund short term capital spend enabling returns to be maximised.

5.4 Despite the economic crisis caused from COVID-19 all of the Council's investments maturing during the first half of the financial year were repaid on time without any difficulties.

5.5 A breakdown of the Council's temporary investments as at 31 March 2020 compared to 30 September 2020 per each classification of institution is provided below for reference:

<b>Sector</b>	<b>31 March 2020 £m</b>	<b>30 September 2020 £m</b>
UK Banks	16.8	10.4
Non UK Banks	4.0	0.0
Money Market Funds	32.8	9.9
Local Authority	30.0	20.0
Other - CCLA	4.8	4.6
Other - AIP	17.6	17.6
<b>Total</b>	<b>106.0</b>	<b>62.5</b>

The maturity structure of the investment portfolio was as follows:

Period	31 March 2020 £m	30 September 2020 £m
Instant Access	32.8	9.9
Notice Accounts	2.5	2.4
Up to 3 Months	20.3	20.5
3 to 6 Months	15.5	5.0
6 to 9 Months	7.5	2.5
9 to 12 months	5.0	0.0
Over 1 year	22.4	22.2
<b>Total</b>	<b>106.0</b>	<b>62.5</b>

- 5.6 During the first half of the year, a total of 63 short term temporary investments were undertaken by the Council's in-house treasury management team in a historically low interest rate environment. The table below highlights the results of the **short term** investment activities and this clearly illustrates the Council outperforming the 7day LIBID benchmark, a recognised market performance indicator, by 0.83% on its short term investments whilst ensuring that all risk was kept to a minimum during this period.

Average level of short term investments (up to 1 yr.) 1 April to 30 Sept £m	Average interest rate earned %	Average 7 day LIBID rate %	Additional interest earned against 7 day LIBID £k
67.0	0.78	-0.05	(278)

- 5.7 With regards to the Council's 2 **long term** investments totalling £22.2m, details of these investments are provided below;

- **Church Commissioners Local Authority (CCLA)** - In September 2015, the Council invested £5m, for a minimum of 5 years in the Local Authority Property Investment fund, managed by CCLA and this enabled 1,643,872 units to be purchased in the fund. The objective of this fund which invests in commercial property throughout the UK, is to create long term returns in the form of capital growth and short term income from quarterly dividend returns. At 31 March 2020 the Council's investment was worth £4.86m and by 30<sup>th</sup> September 2020 this had fallen to £4.66m. This decrease in valuation was in response to the COVID-19 virus sending the world economy into recession which in turn had a negative impact on property valuations during the first half of 2020. Whilst a recovery in this market is now starting to take effect, it may take a little time for the losses incurred to recover to pre COVID-19 levels. Currently the outlook for 2021 remains positive and it is predicted that the property market recovery will continue albeit at a slow pace. During the height of the pandemic and in line with all property funds, all trading into and out of the fund was suspended however with effect from 30<sup>th</sup> September 2020 this suspension was removed, which is another positive indicator that the market is recovering. The level of dividends received for this fund continue to be strong as a result of strong rental returns with the annualised level of return generated for the first half of 2020/21 being 4.52% gross of fees compared to 4.75% for the same period in 2019/20.

Despite all the current market uncertainties it is anticipated that returns for the remainder of the year will be in line to that achieved for the first half year, with a continuing positive outlook going forward.

- **Asset Investment Programme** - In August 2019 the Council entered into a £17.6m 5 year loan facility agreement with Queens Holding Limited secured on 4 prominent income producing properties known as Albert Estate within Manchester City Centre. All interest repayments on the facility have been made in full and on time.

5.8 For 2020/21 the level of investment interest to be generated from all of the Council's investments is currently forecasted to be £0.13m short of that budgeted for of £(0.66)m and this has previously been reported to Members in the bi-monthly revenue monitor reports. This shortfall in budget is due to the impact COVID-19 continues to have on the world economy particularly in the form of reducing interest rates to historically low levels.

5.9 As a result of the economic position outlined at Section 2, the ability to generate a respectable level of investment interest will be extremely difficult to achieve during 2020/21 with interest rates at historically low levels. Whilst LG are currently forecasting that interest rates will not move drastically from their current levels during the next 18 months or so, it must also be acknowledged that the MPC could still further reduce the bank rate to 0% or even into negative territory. Should this situation occur then it would further impact on the ability of the Council's in-house team to be able to achieve a decent or even generate a level of return. To maintain risk at a minimum, funds will continue to be placed in low risk counterparties with returns set to reflect this strategy.

5.10 As a guide for Members the table below shows the movement in investment interest rates since October 2019 to this year:

Period	Interest rates – 01 October 2019	Interest rates – 01 October 2020
1 Month	0.63%	0.02%
3 Month	0.70%	0.05%
6 Month	0.80%	0.20%
9 Month	0.85%	0.30%
1 Year	0.90%	0.35%

5.11 For reference Appendix A details the Council's investments, as at 30<sup>th</sup> September 2020.

## 6. RISK BENCHMARKING

6.1 In accordance with the Code and MHCLG Investment Guidance, appropriate security and liquidity benchmarks are used by the in-house treasury management team to monitor the current and future potential risk conditions enabling any corrective action to the strategy to be applied if required.

6.2 These benchmarks are simple guides to maximum risk (not limits) and so may be breached from time to time, depending on movements in interest rates and counterparty criteria.

6.3 During the first half of 2020/21 it can be reported that no benchmarks, which were set in the Strategy report in February 2020, were breached as shown from the table below.

<b>Indicator</b>	<b>Target</b>	<b>Actual</b>
<b>Security</b> – potential default rate of the Council’s investment portfolio based on rates issued by the 3 main credit rating agencies.	Max 0.05%	Max 0.01%
<b>Liquidity</b> – investments available within 1 week notice	£5m min.	Achieved
<b>Liquidity</b> – Weighted Average Life of investments (ex CCLA Property Fund)	6 months	This was not breached and as at 30 September was 2 months.
<b>Yield</b> – Investment interest return to exceed 7 day London Interbank <b>BID</b> rate	-0.05% (Avg. 7 day LIBID)	1.04% (All Investments 1 April to 30 Sept)
<b>Origin of investments placed</b> - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	Achieved

**7. PRUDENTIAL AND PERFORMANCE INDICATORS**

7.1 In accordance with MHCLG Guidance and the Code, a number of prudential indicators are in place ensuring that the Council’s capital expenditure plans and borrowing remain robust, prudent and sustainable.

7.2 These indicators which were approved by Council in February 2020 are monitored on a monthly basis and during the first half of 2020/21 it can be reported that no breaches occurred.

7.3 The Council’s treasury management operation processes multi-million pound transactions on a daily basis and to ensure the Council’s finances are protected with all associated risk kept to a minimum, robust systems and procedures have been put into place. These systems and procedures are continually reviewed by the in-house team to ensure they remain fit for purpose. The robustness of these procedures were put to the test when at very short notice and in response the COVID-19 pandemic staff had to work from home, a process never previously undertaken. I am pleased to report that the Council’s treasury management function did not at any time face any disruption to service and all of the Council’s payments were able to be processed on time thereby protecting the Council’s reputation. This situation was acknowledged by the Audit & Assurance Service, when in accordance with their annual audit plan, a review of the treasury management function was undertaken during the Summer. The objective of this review was to provide assurance on the operation of the key controls within the treasury management process and for the 14<sup>th</sup> year in succession a report was issued stating that the in-house treasury management team offered a High Level of Assurance (very good) and there were no recommendations required to be implemented.

## **8. OUTLOOK 2020/21**

- 8.1 As a result of the COVID-19 pandemic, economies across the world have suffered considerably in 2020 particularly during the first half of the year. With the easing of confinement measures, the initial re-opening of businesses and the effect of the enormous financial stimulus provided by governments a recovery of sorts was expected to occur in the second half of the year resulting in the World economy reducing by around 4.5% in 2020. Since this forecast was issued a second wave of the pandemic has become widespread and it is currently too early to state how this will impact on the World economy and its rate of recovery.
- 8.2 Although it is still early to be confident, results recently released from several vaccine trials are encouraging and it is becoming increasingly likely that effective vaccines against this virus will become available shortly.
- 8.3 If the threat from the coronavirus fades more quickly than expected, improved confidence could boost global activity significantly in 2021. Consequently however if there is a stronger resurgence of the virus then this could reduce global growth further resulting in higher unemployment.
- 8.4 To suppress the virus in all parts of the world and speed up the economic recovery greater global co-operation to ensure borders remain open enabling the free flow of trade, investment and medical equipment will be essential.
- 8.5 As highlighted at paragraph 2.2 with the updated interest rate forecasts, it is now impossible to earn the level of interest commonly seen in previous years / decades as all investment rates for the foreseeable future are at historically low levels. Given this risk environment and the fact that increases in interest rates are unlikely to occur before the end of 31st March 2023, investment returns are expected to remain low.

## **9. RECOMMENDATIONS**

- 9.1 That the Accounts & Audit Committee & Executive be requested to;
- Note the Treasury Management activities undertaken in the first half of 2020/21.

### **Other Options**

This report is a mandatory report which has been produced in order to comply with Financial Regulations, relevant legislation and provides an overview of transactions undertaken during the first half of 2020/21. There are no other options to consider.

### **Consultation**

There are no applicable consultation requirements in respect of this report.

Information for the period 1st April to 30th September 2020 was obtained from Link Asset Services, the Council's external consultants.

### **Reasons for Recommendation**

The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

**Finance Officer Clearance**      ...GB .....

**Legal Officer Clearance**      ...DS .....



**Corporate Director's signature**

APPENDIX A

Breakdown of Investments as at 30 September 2020

Counterparty	Amount (31 March 2020) £	Amount (30 Sept 2020) £	Long Term Credit Rating
<i>Money Market Fund</i>			
Federated Investors	15,400,000	3,050,000	AAA
Invesco Aim	8,000,000	0	AAA
Aberdeen	9,350,000	6,860,000	AAA
<i>Sub total</i>	32,750,000	9,910,000	
<i>Notice Accounts</i>			
Barclays Bank	2,500,000	0	A
<i>Sub total</i>	2,500,000	0	
<i>Term Deposit</i>			
Australia and New Zealand Bank	2,000,000	0	AA
Blackburn with Darwen Council	2,500,000	0	Not rated
Brentwood Council	2,000,000	2,000,000	Not rated
Cheshire East Council	2,000,000	0	Not rated
Close Brothers Bank	7,000,000	8,000,000	A
Eastleigh Borough Council	2,000,000	0	Not rated
First Abu Dhabi Bank	2,000,000	0	AA
Gloucester City Council	3,000,000	0	Not rated
Lloyds Bank	7,270,000	2,370,000	A
Medway Council	3,000,000	3,000,000	Not rated
Moray Council	0	5,000,000	Not rated
North Lanarkshire Council	5,500,000	0	Not rated
Peterborough City Council	5,000,000	0	Not rated
Stockport Council	0	5,000,000	Not rated
South Ayrshire Council	5,000,000	5,000,000	Not rated
<i>Sub total</i>	48,270,000	30,370,000	
<i>Property Funds</i>			
Church Commissioners Local Authority	4,861,587	4,659,226	Not rated
<i>Sub total</i>	4,861,587	4,659,226	
<i>Other</i>			
Asset Investment Programme	17,600,000	17,600,000	Not rated
<i>Sub total</i>	17,600,000	17,600,000	
<b>Total</b>	<b>105,981,587</b>	<b>62,539,226</b>	

Note:- Close Brothers short term credit rating no longer meets the minimum required by the Council and therefore all monies upon maturity are being repaid.

**APPENDIX B****Major Economic Forecasts for Calendar Year 2020****Original - February 2020**

<b>Location</b>	<b>Gross Domestic Product</b>	<b>Unemployment Rate</b>	<b>Consumer Price Index</b>	<b>Bank Rate</b>
<b>UK</b>	1.0%	3.8%	2.3%	0.75%
<b>Euro Area</b>	1.1%	7.3%	1.2%	0.00%
<b>USA</b>	2.0%	3.9%	2.0%	1.50%
<b>China</b>	5.8%	4.0%	2.0%	3.50%

**Revised - September 2020**

<b>Location</b>	<b>Gross Domestic Product</b>	<b>Unemployment Rate</b>	<b>Consumer Price Index</b>	<b>Bank Rate</b>
<b>UK</b>	-10.1%	9.7%	1.1%	0.10%
<b>Euro Area</b>	-7.9%	11.1%	0.9%	-0.40%
<b>USA</b>	-3.8%	10.4%	1.6%	0.30%
<b>China</b>	1.8%	5.4%	2.0%	4.30%

Source of information Organisation for Economic Co-operation & Development and Trading Economics