



BRIEFING PAPER

REPORT to : Audit and Governance Committee

LEAD OFFICER: Director of Finance and Customer Services

DATE: 29th July 2020

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2020/21

Based on monitoring information for the period 1st March – 31st May 2020

1. PURPOSE

To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS

It is recommended that Audit and Governance Committee notes the Treasury Management position for the period.

3. BACKGROUND

3.1 The Treasury Management Strategy for 2020/21, approved at Executive Board in March 2020, complies with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

The CIPFA Code, the Investment Guidance issued by MHCLG, and the Internal Audit & Assurance reviews of Treasury Management activities, all recommend a strong role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against Treasury and Prudential Indicators established by the Council.

3.3 A glossary of Treasury Management Terms is appended to this paper.

4. KEY ISSUES

4.1 Bank of England Bank Rate

At the start of the period the Bank of England's Bank Rate had held steady at 0.75% since August 2018. The Bank of England's Bank Rate reduced twice in quick succession at the start of the COVID-19 pandemic, firstly on 11 March 2020 to 0.25% and again on 19 March 2020 to 0.10%.

4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movement in the totals available for investment, both actuals to date and projections for the rest of the year (adjusted for anticipated borrowing). These balances have fluctuated significantly across the period, ranging between £45M and £110M. Investment balances were unusually high during this period, firstly due to the Council having taken borrowings towards the advance pension payment, made in April 2020, and secondly because of funds received from central government. Funds received from central government included both grants received in advance of their usual payment dates and additional funds in respect of extra costs and the distribution of grants to small businesses, in relation to the response to the COVID-19 pandemic. It is intended that investment balances will ultimately reduce in future to between £10 M and £20 M.

Investments made in the period were mainly in “liquid” (instant access) deposits, either bank “call accounts” or Money Market Funds (MMFs). During the period, the Council has opened additional MMFs with the aim of achieving slightly higher returns on investments in such funds and mitigating risk. The Council is now spreading its holdings more broadly across all MMFs available to manage risk. Returns on such MMFs holdings had decreased significantly by the end of the period, in line with the reductions in the Bank of England Bank Rate, to around 0.27%. Bank account rates vary, paying around 0.20%.

For limited periods, funds were also placed with the Government’s Debt Management Office (between 0.02% and 0.10%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
10-Jan-20	27-Apr-20	Thurrock Metropolitan Borough Council	£2,000,000	0.85%
13-Jan-20	14-Apr-20	Flintshire County Council	£5,000,000	0.85%
27-Jan-20	15-Apr-20	Knowsley Metropolitan Borough Council	£5,000,000	0.85%
28-Jan-20	15-Apr-20	Birmingham City Council	£5,000,000	0.83%
18-Feb-20	27-Apr-20	Thurrock Metropolitan Borough Council	£3,000,000	0.85%
19-Feb-20	09-Apr-20	Kirklees Metropolitan Borough Council	£5,000,000	0.75%
25-Feb-20	15-Apr-20	Gloucester City Council	£2,000,000	0.90%
26-Feb-20	15-Apr-20	Aberdeen City Council	£4,000,000	0.95%
28-Feb-20	15-Apr-20	Gloucester City Council	£2,000,000	0.90%
03-Mar-20	03-Apr-20	Conwy Council	£5,000,000	0.73%

At 31st May, the Council had approximately £45.7 M invested, compared to £47.2 M at the start of the period. Appendix 2 shows the breakdown of the closing investment balance.

The Council’s investment return over the period was approximately 0.38%.

For comparison, benchmark LIBID (London Interbank Bid) rates were:

- (a) 1 month lending - decreasing significantly over the period, averaging 0.12% and ending at -0.03%
- (b) 3 month lending - decreasing significantly over the period, averaging 0.38% and ending at 0.10%

4.3 Borrowing Rates

The cost of long-term borrowing through the PWLB (Public Works Loan Board) is linked to central government’s own borrowing costs.

The cost of short-term borrowing, based on loans from other councils, fluctuated significantly during the period. Interest rates on loans from 3 months out to a year reached highs of over 2.00%, at the start of the COVID-19 pandemic, and were priced at exceptionally low rates between 0.40% to 0.75% by the end of the period.

The Council continues using short-term borrowing, with balances having increased during the period in respect of the advance pension payment made in April 2020, but should we need to borrow over the

longer term this may be more expensive. It is uncertain as to how the long term borrowing market will develop, but should the need arise, we will review the options available.

It is expected that interest rates will remain low for the foreseeable future.

4.4 Short Term Borrowing in the 3 month period

The Council's CFR (Capital Financing Requirement) is the key measure of the Council's borrowing **need** in the long term. It is

- (a) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)
less
- (b) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt -
less
- (c) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

The Council's **actual** long term debt is significantly below the CFR – the gap has widened as long term debt has been repaid. We have been using “internal borrowing” from available revenue cash balances to partly cover this gap. The remaining gap has been covered by taking enough short term borrowing to ensure that the Council has sufficient funds to pay its liabilities and commitments, and to anticipate future borrowing needs. This has resulted in net interest savings.

Up to the end of May, there was an increase in short term borrowing of £15M, as loans of £24M were repaid and £39M of new loans were taken (listed below). As mentioned above, this increase in short term borrowings is due to the Council having taken borrowings towards the advance pension payment, made in April 2020.

New loans taken in the period				
Start Date	End Date	Counterparty	Amount £	Rate
27/03/2020	28/09/2020	Trafford Council	2,500,000	0.95%
27/03/2020	28/09/2020	South Derbyshire District Council	2,500,000	0.95%
02/03/2020	02/09/2020	Derbyshire Council Pension Fund	5,000,000	0.95%
03/04/2020	04/01/2021	North West Leicestershire District Council	2,000,000	0.97%
30/03/2020	30/12/2020	Hertsmere Borough Council	5,000,000	0.97%
20/04/2020	19/10/2020	North Kesteven District Council	2,000,000	0.90%
30/03/2020	29/01/2021	Tendring District Council	4,000,000	0.89%
05/05/2020	05/11/2020	Renfrewshire Council	5,000,000	0.98%
22/05/2020	21/05/2021	Ryedale District Council	1,000,000	1.05%
30/04/2020	30/10/2020	Tewkesbury Borough Council	2,000,000	1.00%
30/04/2020	29/01/2021	East Ridings of Yorkshire Council Pension Fund	5,000,000	1.00%
24/04/2020	24/11/2020	Police and Crime Commissioner for Avon & Somerset	3,000,000	0.89%
			39,000,000	

Future deals already agreed by end of period

Start Date	End Date	Counterparty	Amount £	Rate
01/06/2020	01/12/2020	Craven District Council	2,000,000	0.90%
07/07/2020	07/01/2021	Police and Crime Commissioner for Northumbria	5,000,000	0.70%
31/07/2020	29/01/2021	West Yorkshire Fire and Rescue	5,000,000	0.80%
07/07/2020	07/01/2021	Police and Crime Commissioner for Northumbria	5,000,000	1.00%
05/08/2020	04/08/2021	North of Tyne Combined Authority	5,000,000	0.80%
01/10/2020	30/09/2021	Vale of Glamorgan Council	2,250,000	0.55%

24,250,000

4.5 Current debt outstanding -

	29 th Feb 2020		31 st May 2020	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	24,000		25,000	
Greater than 3 months (full duration)	45,000		59,000	
		69,000		84,000
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	133,768		131,652	
Stock & Other Minor Loans	263		263	
		152,031		149,915
Lancashire Council County – Transferred Debt		14,296		14,148
Recognition of Debt re PFI Arrangements		63,700		63,414
TOTAL DEBT		299,027		311,477
LESS: TEMPORARY LENDING				
Fixed Term		(33,000)		(23,300)
Instant Access		(14,151)		(22,397)
NET DEBT		251,876		265,780

The key elements of long term borrowing set out above are:

- £18M classed as bonds, borrowed from the money markets, largely in the form of “LOBO” (Lender Option, Borrower Option) debt. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%
- £131.7M borrowed from the PWLB at fixed rates, at an overall average rate of around 4%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.7% to 3.77%.
- Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 2%.
- Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use school buildings financed through Public Finance Initiative (PFI) arrangements. The Council’s effective control over, and use of these assets is thereby shown “on balance sheet”,

with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax Payer as these payments made to the PFI contractor are largely offset by PFI grant funding from the Government.

4.6 Performance against Prudential and Treasury Indicators

Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the current year.

With regard to the movement in the key indicator, **Total Borrowing against the Authorised Borrowing Limit**, this is shown as the first graph in Appendix 4. Total borrowing at 31st May 2020 was £311.5M, which is below both our Operational Boundary (£360.8M) and our Authorised Borrowing Limit (£370.8M) for 2020/21.

This year we have remained within both our Operational Boundary – which is set for management guidance - and the (higher) Authorised Borrowing Limit. The Authorised Limit is the key Prudential Indicator - loans from the PWLB cannot be taken if this Limit is (or would be caused to be) breached.

This total debt includes the impact on the balance sheet of the recognition of assets that have been financed through PFI. The accounting adjustments are designed to show our effective long term control over the assets concerned, and the “indebtedness” arising from financing the cost of them. They do not add to the “bottom line” cost met by the Council Tax Payer.

The Council still holds a large part of its debt portfolio in loans of less than a year’s duration - short-term loans still represent a cheap way to fund marginal changes in its debt. This remains under review, with regular updates from the Council’s treasury management advisors, Arlingclose.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at £51.3M, against the **limit** set for this year of £116.4M.

This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget. The limit is set to allow for short as well as long term borrowing, and takes:

- (a) all variable elements of borrowing (including short term borrowing – up to 364 days – and any LOBO debt at risk of being called in the year), which is then offset by
- (b) any lending (up to 364 days).

Our **Fixed Interest Rate Exposure** was around £136.9M, against the **limit** of £267.2M. This indicator effectively mirrors the previous indicator, tracking the Council’s position in terms of how much of the debt will **not** vary as interest rates move. The historically low interest rates prevailing over recent decades led the Council to hold a large part of its debt in this way.

This limit was set to allow for the possibility of much higher levels of new long term, fixed rate borrowing. There are still significant levels of short-term debt.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

7. LEGAL IMPLICATIONS

The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council's Constitution.

8. RESOURCE IMPLICATIONS

None

9. CONSULTATIONS

None

10. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

VERSION:	0.01
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DATE:	2 nd July 2020	
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved by Executive Board 12 th March 2020	