BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance and Customer Services
DATE:	12th January 2021

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2020/21

Based on monitoring information for the period 1st September – 30th November 2020

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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
The Bank of England Bank Rate has remained steady during the period, having been reduced to 0.1% in March 2020 at the start of the COVID-19 pandemic.

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 £35M and £60M. Investment balances continued to be unusually high during this period, 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 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). Returns on MMFs holdings had decreased significantly by the end of the period, to around 0.03%. Bank deposit account rates have also decreased over the period, all now paying 0.01%.

On 25th September the 'less than 2 week' deposit rates on the UK Government's Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3 week deposits and 0.01% for longer maturities. By the end of the period the 'less than 2 week' deposit rates had returned to 0%, longer-term deposit rates remained the same.

For limited periods, funds were also placed with the Government's Debt Management Account Deposit Facility (between 0.005% and 0.01%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
09-Jun-20	2 days notice	Thurrock Metropolitan Borough Council	£5,000,000	0.40%
29-Sept-20	29-Oct-20	Surrey County Council	£5,000,000	0.05%
27-Nov-20	27-Jan-21	Central Bedfordshire Council	£5,000,000	0.03%

At 30th November, the Council had approximately £59.9 M invested, compared to £40.4 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 0.07%.

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

(a) 1 month lending - decreasing over the period, averaging -0.08% and ending at -0.09%

(b) 3 month lending - decreasing over the period, averaging -0.07% and ending at -0.08%

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. A HM Treasury consultation on lowering PWLB rates concluded in July 2020 and the outcome announced at the end of November 2020, resulting in an immediate 1% reduction in the PWLB rates, for those authorities with no intention to buy investment assets primarily for yield.

The cost of short-term borrowing, based on loans from other councils, have remained stable during the period. Interest rates on loans from 3 months out to a year were priced at low rates between 0.02% to 0.40% by the end of the period.

The Council continues using short-term borrowing, with balances having remained consistent during the period, but should we need to borrow over the longer term this may be more expensive. 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 November, short-term borrowings have remained stable, as loans of £27M were repaid and £27.25M of new loans were taken (listed below).

New loans taken in the period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
25/09/2020	24/09/2021	Merseyside Fire and Rescue Service	2,000,000	0.40%
25/09/2020	25/06/2021	Police & Crime Commissioner Hampshire	3,000,000	0.35%
01/10/2020	30/09/2021	Vale of Glamorgan Council	2,250,000	0.55%
30/10/2020	28/05/2021	Hampshire County Council	4,000,000	0.29%
30/10/2020	28/05/2021	Hampshire Fire and Rescue Authority	1,000,000	0.29%
09/11/2020	08/11/2021	Wokingham Borough Council	5,000,000	0.40%
10/11/2020	10/08/2021	West Midlands Combined Authority	7,000,000	0.35%
24/11/2020	27/08/2021	Police and Crime Commissioner for Avon and Somerset	3,000,000	0.25%
			27,250,000	

Future deals already agreed by end of period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
14/12/2020	13/12/2021	South Derbyshire District Council	5,000,000	0.30%
23/12/2020	23/07/2021	Derbyshire County Council Pension Fund	5,000,000	0.30%
19/01/2021	19/08/2021	Derbyshire County Council Pension Fund	5,000,000	0.30%
01/02/2021	01/09/2021	Oxfordshire County Council	5,000,000	0.30%
19/02/2021	18/02/2022	West of England Combined Authority	5,000,000	0.40%
28/01/2021	28/07/2021	Crawley Borough Council	5,000,000	0.20%
19/03/2021	18/03/2022	West of England Combined Authority	5,000,000	0.40%
			35,000,000	

4.5 Current debt outstanding -

	31st August 2020 £'000	31st August 2020 £'000	30th November 2020 £'000	30th November 2020 £'000
TEMPORARY DEBT				
Less than 3 months	25,000		48,000	
Greater than 3 months (full duration)	56,000		33,250	
		81,000		81,250
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	131,652		129,535	
Stock & Other Minor Loans	263		263	
		149,915		147,798
Lancashire Council County – Transferred Debt		14,007		14,007
Recognition of Debt re PFI Arrangements		62,659		62,206
TOTAL DEBT		**307,581**		**305,261**
LESS: TEMPORARY LENDING				
Fixed Term		(15,100)		(37,000)
Instant Access		(25,323)		(22,993)
NET DEBT		**267,158**		**245,268**

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

(a) £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%

(b) £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%.

(c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 2.25%.

(d) 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 30th November 2020 was £305.3M, 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 £35.4M, 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 £134.8M, 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.

4.7 Treasury Management Strategy for 2021/22

The Council's proposed Treasury Management Strategy and Treasury Management Indicators for 2021/22 will be submitted to Executive Board in March 2021.

The content of the strategy remains largely similar to the previous year, taking into account the amendments made during the 2020/21 Treasury Management Strategy Mid-Year Review, approved by Executive Board on 12th November 2020.

Details of the proposed draft strategy are included in Appendix 6.

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:	December 2020
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy approved by Executive Board 12th March 2020