



<u>Committee and Date</u>	<u>Item</u>
Cabinet 21st July 2021	
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TREASURY MANAGEMENT UPDATE – QUARTER 4 2020/21

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1. Summary

- 1.1. The report outlines the treasury management activities of the Council in the last quarter. It highlights the economic environment in which treasury management decisions have been made and the interest rate forecasts of the Council's Treasury Advisor, Link Asset Services. It also updates Members on the internal treasury team's performance.
- 1.2. During the fourth quarter of 2020/21 the internal treasury team achieved a return of 0.17% on the Council's cash balances, outperforming the benchmark by 0.26%. This amounts to additional income of £127,700 during the quarter which is included within the Council's outturn position in the monthly revenue monitor. Following a decision by the Monetary Policy Committee in March 2020 to cut the Bank Rate to 0.1%, this has resulted in the 7 Day benchmark rate being a negative figure since the start of the financial year.

2. Recommendations

- 2.1. Members are asked to accept the position as set out in the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

4. Financial Implications

- 4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2. The Quarter 4 performance is above benchmark and has delivered additional income of £127,700 which is reflected in the Period 12 Revenue Monitor.
- 4.3. As at 31 March 2021 the Council held £148 million in investments as detailed in Appendix A and borrowing of £304 million at fixed interest rates.

5. Climate Change Appraisal

- 5.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Treasury Team is working with the Council in order to achieve this. There are no climate change impacts arising from this report.

6. Background

- 6.1. The Council defines its treasury management activities as "the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council between 1 January 2021 and 31 March 2021.

7. Economic Background

- 7.1. An economic and borrowing update for the fourth quarter can be found in Appendix D.

8. Economic Forecast

- 8.1. The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts to 31 March 2024 are shown below:

Link Group Interest Rate 8.3.21												
	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.20	1.20	1.20	1.20	1.20	1.20	1.30	1.30	1.40	1.40	1.40	1.40
10 yr PWLB	1.60	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	1.90
25 yr PWLB	2.10	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.50	2.50	2.50	2.50
50 yr PWLB	1.90	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.30	2.30	2.30	2.30

9. Treasury Management Strategy

9.1. The Treasury Management Strategy (TMS) for 2020/21 was approved by Full Council on 27 February 2020. The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital.

9.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.

9.3. In the fourth quarter of 2020/21 the internal treasury team outperformed its benchmark by 0.26%. The investment return was 0.17% compared to the benchmark of -0.09%. This amounts to additional income of £127,700 during the quarter which is included in the Council's outturn position in the monthly revenue monitor.

9.4. A full list of investments held as at 31 March 2021, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in Appendix A. None of the approved limits within the Annual Investment Strategy were breached during the fourth quarter of 2020/21. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

9.5. As illustrated in the economic forecast section above, investment rates available in the market for three months and longer have decreased significantly as a result of the decrease in Bank Rate in March 2020 to 0.1%. The average level of funds available for investment purposes in the fourth quarter of 2020/21 was £194 million.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)

Cabinet, 7 September 2020, Treasury Management Update Quarter 1 2020/21
Cabinet, 14 December 2020, Treasury Management Update Quarter 2 2020/21
Cabinet, 8 February 2021, Treasury Management Update Quarter 3 2020/21
Council, 27 February 2020, Treasury Strategy 2020/21

Cabinet Member:

Gwilym Butler, Portfolio Holder for Resources

Local Member

N/A

Appendices

- A. Investment Report as at 31 March 2021
- B. Prudential Limits
- C. Prudential Borrowing Schedule
- D. Economic Background and Borrowing Update