NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

AUDIT AND GOVERNANCE COMMITTEE – WEDNESDAY, 20 JANUARY 2021

Title of Report	**TREASURY MANAGEMENT ACTIVITY REPORT APRIL 2020 TO DECEMBER 2020**	
Presented by	Anna Wright Finance Team Manager and Deputy S151 Officer	
Background Papers	Treasury Management Strategy Statement 2020/21 Council 25 February 2020	**Public Report:** Yes
Purpose of Report	To inform Members of the Council's Treasury Management activity undertaken during the period April 2020 – December 2020.	
Recommendations	**THAT MEMBERS APPROVE THIS REPORT AND COMMENT AS APPROPRIATE.**	

1.0 BACKGROUND

1.1 Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the code"), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and investment activity.

1.2 As a minimum, the code requires that the council reports on the performance of the Treasury Management function at least twice yearly (mid-year and at year end). This is the second report to be presented in 2020/21, to inform Members of the council's treasury activity and enable scrutiny of activity and performance.

1.3 The council's current Treasury Management Strategy Statement which includes the Borrowing Strategy; Debt Rescheduling Strategy; Annual Investment Strategy; Apportionment of Interest Strategy; Prudential Indicators and Annual Minimum Revenue Provision was approved by Council on 25 February 2020.

1.4 Investing or borrowing activities expose the council to financial risks including the loss of invested funds and revenue effects of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the council's Treasury Management strategy.

2.0 THE UK ECONOMY & OTHER FACTORS

2.1 Economic and interest rate forecasts are provided on a regular basis by our treasury advisors (Arlingclose).

Economic background: Some good news came during the quarter as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA) and a Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline. The MHRA approved the two vaccines in December and the rollout to individuals in the highest priority groups began in earnest.
Having been agreed with the European Union (EU) on Christmas Eve, the Brexit trade deal was voted through the House of Commons by 521 votes to 73 and then written into law after passing through the House of Lords and given royal assent.

The Bank of England (BoE) maintained Bank Rate at 0.1% during the quarter but extended its Quantitative Easing programme by £150 billion to £895 billion. In its December interest rate announcement, the BoE noted that plans to roll out COVID-19 vaccines would reduce some of the downside risks to the economic outlook but that recent rises in the number of infections is likely to lead to weaker GDP growth than had been predicted in its November Monetary Policy Report.

Government initiatives continued to support the economy as the furlough (Coronavirus Job Retention) scheme was extended once again to April 2021, supporting some 10 million jobs, and meaning that by then time the government would have provided taxpayer support to jobs for over a year.

GDP growth rebounded by 16.0% (upwardly revised from first estimate of 15.5%) in Q3 2020 (Jul-Sep) according to the Office for National Statistics (ONS), pulling the annual growth rate up to -8.6% from -20.8% in Q2. Construction rose by a huge 41% over the quarter, services output was up almost 15% as was production output. However, recent monthly estimates of GDP have shown growth is slowing and only a 1.1% monthly rise was managed in September.

The headline rate of UK Consumer Price Inflation (CPI) rose to 0.3% year/year in November, below expectations (0.6%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.6% year/year (0.8% expected). The weaker-than-expected readings were due to falling prices for clothing as Black Friday deals started earlier than usual and for food and non-alcoholic drinks.

In the three months to October, labour market data showed the unemployment rate increased from 4.3% to 4.9% while wages rose 2.7% for total pay in nominal terms (2.8% for regular pay) and was up 1.9% in real terms (2.1% for regular pay). The employment rate fell to 75.2% from 75.8%. Unemployment is expected to increase strongly once the various government job support schemes come to an end, with the BoE predicting unemployment could peak at almost 8% in the second quarter of 2021.

The US economy rebounded at an annualised rate of 33.4% in Q3 2020 (Jul-Sep), fuelled by more than $3 trillion in pandemic relief. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25%.
The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Equity markets continued to rise, and the Dow Jones beat its pre-crisis peak on the back of continued outperformance by a small number of technology stocks. The FTSE indices continued to perform well, with the more internationally focused FTSE 100 getting back to around 60% of its pre-March level while the more UK-focused FTSE 250 was closer to 80% of its previous peak over the same period.

Ultra-low interest rates remained, keeping gilts yields low but volatile over the period with the yield on some short-dated UK government bonds continuing to remain negative. The 5-year UK benchmark gilt yield started the October–December period at -0.07% and ended at -0.09% (with much volatility in between). The 10-year gilt yield fell from 0.23% to 0.19% over the same period but peaked at 0.40% in November during a volatile quarter. The 20-year fell from 0.76% to 0.69%. 1-month, 3-month and 12-month SONIA bid rates averaged -0.01%, 0.06% and 0.07% respectively over the three months.

At the end of December, the yield on 2-year US treasuries was around 0.12% while for 10-year treasuries the yield was 0.92%. German bund yields remain negative across most maturities.

3.0 THE COUNCIL'S TREASURY POSITION

3.1 The council's current strategy is to use internal borrowing to reduce risk and keep interest costs low. The treasury management current position and the change over the reporting period is shown below.

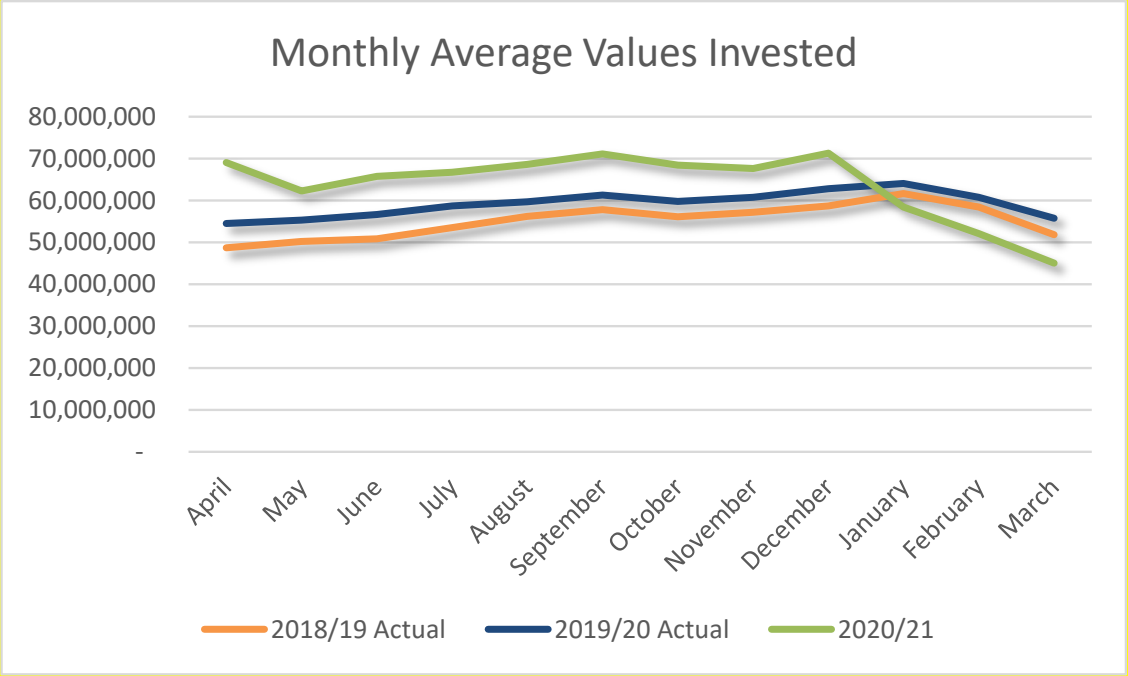
	Balance at 01/04/20 £m	Net Movement £m	Balance at 31/12/2020 £m
Long term borrowing - HRA	71.67	-0.6	71.03
Long term borrowing – General Fund	8.44	0.0	8.44
Other long-term liabilities - HBBC	0.09	0.0	0.09
Total Borrowing	**80.20**	**-0.6**	**79.56**
Long term investments – greater than 1 year	3.00	-3.0	0.00
Short term investments – less than 1 year	39.00	9.8	48.80
Pooled funds and Money Market Funds	8.70	11.3	20.00
Total Investments	**50.70**	**18.1**	**68.80**
Net debt	**29.50**	18.7	**10.76**

3.2 The investment position will vary throughout the year as it is dependent upon cash flow. Examples of significant areas that can impact on cash flow are collection of Council Tax, Business Rates, grants, and capital receipts, payments to other precepting authorities or central government, capital programme and interest on treasury activity.

3.3 In the period April 2020 to December 2020, the capacity for investment has increased by £18m. The volatility of balances is normal throughout the year and a number of factors contribute to this during the financial year:

- The council (as it typically does) has benefit from the receipt of Council Tax and Business Rates during the first ten months of the financial year whilst revenue expenditure is more evenly weighted throughout the financial year.
- Normally, Capital expenditure is heavily weighted towards the latter part of the financial year due to the time required to schedule programmes of work or award contracts. However, due to COVID impact, some capital projects have now slipped through the 2021.
- There was also influenced some timing difference between receipt of grants and expenditure.

3.4 The average value of investments per month are represented in the graph below, illustrating the cash flow trends throughout the year. The current pattern is in line with previous years. The council's cash flow projections are monitored and revised daily as part of the treasury management process:



4.0 BORROWING ACTIVITY

4.1 The council's Borrowing Strategy 2020/21, incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the council's Prudential Indicators.

4.2 The council's updated borrowing strategy for 2020/21 shows that the council does not need to borrow in 2020/21. Borrowing may be required by 2021/22 should the council wish to maintain its MIFID status which requires an investment balance of £10m at any one time, and further assessments are being undertaken.

4.3 The council has not undertaken any new long-term borrowing during the period as the levels of cash balances held have meant that we are currently able to use internal borrowing.

4.4 The council has two PWLB annuity loans as part of the self-financing of the HRA. The repayment element for these in 2020/21 is £1.154m. A total £567k of this was paid by December 2020.

4.5 During the reporting period of April 2020 to December 2020, the council's cash flow remained positive and did not require any temporary loans.

5.0 DEBT RESCHEDULING ACTIVITY

5.1 The council's Debt Rescheduling Strategy 2020/20 establishes a flexible approach where the rationale for rescheduling could be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

5.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the council has undertaken no debt rescheduling activity during the period.

5.3 The council's portfolio of thirteen loans, ten PWLB loans and three market loans, will continue to be monitored for debt rescheduling opportunities.

6.0 INVESTMENT ACTIVITY

6.1 The main objective of the council's Investment Policy and Strategy 2020/21 is to invest its surplus funds prudently.

6.2 The council's investment priorities are:

- security of the invested capital;
- sufficient liquidity to permit investments; and,
- Optimum yield which is commensurate with security and liquidity.

6.3 In the first two quarters, the Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £20.2m was received and temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds. The majority of the funds were disbursed by the end of September. Further COVID support grants were received in quarter 3 and similar approach was taken to manage these funds with the expectation that this will be immediately spent.

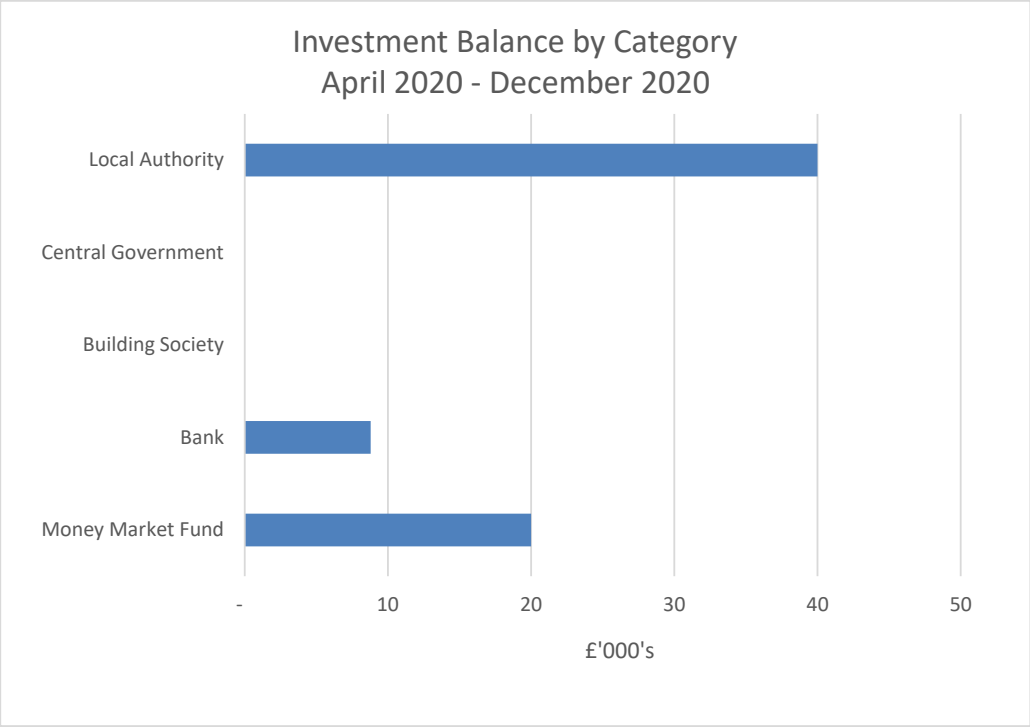
6.4 On 31st December, deposit rates on the Debt Management Account Deposit Facility (DMADF) dropped to negative rates ranging from -0.08% for overnight deposits to -0.01% for 6 months maturities.

6.5 The return on Money Market Funds net of fees remained very low between 0% and 0.1%. In many instances, the fund management companies have temporarily lowered or waived fees to maintain a positive net return.

6.6 To lower the inherent investment risk, the council has minimised the use of banks and continues to use other Local Authorities as investment counterparties. A range of lengths of investment, from overnight investments to short term up to 4 months have been utilised to ensure that the principles of security, liquidity and yield are followed.

6.7 With the COVID-19 pandemic situation, the council has taken a prudent approach on investments by limiting new Local Authority investments for a period of no more than 4 months. This has ensured that the council's Cashflow remained liquid throughout the year. A scenario base analysis was also undertaken, taking into account the estimated impact of the pandemic on income and expenditure on a monthly basis – this was monitored weekly.

6.8 The graph below shows the type of counterparties used by the council and the values currently invested.



6.9 The counterparties that the council currently use all meet the criteria set out in the Treasury Management Strategy Statement 2020/21 and are monitored by the Treasury Management Advisors. A detailed list of the counterparties used and amounts currently invested can be seen in **Appendix A**.

6.10 The average rate of return on the council's investment balances during the period was 0.37% for comparison purposes, the benchmark return at the end of December 2020 for the average 7-day London Interbank Bid Rate (LIBID) was 0.06% and the average 7 day London Interbank Offered Rate (LIBOR) rate was 0.07%. This shows that we are achieving a good rate of return against the benchmark.

6.11 The council's Treasury Management Advisors produce investment-benchmarking information quarterly. The latest available benchmarking data is at the 30 September 2020. The total rate of return achieved by the council takes into account the full year effect to date and is compared to 49 other district councils and the average of 128 local authorities, the yield is itemised by types of investments. At the time, the current internal investment return for the council of 0.16% is comparable to 0.30% achieved by 47 district councils and 0.27% achieved by the average of 125 of the local councils. The full benchmarking summary can be seen in **Appendix B.**

6.12 Short and long term interest rates continue to decline with the base rate by the Bank of England stuck at 0.10% and reduced local authorities' cash demand with grants received from central government. Our treasury advisors expect the rate to remain at this level, but further cuts to zero, or perhaps even to negative territory, cannot be completely ruled out. The downside risk is that the rate could drop to -0.20% in March 2021, -0.30% in June 2021 and -0.50% from September 2021 onwards.

6.13 The council will exhaust all options available, whilst complying with the Treasury Management Strategy Statement, before investing in negative interest investments. This is likely to feed through on low risk, short-term investment options. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this

may be less than the amount originally invested.

6.14 There were 63 investments made during the period totalling £215.8m and 57 maturities totalling £231.3m. The average balance held for the period was £67.9m.

6.15 The fixed term investments for the period were for amounts ranging between £1m and £5m.

6.16 The budget for investment income for 2020/2021 for General Fund and Housing Revenue Account is £300,701. Investment activity from April to December 2020 has generated £187,352 in interest for the financial year. The current outturn forecast is estimated to be £201,832.

6.17 Of this total forecast, an element is applied to balances held on external income. This external income largely represents balances from S106 contributions that have not yet been spent. The estimated amount forecast to be applied is approximately £28,487 subject to the balances remaining at the end of the financial year. There is no budget applied to this element as S106 contributions are only achieved when specific conditions are met and are anticipated to be spent.

6.18 Estimated interest for the year of £173,345 will be apportioned between General Fund and the Housing Revenue Account based on the estimated cash flow position. The current budget and forecast is shown in the table below:

	Budget 2020/21	Projected
General Fund	£190,799	£109,985
Housing Revenue Account	£109,902	£63,360
Sub-Total	**£300,701**	**£173,345**
External Balances		£28,487
Total	**£300,701**	**£201,832**

6.18 The COVID-19 support grants received from the central government were deposited in short term call accounts and money market funds as the council was required to disburse this to local businesses as soon as possible. Individual account limits on money market funds were maintained, but the aggregate money market limit of £20m as per TMSS was breached by an amount of £2m. This occurred on April 1 when the grants were received and was resolved on April 9 when grants where paid out to businesses. The Head of Finance and S151 officer was made aware of this in advance prior to the initial receipt of the grants. This was closely monitored through a weekly update on the council's Cashflow and investments.

6.19 The £5m limit on the Lloyds day-to-day banking account was breached by £1.2m on 1 July 2020. This occurred as a result of £5.7m in Council Tax, Business Rates and Rent being received on this date. As the funds were required the next day to make payments to preceptors (Fire, Police and Leicestershire County Council) and the money market funds were already at their approved limits. The Finance Team Manager and Deputy S151 Officer in the absence of the Head of Finance, approved the breach of the TMSS and to leave the funds in the Lloyds account overnight

6.20 There were no further breaches in quarter 3.

7.0 Treasury Advisor's Commentary – Arlingclose Ltd

7.1 NWLDC is currently taking a relatively low credit risk approach to its investment strategy by investing mainly in Money Market Funds (MMFs), local authorities and the UK central government. These options avoid the direct bail-in risk associated with bank deposits

(although indirect exposure is held via the MMFs, this is highly diversified). Client investment benchmarking over the past year suggests that the council usually takes lower credit risk compared to other local authorities while maintaining equivalent or higher average returns on internally managed investments. The council usually makes relatively short-term investments (up to 12 months). This is another way of limiting risk but does mean that the rate of return earned is relatively low. The council's investments have always been in the cash markets and this remains the case at the moment (as opposed to other asset classes such as property, bonds or equities). This is generally also a lower risk approach. Overall the council's focus is firmly on security and liquidity.

7.2 Other investment options that I think would fit with the council's current risk appetite include longer-term loans to local authorities (the council has done this before), covered bonds and loans to Registered Providers (housing associations), which would also require a longer investment horizon (3 to 5 years).

7.3 Going beyond this would be an alternative approach – that a portion of the investment portfolio is invested strategically for income rather than liquidity. This would involve investing in asset classes such as property, bonds and equities (typically via pooled funds). This would carry a different and typically higher set of risks but also generate a higher return. An appropriate risk/return balance is key and these would be long-term investments, the value of which would fluctuate over time.

7.4 The council has held reasonably significant investment balances for at least the 10 years that Arlingclose has advised the council. It could be argued that given investment balances have been available for the long term but usually reinvested for the short term then the opportunity to earn a higher level of income from the investments has been missed. Of course a higher risk/higher return approach would require the council to have an appropriate risk appetite.

8.0 SUMMARY

8.1 In compliance with the requirements of the CIPFA code of practice, this report provides Members with a summary report of the Treasury Management activity for the period April 2020 to December 2020. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

8.2 For the reporting period April to December 2020, the council can confirm that it has complied with its Prudential Indicators, which were approved by Council as part of the Treasury Management Strategy Statement.

8.3 For the reporting period, with the exception of the breaches detailed in section 6.18 as at quarter2, there hasn't been any further breaches and the council can confirm that it has complied with its Treasury Management Strategy Statement and Treasury Management practices.

Appendix A

LIST OF COUNTERPARTIES, CURRENT INVESTMENT AND RATE

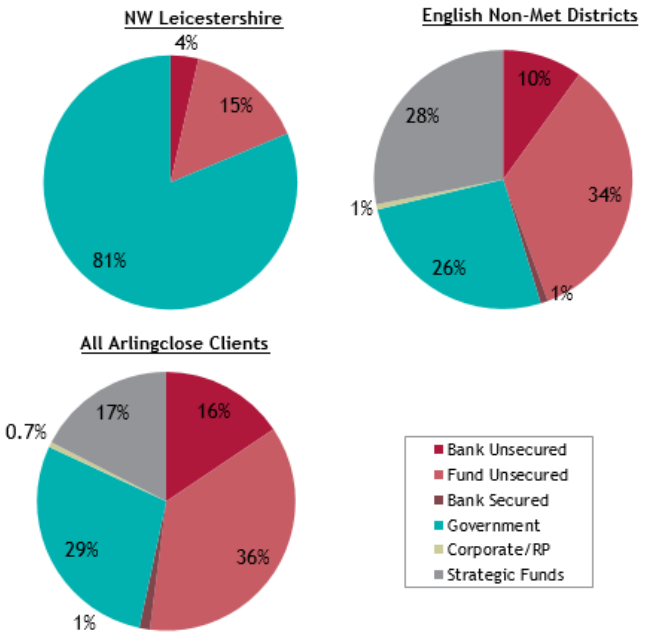
Counterparty	Length	From	To	Amount	Rate
Goldman Sachs MMF	Overnight	31/12/2020	01/01/2021	4,000,000.00	0.004%
BlackRock MMF	Overnight	31/12/2020	01/01/2021	6,000,000.00	0.003%
Aberdeen Asset Management MMF	Overnight	31/12/2020	01/01/2021	6,000,000.00	0.017%
Federated Investors MMF	Overnight	31/12/2020	01/01/2021	3,000,000.00	0.010%
CCLA MMF	Overnight	31/12/2020	01/01/2021	1,000,000.00	0.052%
Lloyds Main	Overnight	31/12/2020	01/01/2021	3,299,986.67	0.000%
Bank of Scotland	Overnight	31/12/2020	01/01/2021	1,500,000.01	0.000%
Lloyds Notice Account	32 days	31/12/2020	01/02/2021	2,000,000.00	0.050%
Santander Notice Account	35 days	31/12/2020	04/02/2021	2,000,000.00	0.150%
Blackburn with Darwen Council	276 days	03/04/2020	04/01/2021	2,000,000.00	0.970%
Walsall Metropolitan Borough Council	364 days	09/04/2020	08/04/2021	5,000,000.00	1.000%
Kingston-upon-Hull City Council	133 days	14/09/2020	25/01/2021	2,000,000.00	0.080%
Ashford Borough Council	91 days	20/10/2020	19/01/2021	5,000,000.00	0.050%
Conwy County Borough Council	88 days	30/11/2020	26/02/2021	3,000,000.00	0.030%
Surrey County Council	92 days	28/10/2020	28/01/2021	5,000,000.00	0.050%
Dover District Council	92 days	10/11/2020	10/02/2021	5,000,000.00	0.030%
Nottinghamshire Police	62 days	01/12/2020	01/02/2021	5,000,000.00	0.050%
Epping Forest District Council	51 days	25/11/2020	15/01/2021	5,000,000.00	0.150%
Stirling Council	90 days	18/12/2020	18/03/2021	3,000,000.00	0.030%
Total				68,799,986,68	

Appendix B

arlingclose

Investment Benchmarking
30 September 2020

	NW Leicestershire	49 English Non-Met Districts Average	128 LAs Average
Internal Investments	£62.7m	£30.9m	£74.1m
Cash Plus & Short Bond Funds	£0.0m	£1.5m	£1.8m
Strategic Pooled Funds	£0.0m	£12.2m	£11.8m
TOTAL INVESTMENTS	£62.7m	£44.7m	£87.6m
Security			
Average Credit Score	3.78	4.15	4.16
Average Credit Rating	AA-	AA-	AA-
Average Credit Score (time-weighted)	3.78	4.20	4.14
Average Credit Rating (time-weighted)	AA-	AA-	AA-
Number of Counterparties / Funds	15	13	13
Proportion Exposed to Bail-in	19%	65%	64%
Liquidity			
Proportion Available within 7 days	36%	41%	51%
Proportion Available within 100 days	89%	59%	70%
Average Days to Maturity	44	51	18
Market Risks			
Average Days to Next Rate Reset	51	70	56
Strategic Fund Volatility	-	6.7%	8.2%
Yield			
Internal Investment Return	0.16%	0.30%	0.27%
Cash Plus & Short Bond Fund - Total Return	-	1.10%	1.06%
Strategic Funds - Total Return	-	-3.53%	-3.92%
Total Investments - Total Return	0.16%	-0.87%	-0.46%
All External Funds - Income Only Return	-	3.52%	3.45%
All External Funds - Capital Gains/Losses	-	-6.56%	-6.78%
Total Investments - Income Only Return	0.16%	1.31%	0.90%



Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

Policies and other considerations, as appropriate	
Council Priorities:	Value for Money
Policy Considerations:	Treasury Management Strategy Statement 2020/21 Council 25 February 2020
Safeguarding:	Not applicable
Equalities/Diversity:	Not applicable
Customer Impact:	Not applicable
Economic and Social Impact:	Not applicable
Environment and Climate Change:	Not applicable.
Consultation/Community Engagement:	Not applicable
Risks:	Borrowing and investment both carry an element of risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of Treasury Management and the retention of Treasury Management advisors (Arlingclose) to proffer expert advice.
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