

<b>Title of Report</b>	<b>TREASURY MANAGEMENT ACTIVITY REPORT APRIL 2021 - JUNE 2021</b>	
<b>Presented by</b>	Anna Wright Finance Team Manager and Deputy S151 Officer	
<b>Background Papers</b>	<a href="#"><u>Treasury Management Strategy Statement 2021/22</u></a> <a href="#"><u>Council 2<sup>nd</sup> February 2021</u></a>	<b>Public Report:</b> Yes
<b>Purpose of Report</b>	To inform Members of the Council's Treasury Management activity undertaken during the period April 2021 – June 2021.	
<b>Recommendations</b>	<b>THAT MEMBERS APPROVE THIS REPORT AND COMMENT AS APPROPRIATE.</b>	

## 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 first report to be presented in 2021/22, 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 23 February 2021.
- 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:** Economic resurgence from coronavirus pandemic continued to dominate the first quarter of the financial year. In the biggest inoculation programme the country has ever undertaken, over 44 million people in the UK had received their first dose of a COVID-19 vaccine with 32 million also having a second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its June 2021 policy announcement, the BoE expected the economy to experience a temporary period of strong GDP growth and above-target CPI inflation, after which growth and inflation is expected to fall back. There were, however, two-sided risks around this central path, and it is possible that near-term upward pressure on prices could prove somewhat larger than expected. The Bank's Monetary Policy Committee does not intend to tighten monetary policy at least until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

Government initiatives continued to support the economy over the quarter, following the range of measures announced by the Chancellor in the 2021 Budget, which included extending the furlough (Coronavirus Job Retention) scheme until September 2021.

The latest labour market data showed that in the three months to April 2021 the unemployment rate fell to 4.7%, although it is likely that labour market slack has remained higher than implied by this measure. Some individuals stopped looking for work during the pandemic and were therefore recorded as inactive. There is uncertainty around how many of these individuals will resume their search for a job, and when. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 5.6% for the three months February to April 2021. The seemingly high growth partly reflected a base effect from a decline in average pay in the spring of last year, associated with the reduced pay of employees on the furlough scheme.

Annual CPI inflation rose to 2.1% in May on the back of base effects in spring 2020 and partly due to higher energy and commodity prices and supply-side bottlenecks. The BoE expects inflation to exceed 3% for a temporary period. The ONS' preferred measure of CPIH which includes owner-occupied housing was also 2.1% year/year, marginally higher than expectations.

The reimposition of restrictions on activity in the first quarter of calendar 2021 year resulted in GDP falling 1.6% in Q1. GDP growth was strong in April at 2.3% with the partial easing of restrictions on non-essential retail and outdoor hospitality. Housing market activity remained strong, aided by the extension of the stamp duty threshold and an increase in mortgage approvals for house purchases.

The US economy rebounded by 4.3% in Q4 2020 (Oct-Dec) and then an even stronger 6.4% in Q1 as the recovery continued to be fuelled by \$5 trillion worth of pandemic stimulus

packages. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period.

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

**Financial markets:** Ongoing monetary and fiscal stimulus together with improving economic growth prospects and successful vaccine rollout programmes continued to boost equity markets over the period. The Dow Jones reached a record high during the period while the UK-focused FTSE 250 index was back above pre-pandemic levels and the more internationally focused FTSE 100 had recouped around three-quarters of 2020 losses.

Inflation worries continued during the period but declines in bond yields between April and June suggest bond markets may be expecting any general price increases to be less severe, or more transitory, that was previously thought.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.32% by the end of June 2021. Over the same period the 10-year gilt yield fell from 0.80% to 0.71%, despite jumping to 0.90% in May. The 20-year yield declined from 1.31% to 1.21%.

1-month, 3-month and 12-month SONIA bid rates averaged 0.03%, 0.02% and 0.15% respectively over the period.

### 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 01/04/21 £m	Net Movement £m	Balance at 30/06/2021 £m
Long term borrowing - HRA	70.52	0.0	70.52
Long term borrowing – General Fund	8.44	0.0	8.44
Other long-term liabilities - HBBC	0.08	0.0	0.08
<b>Total Borrowing</b>	<b>79.04</b>	<b>0.00</b>	<b>79.04</b>
Long term investments – greater than 1 year	0.00	0.00	0.00
Short term investments – less than 1 year	38.78	5.7	44.48
Pooled funds and Money Market Funds	11.50	-1.0	10.50
<b>Total Investments</b>	<b>50.28</b>	<b>4.7</b>	<b>54.98</b>
<b>Net debt</b>	<b>28.76</b>	<b>-4.7</b>	<b>24.06</b>

- 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.

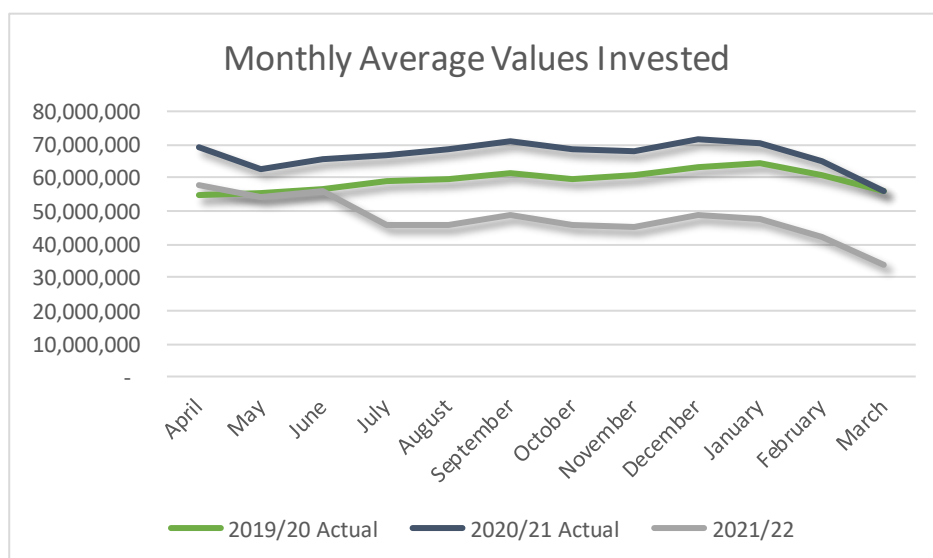
- 3.3 In the period April 2021 to June 2021, the capacity for investment has increased by £4.7m. The volatility of balances is normal throughout the year and a number of factors contribute to this during the financial year:

- 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. This was further impacted by COVID due to difficulty in sourcing resource and materials.
- There was also some influence on the 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 2021/22 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 2021/22 shows that the council does not need to borrow in 2021/22. Borrowing may be required by 2022/23 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 2021/22 is £1.180m. This is due to be paid in September 2021.
- 4.5** On 28th March 2022 two PWLB loans are set to mature and £13m is due to be repaid.
- 4.6** During the reporting period of April 2021 to June 2021, the council's cash flow remained positive and did not require any temporary loans.

- 4.7** The balance of the loan redemption reserve when taken together with outstanding loans gives a complete picture of the actual outstanding HRA borrowing and the balance forms part of our total investments which are shown in the report.

## **5.0 DEBT RESCHEDULING ACTIVITY**

- 5.1** The council's Debt Rescheduling Strategy 2021/22 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 that 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 2021/22 is to invest its surplus funds prudently.

- 6.2** The council's investment priorities are:

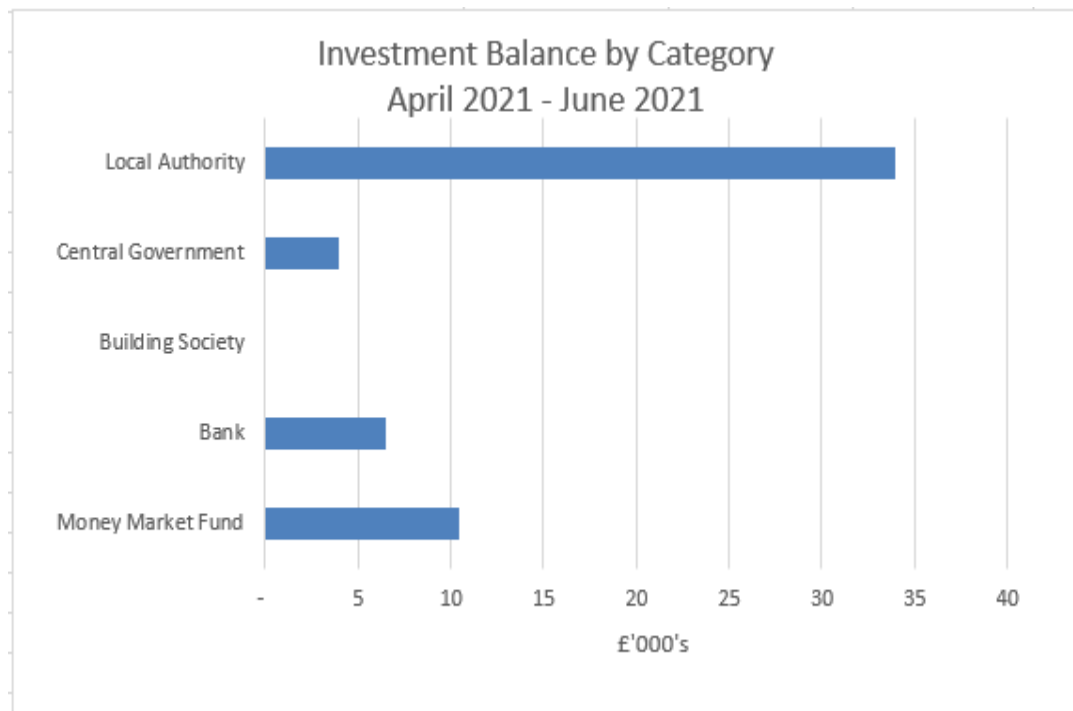
- security of the invested capital;
- sufficient liquidity to permit investments; and,
- Optimum yield which is commensurate with security and liquidity.

- 6.3** During the period April 2021 to June 2021 the deposit rates on the Debt Management Account Deposit Facility (DMADF) have remained stable at 0.01%, occasionally rising to 0.02% in the shorter durations.

- 6.4** 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.

- 6.5** 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.

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



- 6.7** The counterparties that the council currently use all meet the criteria set out in the Treasury Management Strategy Statement 2021/22 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**.
- 6.8** The average rate of return on the council's investment balances during the period was 0.057% for comparison purposes, the benchmark return at the end of June 2021 for the average 7-day London Interbank Bid Rate (LIBID) was 0.08% and the average 7 day London Interbank Offered Rate (LIBOR) rate was 0.04%. This shows that we are achieving a fair rate of return against the benchmark.
- 6.9** The council's Treasury Management Advisors produce investment-benchmarking information quarterly. The latest available benchmarking data is at the 31 March 2021. The total rate of return achieved by the council takes into account the full year effect to date and is compared to 46 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 0.15% is comparable to 0.13% achieved by 46 district councils and 0.15% achieved by the average of 128 local councils. The full benchmarking summary can be seen in **Appendix B**.
- 6.10** 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, until at least 2022.
- 6.11** There were 19 investments made during the period totalling £80.8m and 16 maturities totalling £73.8m. The average balance held for the period was £56.076m.
- 6.12** The fixed term investments for the period were for amounts ranging between £1m and £5m.
- 6.13** The budget for investment income for 2021/2022 for General Fund and Housing Revenue

Account is £14,000. Investment activity from April to June 2021 has generated £8,000 in interest for the financial year. The current outturn forecast is estimated to be £15,500.

- 6.14** 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 £1,700 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.
- 6.15** Estimated interest for the year of £15,500 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:

	<b>Budget 2021/22</b>	<b>Projected</b>
General Fund	£8,905.95	£9,874.05
Housing Revenue Account	£5,129.90	£5,687.53
<b>Sub-Total</b>	<b>£14,035.85</b>	<b>£15,561.58</b>
External Balances		£1,739.87
<b>Total</b>	<b>£14,035.85</b>	<b>£17,301.45</b>

- 6.16** 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. This was closely monitored through a weekly update on the council's Cashflow and investments.
- 6.17** There were no breaches of the Treasury Management Strategy Statement during quarter 1.

## **7.0 Treasury Advisor's Commentary – Arlingclose Ltd**

- 7.1** NWLDC is currently taking a relatively low credit and liquidity risk approach to its investment strategy by investing mainly in Money Market Funds (MMFs), local authorities and the UK central government for short terms (up to 12 months). These options avoid the direct bail-in risk associated with bank deposits (although indirect exposure is held via the MMFs, this is highly diversified).
- 7.2** The council's focus is on security and liquidity and this approach combined with the current interest rate environment means investment returns are at low levels. Given these low returns, the council's level of real return (i.e. adjusting for inflation) is negative. The latest client investment benchmarking exercise that NWLDC took part in (March 2021) showed the council's credit risk (as measured by credit ratings) and return in line with the average for other local authorities on internally managed investments.
- 7.3** Other investment options that may 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).
- 7.4** 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.

## **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 2021 to June 2021. 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 June 2021, 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, there hasn't been any breaches and it can be confirmed that the Treasury Management Strategy Statement and Treasury Management practices have also been complied with.



## Appendix A

### LIST OF COUNTERPARTIES, CURRENT INVESTMENT AND RATE

Counterparty	Length	From	To	Amount	Rate
Blackrock MMF	Overnight	08/07/2021	09/07/2021	1,000,000.00	0.01%
Aberdeen Asset Management MMF	Overnight	08/07/2021	09/07/2021	2,500,000.00	0.01%
Federated Investors MMF	Overnight	08/07/2021	09/07/2021	3,000,000.00	0.01%
CCLA MMF	Overnight	08/07/2021	09/07/2021	4,000,000.00	0.025%
Lloyds Main	Overnight	08/07/2021	09/07/2021	478,281.43	0.00%
Lloyds Notice Account	32 days	08/07/2021	09/08/2021	2,000,000.00	0.03%
Santander Notice Account	35 days	08/07/2021	12/08/2021	2,000,000.00	0.15%
Lloyds Market Call Account	Overnight	08/07/2021	09/07/2021	2,000,000.00	0.01%
Surrey County Council	92	28/10/2020	28/01/2021	5,000,000.00	0.05%
Monmouthshire County Council - Caldicot	91	05/01/2021	06/04/2021	5,000,000.00	0.05%
Isle of Wight	277	08/04/2021	10/01/2022	5,000,000.00	0.15%
Guildford Borough Council	276	23/04/2021	24/01/2022	5,000,000.00	0.03%
Surrey Heath Borough Council	181	17/02/2021	17/08/2021	4,000,000.00	0.05%
Watford Borough Council	184	29/03/2021	29/09/2021	5,000,000.00	0.07%
Epping Forest District Council	176	25/01/2021	20/07/2021	5,000,000.00	0.12%
DMADF	Overnight	08/07/2021	09/07/2021	4,000,000.00	0.01%
<b>Total</b>				<b>54,978,281.4</b>	

## Appendix B

Investment benchmarking 31<sup>st</sup> March 2021



### Investment Benchmarking 31 March 2021

NW Leicestershire  
46 English Non-Met Districts Average  
128 LAs Average

Internal Investments	£50.3m	£28.1m	£74.3m
Cash Plus & Short Bond Funds	£0.0m	£1.5m	£1.9m
Strategic Pooled Funds	£0.0m	£13.1m	£12.5m
<b>TOTAL INVESTMENTS</b>	<b>£50.3m</b>	<b>£42.7m</b>	<b>£88.6m</b>

#### Security

Average Credit Score	4.69	4.63	4.63
Average Credit Rating	A+	A+	A+
Average Credit Score (time-weighted)	4.54	4.70	4.53
Average Credit Rating (time-weighted)	A+	A+	A+
Number of Counterparties / Fund	13	12	13
Proportion Exposed to Bail-in	42%	65%	63%

#### Liquidity

Proportion Available within 7 days	44%	44%	51%
Proportion Available within 100 days	72%	61%	71%
Average Days to Maturity	48	40	14

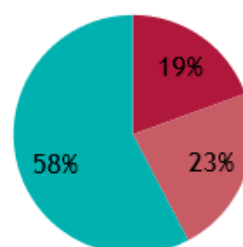
#### Market Risks

Average Days to Next Rate Reset	60	58	45
Strategic Fund Volatility	-	3.3%	4.4%

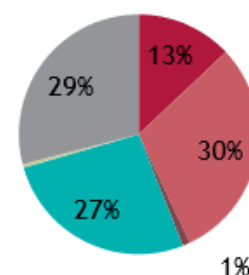
#### Yield

Internal Investment Return	0.15%	0.13%	0.15%
Cash Plus & Short Bond Fund - Total Return	-	1.82%	1.76%
Strategic Funds - Total Return	-	10.75%	10.57%
<b>Total Investments - Total Return</b>	<b>0.15%</b>	<b>3.93%</b>	<b>2.26%</b>
All External Funds - Income Only	-	3.88%	3.85%
All External Funds - Capital Gain	-	5.64%	5.49%
<b>Total Investments - Income On</b>	<b>0.15%</b>	<b>1.38%</b>	<b>0.90%</b>

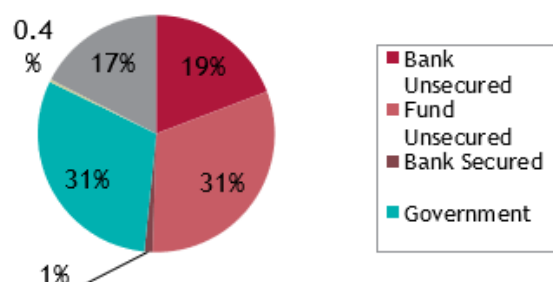
#### NW Leicestershire



#### English Non-Met Districts



#### All Arlingclose Clients



#### 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.

Add in sentence regarding low level of risk taken with locals (see email Rom)

<b>Policies and other considerations, as appropriate</b>	
Council Priorities:	Value for Money
Policy Considerations:	Treasury Management Strategy Statement 2021/22 Council 23 February 2021
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.
Officer Contact	Anna Wright Finance Team Manager and Deputy S151 Officer <a href="mailto:anna.wright@nwleicestershire.gov.uk">anna.wright@nwleicestershire.gov.uk</a> 01530 454492