Gloucester City Council

Meeting:	**Audit and Governance Committee** **Cabinet Briefing** **Cabinet**	**16 November 2020** **18 November 2020** **9 December 2020**
Subject:	**Treasury Management Update – Mid Year Report 2020/21**	
Report Of:	**Cabinet Member for Performance and Resources**	
Wards Affected:	**All**	
Key Decision:	**No** **Budget/Policy Framework: No**	
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Appendices:	**1. Prudential and Treasury Indicators** **2. Interest rate forecasts**	

FOR GENERAL RELEASE

1.0 Purpose of Report

1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report covers the six months 1st April 2020 to 30th September 2020 and therefore, ensures this Council is implementing best practice in accordance with the Code.

1.2 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council's treasury advisors Link Asset Services.

1.3 The body of the report provides an overview of the Councils performance for the first half 2020/21;

- **Appendix 1** highlights the key performance indicators in line with the Councils Treasury Management Strategy.
- **Appendix 2** Interest Rate Forecast.

2.0 Recommendations

2.1 Audit and Governance Committee is asked, subject to any recommendations it wishes to make to Cabinet, to note the contents of the report.

2.2 Cabinet is asked to **RESOLVE** that the contents of the report be noted.

3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2020/21, which includes the Annual Investment Strategy, was approved by the Council on 26th March 2020. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.1 The Council will also aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

3.2 As shown by the interest rate forecasts in appendix 2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

3.3 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short-term until those sums were able to be passed on.

As for money market funds (MMFs), yields have continued to drift lower. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money swilling around at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

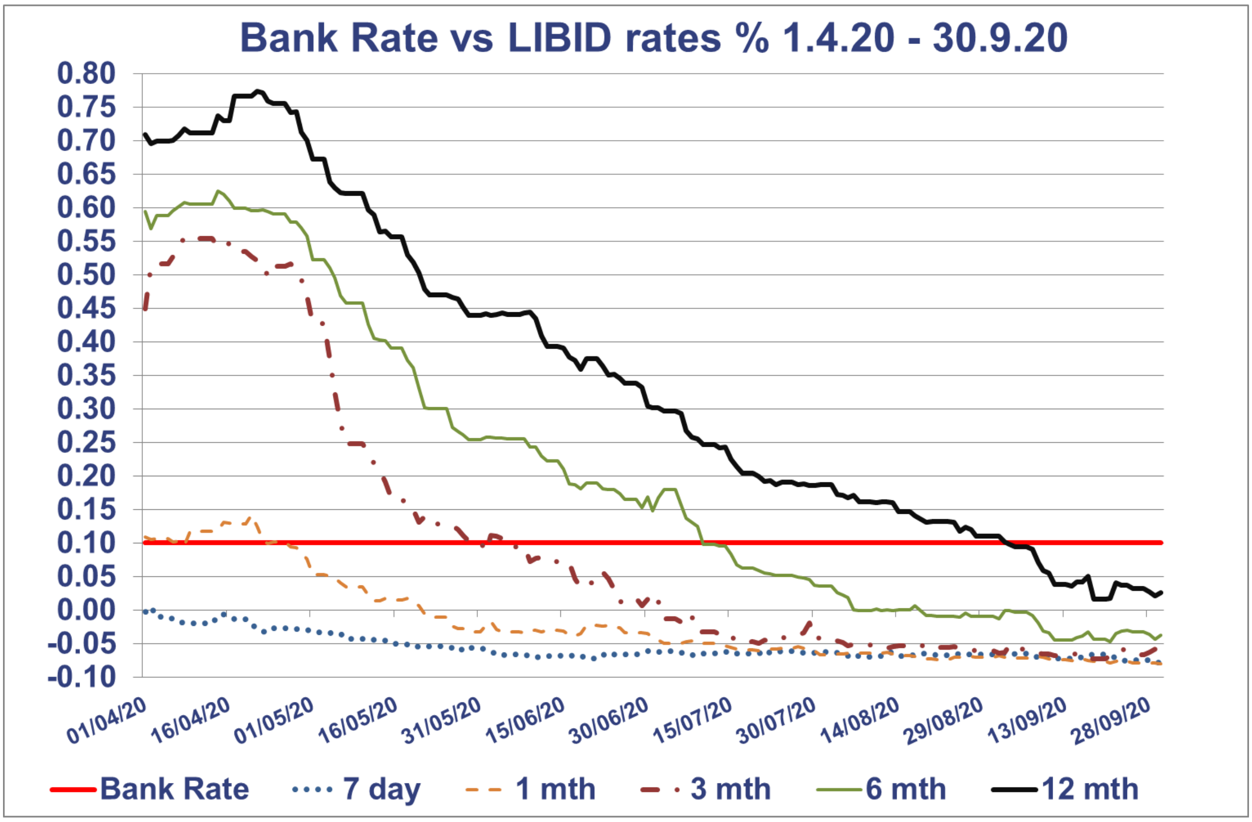
3.4 The average level of funds available for investment purposes during the year to date was £10.6m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds £12m core cash balances for investment purposes (i.e. funds available for more than one year).

Investment performance for the financial year to date as at 30th September 2020

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	-0.06%	0.32%	£34,498
1 month	-0.02%	1.90%	£3,559
3 month	0.11%	N/A	N/A
6 month	0.21%	N/A	N/A
12 month	0.35%	N/A	N/A

As illustrated, the Council outperformed the benchmark by 38 bps on 7 day investment returns, by 192 bps on 1 month investment returns.

Interest Rate Profile - Half year ended 30 September 2020

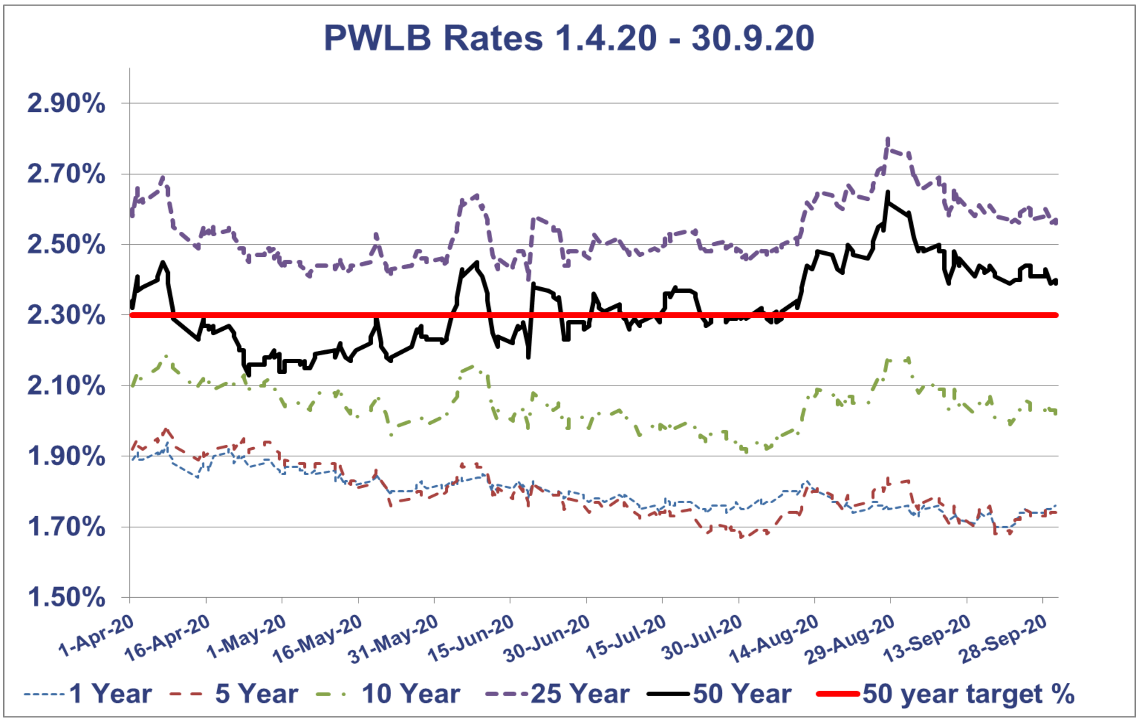


	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.10	0.00	0.14	0.56	0.62	0.77
High Date	01/04/2020	02/04/2020	20/04/2020	08/04/2020	14/04/2020	21/04/2020
Low	0.10	-0.08	-0.08	-0.07	-0.05	0.02
Low Date	01/04/2020	30/09/2020	30/09/2020	18/09/2020	21/09/2020	18/09/2020
Average	0.10	-0.06	-0.02	0.11	0.21	0.35
Spread	0.00	0.08	0.22	0.63	0.67	0.76

4.0 New Borrowing

4.1 No long term borrowing was undertaken during the period ended 30 September 2020.

4.2 The graph and table below show the movement in PWLB certainty rates for the first six months of the year to date. There has not been a great deal of volatility in PWLB rates since the start of the financial year, apart from a more significant spike up during the second half of August into early September. The 50 year PWLB target rate for new long term borrowing was unchanged at 2.30%.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.67%	1.91%	2.40%	2.13%
Date	18/09/2020	30/07/2020	31/07/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/2020	08/04/2020	08/04/2020	28/08/2020	28/08/2020
Average	1.80%	1.80%	2.04%	2.54%	2.33%

5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6.0 Compliance with Treasury and Prudential Limits

6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

6.2 During the financial year the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

7.0 Other

7.1 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

7.2 HM Treasury is consulting around the changes in PWLB rates following the increase to gilt yields plus 180bps in October 2019. The Council will continue to monitor the situation awaiting further guidance from HM treasury.

7.5 The Council will continue to monitor its approach to short term borrowing in accordance with our treasury advisor forecasts and future Council events which impact on the Council borrowing requirement.

8.0 Social Value Considerations

8.1 This report notes the treasury management performance of the Council. There are no anticipated Social Value considerations from this report.

9.0 Environmental Implications

9.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report.

10.0 Financial Implications

10.1 Contained in the report

(Financial Services have been consulted in the preparation this report.)

11.0 Legal Implications

11.1 There are no legal implications from this report
(Legal Services have been consulted in the preparation this report.)

12.0 Risk & Opportunity Management Implications

12.1 There are no specific risks or opportunities as a result of this report

13.0 People Impact Assessment (PIA):

13.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

14.0 Other Corporate Implications

Community Safety

14.1 None

Sustainability

14.2 None

Staffing & Trade Union

14.3 None