

Gloucester City Council

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| Meeting: | Cabinet | Date: | 16 June 2021 |
| | Audit and Governance Committee | | 19 July 2021 |
| Subject: | Treasury Management Update – Annual 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 October 2020 to 31st March 2021 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 Council's performance for the financial year 2020/21;
 - **Appendix 1** highlights the key performance indicators in line with the Council's 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 section 2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates are below or little above Bank Rate at 0.10%. Given this environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2024, investment returns are expected to remain low.

3.3 Inter-local authority lending and borrowing rates have also declined due to elevated cash levels 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.

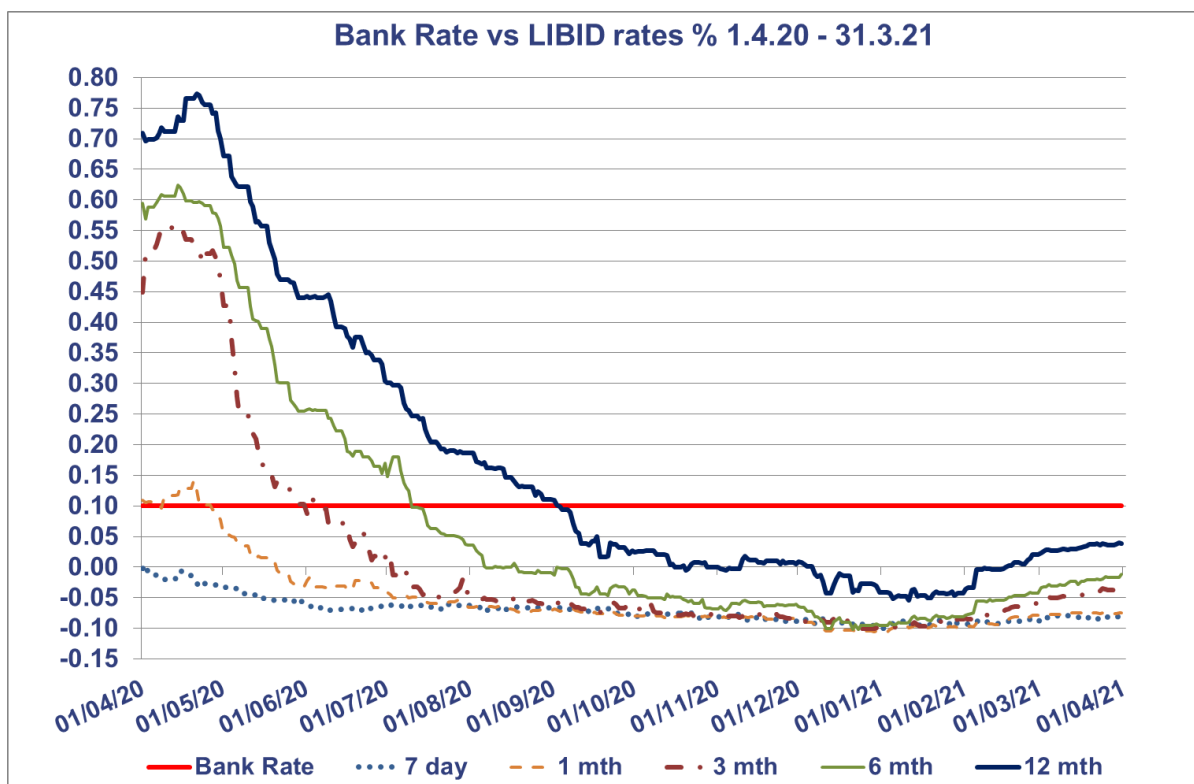
3.4 The average level of funds available for investment purposes during the year was £25.8m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme. The Council holds £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 31 March 2021

| Benchmark | Benchmark Return | Council Performance | Investment Interest Earned |
|-----------|------------------|---------------------|----------------------------|
| 7 day | -0.07% | 0.26% | £37,153 |
| 1 month | -0.05% | 1.90% | £3,559 |
| 3 month | 0.01% | N/A | N/A |
| 6 month | 0.07% | N/A | N/A |
| 12 month | 0.17% | N/A | N/A |

As illustrated, the Council outperformed the benchmark by 33 bps on 7 day investment returns, and by 195 bps on 1 month.

Interest Rate Profile – Year to date to 31 March 2021



| | 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 | -0.10 | -0.11 | -0.10 | -0.10 | -0.05 |
| Low Date | 01/04/2020 | 31/12/2020 | 29/12/2020 | 23/12/2020 | 21/12/2020 | 11/01/2021 |
| Average | 0.10 | -0.07 | -0.05 | 0.01 | 0.07 | 0.17 |
| Spread | 0.00 | 0.10 | 0.25 | 0.66 | 0.73 | 0.83 |

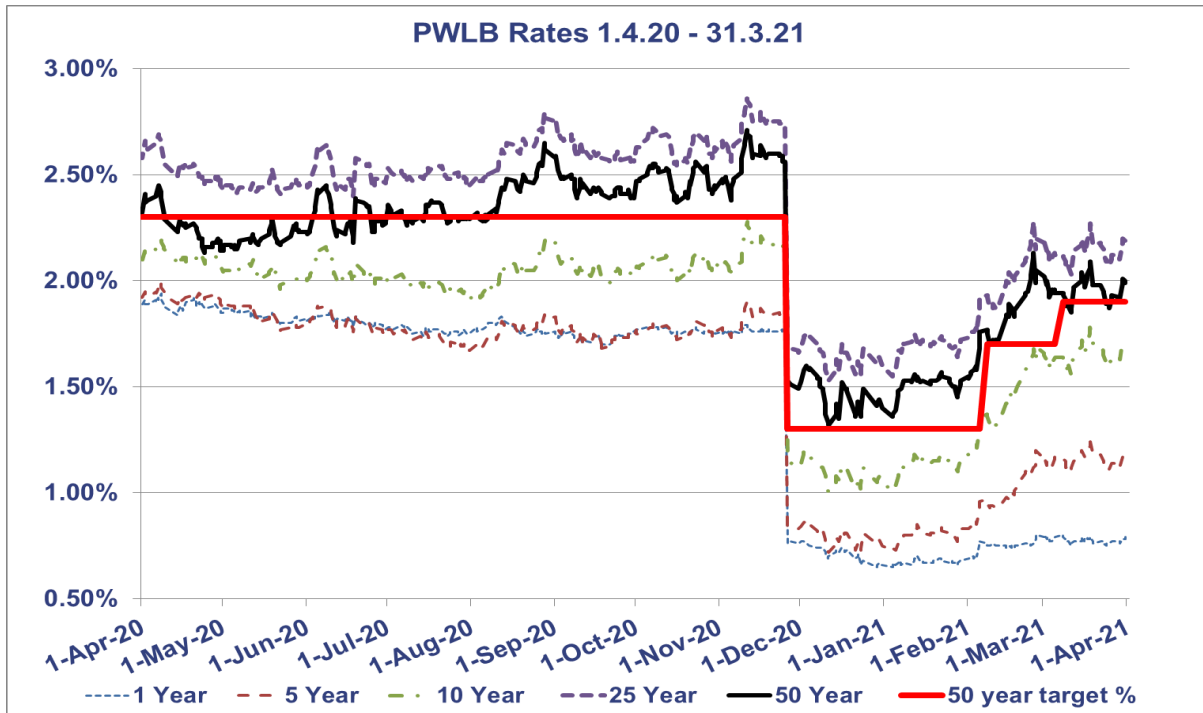
4.0 New Borrowing

4.1 No long term borrowing was undertaken during the year to 31st March 2021.

4.2 The margin over gilt yields for certainty PWLB rates was cut by 100 bps from 180 bps to 80 bps on 25th November 2020. There was limited volatility in PWLB rates in the first three quarters of the financial year, apart from a more significant spike up during the second half of August into early September and in mid-November. However, gilt yields and PWLB rates have risen sharply in quarter 4.

The 50 year PWLB target certainty rate for new long-term borrowing was unchanged at 2.30% all year until the margin change on 25th November 2020 when it fell to 1.30%. It then rose to 1.70% in February 2021 and to 1.90% in March.

PWLB maturity certainty rates year to date to 31 March 2021



| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|----------------|------------|------------|------------|------------|------------|
| Low | 0.65% | 0.72% | 1.00% | 1.53% | 1.32% |
| Date | 04/01/2021 | 11/12/2020 | 11/12/2020 | 11/12/2020 | 11/12/2020 |
| High | 1.94% | 1.99% | 2.28% | 2.86% | 2.71% |
| Date | 08/04/2020 | 08/04/2020 | 11/11/2020 | 11/11/2020 | 11/11/2020 |
| Average | 1.43% | 1.50% | 1.81% | 2.33% | 2.14% |
| Spread | 1.29% | 1.27% | 1.28% | 1.33% | 1.39% |

5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have 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. The Head of Policy and Resources reports that no difficulties are envisaged for the current or future financial years in complying with these indicators.

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 Recent changes to PWLB rules have removed the PWLB as a lending facility where commercial property is involved. The Council does not anticipate these changes will impact our borrowing with the PWLB.

8.0 Social Value Considerations

8.1 This report notes the treasury management performance of the Council. The Council considers Social Value when reviewing individual investment opportunities and seeks to work with local partners to achieve social value through joint projects.

9.0 Environmental Implications

9.1 This report notes the treasury management performance of the Council. The Council investment activities are limited to generic money market funds who have environmental and social policies.

10.0 Financial Implications

10.1 Contained in the report

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

11.0 Legal Implications

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

Background Documents: None