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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>17 November 2020</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/95/20/KJ</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>TREASURY MANAGEMENT – MID-YEAR REPORT 2020/21</b>		

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### 1.0 PURPOSE

- 1.1 The purpose of this report is to advise Members of the operation of the treasury function and its activities for the first six months of 2020/21 as required under the terms of Treasury Management Practice 6 ("TMP6") on "Reporting Requirements and Management Information Arrangements".

### 2.0 SUMMARY

- 2.1 The COVID-19 emergency has impacted the Council's treasury management position with additional cash flows in from advanced grants/funding for COVID-19 and out for grant funding to businesses and additional costs from COVID-19. There has also been reduced capital expenditure due to lockdown. There is continued economic uncertainty with the UK Bank Rate at a historically low 0.10% and investment rates at levels close to zero.
- 2.2 As at 30 September 2020 the Council had gross external debt (including PPP) of £268,547,578 and investments (cash balances managed in house) of £49,640,851. This compares to gross external debt (including PPP) of £274,392,487 and investments of £29,655,497 at 31 March 2020.
- 2.3 The Council is projected to be underborrowed by £30,620,000 compared to its Capital Financing Requirement as at 31 March 2021. This is an increase of £5,337,000 from the estimate of £25,283,000 in the 2020/21 Treasury Management Strategy. The under borrowing position means that the Council is using funds it currently has (such as reserves) to cash flow capital expenditure rather than bringing in new funds from borrowing.
- 2.4 The Council has not borrowed this year. The 2020/21 Treasury Management Strategy includes £10m of replacement borrowing but the current projection for the remainder of the year does not anticipate additional borrowing. Borrowing may, however, be undertaken if funds are required and if it is prudent to borrow.
- 2.5 The average rate of return achieved on investments during the first six months of 2020/21 was 0.20% which exceeds the benchmark return rate for the period of 0.11% by 0.09% and resulted in £17,400 of additional interest on investments for the Council.
- 2.6 During the first six months of 2020/21 the Council did not undertake any debt restructuring and operated within the required treasury limits and Prudential Indicators for the year set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.
- 2.7 In October 2019 the PWLB added 1% to their interest rates for new borrowing. They have now undertaken a consultation on their future lending terms which is expected to result in their lending rates for new borrowing being reduced at some future date which reinforces the strategy of minimising new borrowing at this time.

### **3.0 RECOMMENDATIONS**

- 3.1 It is recommended that the Committee notes the contents of the Mid-Year Report on Treasury Management for 2020/21 and the ongoing work to ensure the delivery of financial benefits for the Council.
- 3.2 It is recommended that the Mid-Year Report be remitted to the Inverclyde Council for approval.

Alan Puckrin  
Chief Financial Officer

## 4.0 BACKGROUND

- 4.1 The Council is required by the CIPFA Code of Practice on Treasury Management 2011 and the CIPFA Prudential Code for Capital Finance in Local Authorities to produce a mid-year treasury management review of activities and prudential and treasury indicators for 2020/21.
- 4.2 Treasury Management in this context is defined as: “The management of the local authority’s 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.”

## 5.0 MID-YEAR REVIEW

- 5.1 The treasury management issues arising during the first six months of 2020/21 include issues from the COVID-19 emergency:
  - a. The Council’s debt (including PPP) has reduced during the period by £5,844,909 due largely to PWLB debt that matured in July and for which the Council has not re-borrowed.
  - b. The Council’s investments have increased by £19,985,354 due to additional net cash flows into the Council from advanced grants/funding for COVID-19 and other spending and the impact of reduced capital expenditure due to lockdown.
  - c. As at 31 March 2020 the Council had under borrowed against its capital financing requirement by £27,840,000. The latest projection is for the under borrowing to increase to £30,620,000 as at 31 March 2021. Under borrowing means that the Council is using funds it currently has to cash flow capital expenditure rather than bringing in funds from borrowing. The projected level of under borrowing is considered manageable but the position is kept under review in light of Council capital financing and other funding requirements.
  - d. The COVID-19 emergency has added to the ongoing financial market volatility and economic uncertainty in the UK and around the world. In March 2020 the UK Bank Rate was cut twice in 8 days at emergency meetings, firstly by 0.50% to 0.25% and then down to 0.10% - the lowest Bank Rate ever in the UK - and a further £200bn of Quantitative Easing was added at the second emergency meeting with another £100bn in June.
  - e. The latest forecast from the Council’s treasury advisers (produced in August) is for the Bank Rate to remain at 0.10% through to at least March 2023.
  - f. During the period PWLB rates for new borrowing had been expected to see slight increases of up to 0.10%. Rates for short periods fell by around 0.15% for shorter periods but increased by the same amount for longer periods. The volatility during the 6-month period resulted in spreads between the high and low rates for some loan periods of up to 0.56% (e.g. borrowing rates for 42 years of 2.58% at the end of September had been at 2.17% in April and at 2.73% in August).
  - g. In October 2019 the PWLB added 1% to their interest rates for new borrowing. They have now undertaken a consultation on their future lending terms which is expected to result in their lending rates for new borrowing being reduced although the date for any change is unknown. Aside from this, the Council’s treasury advisers expect PWLB rates to rise very gently during the rest of the year but the extent and speed of increase will depend on the economic and other factors affecting the UK and global markets.
  - h. During the period the Council has not undertaken any borrowing. The Treasury Management Strategy includes £10m of replacement borrowing but the current projection for the remainder of the year does not anticipate additional borrowing. Borrowing may, however, be undertaken if funds are required and if it is prudent to borrow. Any borrowing undertaken will be reported to Committee.
  - i. The Council did not undertake any debt restructuring during the first six months of 2020/21 and remained within its Prudential Indicator and Treasury Management limits.

- j. The cuts to the Bank Rate in March down to 0.10% means that investment rates and returns have also fallen with many rates close to zero, including for fixed term deposits.
- k. The Council's investments earned a rate of return of 0.20% during the period and outperformed the benchmark return of 0.11% resulting in additional income to the Council of £17,400.
- l. All investments were in accordance with the Council's investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the period.
- m. The Council's investment performance is due to undertaking fixed term investments at interest rates that were above the benchmark with counterparties that have high creditworthiness (the Bank of Scotland and Santander UK) and in accordance with the Council's investment strategy.

5.2 The Council's debt position was as follows:

	At 31 March 2020	At 30 September 2020
	£	£
Total Excluding PPP	213,699,487	208,726,578
PPP Debt	60,693,000	59,821,000
Total Including PPP	274,392,487	268,547,578

Further detail is given in the following table:

	At 31 March 2020		At 30 September 2020		Movement In Period
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	114,117		109,065		(5,052)
- Market *	55,000		71,000		See * Below
	169,117	3.55%	180,065	3.69%	(5,052)
Variable Rate Funding:					
- PWLB	0		0		0
- Market *	44,400		28,400		See * Below
- Temporary #	182		262		80
	44,582	4.86%	28,662	4.87%	80
Total Debt (Excl PPP)	213,699	3.82%	208,727	3.85%	(4,972)
PPP Debt	60,693		59,821		(872)
Total Debt (Incl PPP)	274,392		268,548		(5,844)

\* - Market Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of Market Loans has not changed between financial years, just the split between fixed and variable.

# - Temporary Loans include funds held by the Council on behalf of the Common Good and Trust Funds that are treated as borrowing for Treasury Management purposes.

5.3 The Council's investment position was as follows:

	At 31 March 2020		At 30 September 2020		Movement In Period
	Principal	Return	Principal	Return	Principal
	£000		£000		£000
Investments:					
- Fixed Term Deposits	0	0.00%	15,000	0.32%	15,000
- Notice Accounts	10,036	0.25%	14,506	0.36%	4,470
- Deposit Accounts	19,619	0.10%	20,135	0.10%	516
Totals	29,655	0.15%	49,641	0.24%	19,986

Maximum level of investments in Period: £52,249,182 on 18 August 2020

Minimum level of investments in Period: £28,111,705 on 2 June 2020

Daily average for the period: £38,745,431

An analysis of the above investments is shown in Appendix 1.

In addition to the above cash balances managed in-house, the Council has other transactions/balances required to be treated as investments under Investment Regulation 31. Appendix 2 includes these transactions/balances along with estimates for 2020/21.

5.4 2020/21 Latest Projection Compared to Estimates in 2020/21 Strategy

The latest 2020/21 projection compared to the estimates in the 2020/21 strategy:

	2020/21 Estimate	2020/21 Latest Projection
	£000	£000
<u>Borrowing Requirement</u>		
New borrowing	0	0
Alternative financing requirements	0	0
Replacement borrowing	10,000	0
TOTAL	10,000	0
<u>Prudential/Treasury Management Indicators</u>		
	£000	£000
Gross external debt including PPP (As at 31 March 2021)	267,694	257,595
Capital financing requirement (As at 31 March 2021)	292,977	288,215
(Under)/over borrowing against CFR	(25,283)	(30,620)
	£000	£000
Gross Capital Expenditure	18,420	12,283
Ratio of financing costs (including PPP) to net revenue stream	13.86%	13.50%
Ratio of net debt (debt and PPP less investments) to net revenue stream	124.1%	112.6%

5.5 2020/21 Mid-Year Position Compared to Limits in 2020/21 Strategy

The 2020/21 mid-year position compared to limits in the 2020/21 strategy:

	2020/21 Limits	2020/21 Mid-Year Actual Position		
<u>Prudential/Treasury Management Indicators</u>				
Authorised limit for external debt	£000	£000		
• Borrowing	241,000	208,727		
• Other long term liabilities	61,000	59,821		
	302,000	268,548		
Operational boundary for external debt	£000	£000		
• Borrowing	241,000	208,727		
• Other long term liabilities	61,000	59,821		
	302,000	268,548		
Upper limit on sums invested for periods longer than 365 days (Actual is maximum in period)	£000 10,000	£000 0		
Upper limits on Fixed/Variable borrowing maturing in each period (LOBOs included based on call dates and not maturity dates) at 31 March 2021				
	Fixed	Var.	Fixed	Var.
• Under 12 months	45%	35%	4.8%	13.7%
• 12 months and within 24 months	45%	35%	12.0%	-
• 24 months and within 5 years	45%	35%	14.9%	-
• 5 years and within 10 years	45%	35%	5.4%	-
• 10 years and within 30 years	45%	35%	8.4%	-
• 30 years and within 50 years	45%	35%	21.6%	-
• 50 years and within 70 years	45%	35%	19.2%	-
<u>Council Policy Limits</u>				
Maximum Percentage of Debt Repayable In Year	25%		19.2%	
Maximum Proportion of Debt At Variable Rates	45%		13.7%	
Maximum Percentage of Debt Restructured In Year	30%		0.0%	

5.6 The January 2020 forecast from the Treasury Advisors included in the 2020/21 Strategy for the Bank Rate as at 31 March each year and the latest forecast for the Bank Rate are:

	Forecast Per 2020/21 Strategy	Latest Forecast
2020/21	0.75%	0.10%
2021/22	1.00%	0.10%
2022/23	1.25%	0.10%

5.7 The Council's investment policy for the year is governed by Scottish Government Investment Regulations, which was implemented in the annual investment strategy approved by the Council. This policy sets out the approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps, bank share prices etc.

- 5.8 All investments were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full during the period.

The result of the investment strategy undertaken by the Council in the first six months of 2020/21 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3 month LIBID uncompounded)
£38,745,431	0.20%	0.11%

The Council have outperformed the benchmark by 0.09% resulting in additional income to the Council of £17,400. Opportunities for the Council to out-perform the benchmark rate are becoming fewer due to more standardisation of rates and periods offered.

## 6.0 IMPLICATIONS

### 6.1 Finance

Through the achievement of exceeding the investment benchmark return rate, the Council has benefited from additional returns of £17,400. The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

### 6.2 Legal

None. Any borrowing or lending is done under the Council's legal powers.

### 6.3 Human Resources

None.

### 6.4 Equalities

#### Equalities

- (a) Has an Equality Impact Assessment been carried out?

X	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required
	YES (see attached appendix)

(b) Fairer Scotland Duty

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
X	NO

(c) Data Protection

Has a Data Protection Impact Assessment been carried out?

	YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.
X	NO

**6.5 Repopulation**

None.

**7.0 CONSULTATIONS**

7.1 This report has been produced based on advice from the Council's treasury advisers (Link Treasury Services Limited).

**8.0 LIST OF BACKGROUND PAPERS**

8.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition  
Inverclyde Council – Capital Strategy 2020/30 and Treasury Management Strategy Statement and Annual Investment Strategy 2020/21-2023/24.



**CASH BALANCES MANAGED IN-HOUSE  
ACTUAL AS AT 31 MARCH 2020 AND 30 SEPTEMBER 2020**

The following is an analysis of cash balances managed in-house as at 31 March 2020 and at 30 September 2020:

	<b>As At 31 March 2020</b>	<b>As At 30 September 2020</b>
	£	£
<u>Fixed Term Deposits</u>		
Bank of Scotland	0	10,000,000
Santander UK	0	5,000,000
	0	15,000,000
Average Interest Rate	0.00%	0.32%
<u>Notice Accounts</u>		
Bank of Scotland	10,036,393	5,000,137
Santander UK	0	9,506,209
	10,036,393	14,506,346
Average Interest Rate	0.25%	0.36%
<u>Deposit Accounts</u>		
Bank of Scotland	19,618,600	20,134,000
Santander UK	504	505
	19,619,104	20,134,505
Average Interest Rate	0.10%	0.10%
<b>TOTAL</b>	<b>29,655,497</b>	<b>49,640,851</b>
Average Interest Rate	0.15%	0.24%

**FORECAST OF INVESTMENT BALANCES  
ESTIMATE FOR 2020/21 AND ACTUAL AT 30 SEPTEMBER 2020**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2020/21 and the actual as at 30 September 2020 are:

	<b>2020/21</b>	<b>2020/21</b>
	<b>Estimate For Year</b>	<b>Actual For 1 April 2020 To 30 September 2020</b>
	<b>£000</b>	<b>£000</b>
Cash balances managed in-house		
- At Start of Year	20,000	29,655
- At End of Year/Period	22,838	49,641
- Change in Year/Period	2,838	19,986
- Average daily cash balances	21,419	38,745
Holdings of shares, bonds, units (includes local authority owned company)		
- At Start of Year	2	2
- Purchases	0	0
- Sales	0	0
- At End of Year/Period	2	2
Loans to local authority company or other entity to deliver services		
- At Start of Year	442	442
- Advances	0	0
- Repayments	43	21
- At End of Year/Period	399	421
Loans made to third parties (Largely BPRA) #		
- At Start of Year	2,117	2,117
- Advances	4	0
- Repayments ##	720	21
- At End of Year/Period	1,401	2,109
Total of all investments		
- At Start of Year	22,561	32,216
- At End of Year/Period	24,640	52,173
- Change in Year/Period	2,079	19,957

# - This includes the £50,000 investment made with the Shared Interest Society Limited in August 2017.

## - The main part of the repayments are for the BPRA and are due in March 2021.