Appendix A

Treasury Management Update
31st December 2020

1. Introduction

1.1. Treasury Management is defined as “The management of the Authority’s investments and 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”.

1.2. The Council has adopted CIPFA’s revised Code of Practice for Treasury Management which recommends that Members should be briefed on Treasury Management activities at least twice a year.

1.3. The Audit & Regulatory Committee has delegated responsibility for scrutinising the treasury function. The Committee’s role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Regulatory Committee are reported to full Council.

1.4. The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council on 12th February 2020. This report details treasury management performance up to the 31st December 2020 and projects forward for the remainder of the financial year.

2. Economic Forecast – Interest Rates

2.1. The Council’s treasury advisers, Link Asset Services (‘Link’), provide the latest base rate and PWLB (Public Works Loan Board) forecast:

%	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5yr PWLB rate	0.80	0.80	0.80	0.80	0.90	0.90	0.90	0.90	0.90	1.00	1.00
10r PWLB rate	1.10	1.10	1.10	1.10	1.20	1.20	1.20	1.20	1.20	1.30	1.30
25yr PWLB rate	1.50	1.60	1.60	1.60	1.60	1.70	1.70	1.70	1.70	1.80	1.80
50yr PWLB rate	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50	1.50	1.60	1.60

2.2. Link’s interest rate forecast has the Bank of England base rate continuing at 0.10% for the short- to medium-term; and average Council investment returns of near 0%.

2.3. The PWLB consultation was released at the end of November 2020 and, as was widely anticipated, rates were reduced by 1%, a reversal of the overnight 1% increase that was imposed in October 2019, along with a restriction that Councils cannot borrow from the PWLB if they include in their three year capital programme the purchase any assets which are primarily for yield.

3. Covid-19 impact on Treasury Management

3.1. The impact of Covid-19 on the Council's cash flows is being carefully monitored: the timing of some cash flows is changed in comparison to the usual trends with deferrals of payment plans for Council Tax and Business Rates; some grant receipts having an earlier payment profile; some cash flows have been reduced, such as car parking income; and the grant schemes which the Council is delivering have the effect of unusual cash inflows followed by the outflows over a period; all of which results in a very different cash flow profile.

3.2. 'Liquidity' of cash flows being a primary concern in Treasury Management, subordinate only to 'Security', it was decided in the first quarter than no new fixed term investments would be made. As the cash flow forecast has developed during the last 6 months the Council has made investments in 95 day notice accounts which offer a good level of liquidity with slightly improved 'Yields' compared to instant access accounts.

3.3. Whilst the Council was in receipt of the £29million grant from Central Government to distribute under the Business Grants Scheme from March/April 2020, it was necessary to increase all the Counterparty limits set in the Treasury Management Strategy Statement for 2020/21 in order to accommodate these balances in the short term as the scheme was administered and payments could be made. This occurred again from November 2020. Whilst cash balances were returned to more normal levels, the treasury management team reverted to the original approved Counterparty Limits. This is shown in more detail at section 5.

4. Investment Income

4.1. Interest earned on investment deposits up to 31st December 2020 totalled £74,130. The Council has budgeted to receive £160,000 in investment income in 2020/21. The budget was set with an expectation of higher interest rates than the current environment: 0.75% for the first three quarters of the year and a further potential rise to 1.00% at the end of the year.

4.2. During the year interest rates on accounts have fallen significantly, initially following the Bank of England base rate reductions in March to 0.10%, then compounded by the market sentiment pricing in potential negative rates. This is illustrated in the table below with the reduction in average interest rates from quarter to quarter.

4.3. The investment portfolio is also reduced due to the continuation of internal borrowing, though this still represents a net saving in lieu of the external borrowing costs. Therefore a shortfall of £54,220 is forecast on the investment income budget.

4.4. The average interest rate achieved on the Council's investments compared to industry benchmark rates shows the Council is still performing relatively well:

Comparator	Average Rate Q1	Average Rate Q2	Average Rate Q3
HPBC Average	**0.50%**	**0.27%**	**0.16%**
HPBC long-term fixed (>364 days)	1.10%	1.10%	1.10%
HPBC short-term fixed (<364 days)	0.93%	0.52%	0.32%
HPBC instant access	0.37%	0.14%	0.05%
Benchmarks			
**LIBID 12 month rate*	*0.56%*	*0.14%*	*<0.00%*
**LIBID 6 month rate*	*0.40%*	*0.02%*	*<0.00%*
**LIBID 3 month rate*	*0.26%*	*<0.00%*	*<0.00%*
**LIBID 7 day rate*	*<0.00%*	*<0.00%*	*<0.00%*
Base Rate at the end of the period	0.10%	0.10%	0.10%

**LIBID = London Inter Bank Bid Rate*

Crescent Development

4.5. The Council provided a loan of £250,000 to the Buxton Crescent Heritage Trust as part of the Crescent development. Interest is charged on the loan at 6% which amounts to £15,000 during 2020/21. This income is included in the investment income forecast outturn reported above.

Icelandic Investments

4.6. At the end of July the Council received an unexpected 16th dividend payment from the former Icelandic investment with Heritable Bank of £10,518.59. This will be treated as windfall income in the year and offsets some of the investment income shortfall against the budget.

5. Investment Portfolio

5.1. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria. The Council's investment portfolio at 31st December 2020 totalled £38,495,000:

Financial Institution	Country of Domicile	Amount	Maximum recommended lending duration	Interest rate at end of period	Average Maturity
NatWest Bank	UK	£9,495,000	**BLUE (12 months)**	0.01%	Instant access
Aberdeen MMF	UK	£7,000,000	**WHITE (12 months)**	0.01%	Instant access
Handelsbanken	UK	£6,300,000	**ORANGE (12 months)**	0.10%	Instant access
Santander	UK	£5,200,000	**RED (6 months)**	0.40%	95 day notice
Federated MMF	UK	£3,500,000	**WHITE (12 months)**	0.01%	Instant access
Lloyds Bank	UK	£3,000,000	**RED (6 months)**	0.10%	95 day notice
Barclays 'Green'	UK	£3,000,000	**RED (6 months)**	0.30%	95 day notice
Standard Chartered 'Sustainable'	UK	£1,000,000	**RED (6 months)**	0.09%	181 days
TOTAL		**£38,495,000**			

MMF = Money Market Fund

5.2. The average level of funds available for investment up to 31st December 2020 was £32.1million. Both average balances for the year and the total portfolio at the end of December 2020 are larger than usual due Covid 19 grants being held whilst business grant schemes are administered.

Ethical investing

5.3. The Council currently holds £4million in financial investments with Environmental, Social and Governance (ESG) links, sometimes known as Ethical Investing and encompassing the Climate Change agenda. These are included in the investment portfolio table above, but are also highlighted here:

Product	Amount	ESG merits
Barclays 'Green' (95 day notice account)	£3,000,000	Linked to Barclays' Green Bond Purchasing Programme which covers 'a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction'.
Standard Chartered 'Sustainable' Deposit (6 month fixed term)	£1,000,000	Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.
TOTAL	**£4,000,000**	**10.39% of total portfolio**

Counterparty limits

5.4. The maximum investment term, as recommended by Link, is shown by colour banding in the table below with the TMSS approved counterparty limits. Due to unexpected cash balances in the Council's accounts relating to funding for Covid business grant schemes throughout the year, treasury management was operated with extended counterparty limits from April to August; and again from mid-November. Whilst cash balances returned to more normal levels, the approved TMSS limits were adhered to:

		Approved TMSS 2020/21		Extraordinary counterparty limit increase during Covid-19 excess cash balances
Colour Banding	**Maximum Duration of Investment**	**UK Banks**	**International Banks**	**UK Banks**
PURPLE	Up to 2 years	£7.0m	£5.2m	£14.0m
ORANGE	Up to 12 months	£6.3m	£4.2m	£12.6m
RED	Up to 6 months	£5.2m	£3.5m	£10.4m
GREEN	Up to 100 days	£4.5m	£2.8m	£9.0m
BLUE (Part nationalised financial institutions)	Up to 1 year	£7.0m	n/a	£14.0m
BLUE (NatWest)	Up to 1 year	£10.5m	n/a	£21.0m
Money Market Funds	Up to 1 year	£7.0m	n/a	£14.0m

Group limits are also applied where counterparties are in the same group as each other:

Portfolio % increased by 50%	Approved TMSS 2020/21	Extraordinary counterparty limit increase during Covid-19 excess cash balances
Category	**Group Principal Limit**	**Group Principal Limit**
BLUE	£10.5m	£21.0m
PURPLE	£10.5m	£21.0m
ORANGE	£9.4m	£18.8m
RED	£8.0m	£16.0m
GREEN	£7.0m	£14.0m
Money Market Funds	£10.5m	£21.0m

6. Borrowing Position

6.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'Affordable Borrowing Limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement.

6.2. The Council's total outstanding debt as at 31st December 2020 is £66,825,404, as detailed in the table below:

Lender	External Borrowing	Average Interest Rate	Maturity period
Public Works Loan Board	£54,025,404	3.76%	between 2 and 43 years
Market Loans	£12,800,000	4.57%	between 3 and 48 years
Total	**£66,825,404**	**3.92%**	

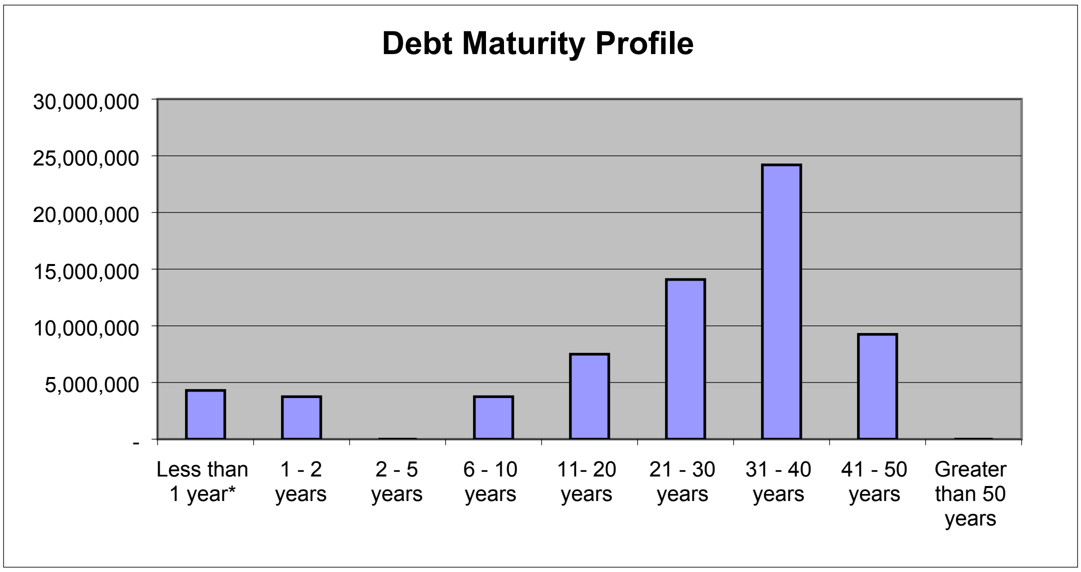
6.3. The 'operational boundary' (£89,098,000) and 'authorised limit' (£91,598,000) indicators govern the maximum level of external borrowing available to the Council to fund the capital programme. The current level of borrowing is within prudential limits.

6.4. The Council adopts a 'one pool' approach to borrowing whereby investments and borrowing are managed centrally with the proportional income and expenditure then split between the general fund and HRA. The Council has budgeted for interest charges and other financing costs of £1,837,940 to the general fund and £1,746,340 to the HRA in 2020/21

6.5. The budget for borrowing costs was based on the existing external debt and new external debt from the 2019/20 and 2020/21 general fund borrowing requirements. There has been no 'new' borrowing thus far during the current year and the Council continues to maintain a level of internal borrowing as anticipated. In additional the MRP charge is smaller than anticipated in the budget, therefore an underspend of £88,960 is forecast against the borrowing costs budget, £89,260 attributable to the general fund, which bears the costs of MRP and (£300) to the HRA as reductions in borrowing costs are offset by shortfall in investment income.

6.6. The treasury team will continue to monitor the appropriate time to externally borrow based on the profile of spend and opportunities to 'internally' borrow, considering the movement in interest rates and the cost of carry of any borrowings taken.

6.7. Attention must also be given to the maturity profile of the loans to ensure maturity dates are evenly spread so that the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below details the maturity profile of current loans.



*In accordance with guidance, the maturity date of LOBO's is deemed to be the next call date. Loans of £4.3m showing as 'less than 1 year' have a full maturity date of £1m 2023/24, £3.3m 2064/65.

6.8. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, along with Link, continually monitor prospects for debt rescheduling to achieve overall financial benefit to the Council.

6.9. No rescheduling has taken place during 2020/21 to date. The Council will work with Link to identify any potential debt rescheduling options – taking account of the premium the Council would expect to pay on early redemption compared to the potential interest savings.

7. Prudential Indicators

7.1. The Council complies with the Council's Treasury Management Practices and has operated within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2020/21 with the extension to counterparty limits during high covid-19 cashflows explained above.