

REPORT TO: Executive Board

DATE: 19 November 2020

REPORTING OFFICER: Operational Director – Finance

PORTFOLIO: Resources

TITLE: Treasury Management Annual Report 2019-20
and Half Year Report 2020-21

WARDS: Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market as required by the Treasury Management Policy.

2.0 RECOMMENDED: That the report be noted.

3.0 SUPPORTING INFORMATION

Economic Outlook

3.1 The following analysis of the economic situation has been provided by Link Asset Services, the Council's treasury management advisors.

3.2 During the six months ended 30 September 2020

- There was a quicker-than-expected recovery in GDP in June and July
- Retail spending rose 4.0% above its pre- Covid virus level, but the recovery in investment lagged behind
- There was a second wave of the virus and a tightening in COVID-19 restrictions in September
- In September, the Chancellor announced a new fiscal package worth £5bn (0.2% of GDP) to support the economy;
- Concerns about a second wave and a no deal Brexit weighed on the FTSE 100 and the pound
- There were divisions on the Monetary Policy Committee over the possible use of negative interest rates;

3.3 As expected, the Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged on 6th August (and subsequently 16th September). It also kept unchanged the level of quantitative easing at £745bn. It also quashed any idea of using negative interest rates, at least in the next six

months or so. It suggested that while negative rates can work in some circumstances, it would be “less effective as a tool to stimulate the economy” at this time when banks are worried about future loan losses.

- 3.4 The pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind.
- 3.5 There will be some painful longer term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth
- 3.6 The Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to “somewhat less than £80bn”. It stated that in its assessment “banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC’s central projection”. The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC’s projection, with unemployment rising to above 15%.
- 3.6 In the United States the incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions.
- 3.7 In the EU the economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and

it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

Interest Rate Forecast

3.11 The following forecast has been provided by Link Asset Services.

Link Group Interest Rate View 11.8.20											
	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

During the period of these two reports the bank base rate dropped from 0.75% to 0.25% on 11 March 2020, then dropped further to 0.10% on 19 March 2020

Treasury Management Annual Report 2019-20

3.12 The borrowing rates from September 2019 to March 2020 are shown below:

Short Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
Call Money (Market)	0.66	0.68	0.68	0.68	0.68	0.68	0.06
1 Month (Market)	0.72	0.71	0.71	0.70	0.71	0.68	0.24
3 Month (Market)	0.76	0.81	0.79	0.79	0.76	0.67	0.60

Longer Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
1 Year (Market)	0.89	0.97	0.95	0.98	0.88	0.75	0.86
10 Year (PWLB)	1.30	2.45	2.48	2.70	2.36	2.25	2.17
25 Year (PWLB)	1.83	3.00	3.03	3.22	2.87	2.77	2.65

3.13 Market rates are based on LIBOR rates and PWLB rates are for new loans based on principal repayable at maturity. The rates are shown for the end of

each month. Please note that during October 2019 the Government increased borrowing rates from PWLB by 1%.

Borrowing and Investments

Turnover During the Period

	No of deals	Turnover £m
Short Term Borrowing	2	10
Short Term Investments	5	40

Position at Month End

	Sep £m	Oct £m	Nov £m	Dec £m	Jan £m	Feb £m	Mar £m
Total Borrowing	172	172	172	172	182	182	177
Total Investments	(110)	(110)	(105)	(95)	(100)	(95)	(80)
Call Account Balance	(12)	(5)	(6)	(5)	(15)	(6)	(21)

Investment Benchmarking

Benchmark	Benchmark Return %	Performance Oct - Mar %	Investment Interest Earned £000
7 day	0.57	0.65	53
1 month	0.60	-	-
3 month	0.66	1.02	93
6 month	0.73	0.93	6
12 month	0.83	1.13	301
Over 12 months	-	1.41	191
Property Fund	-	4.24	106
Total			750

- 3.14 This shows the Council has exceeded the benchmark for all investments between October 2019 and March 2020 ensuring the maximum yield for all funds invested.
- 3.15 At 31 March 2020 Halton Borough Council held £5m in the CCLA Local Authority Property Fund. There is no benchmark available for this income.

Budget Monitoring

Net Interest at 31st March 2020			
	Budget Year to Date £000	Actual Year to Date £000	Variance £000
Investments	(1,055)	(1,482)	427
Borrowings	1,099	1,115	(16)
Total	44	(367)	411

New Long Term Borrowing

3.16 The Council has not borrowed any long term funds during this period.

Policy Guidelines

3.17 The Treasury Management Strategy Statement (TMSS) for 2019/20, which includes the Annual Investment Strategy, was approved by the Council on 06 March 2019. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.18 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in line with Link's credit rating methodology.

Treasury Management Indicators

3.19 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 were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

Debt Rescheduling

3.20 No debt rescheduling was undertaken during the quarter.

Treasury Management Half Yearly Report 2020-21

3.12 The borrowing rates from April 2020 to September 2020 are shown below:

Short Term Borrowing Rates

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
Call Money (Market)	0.06	0.05	0.06	0.05	0.05	0.05	0.05
1 Month (Market)	0.24	0.20	0.09	0.09	0.06	0.05	0.05
3 Month (Market)	0.57	0.59	0.22	0.14	0.08	0.06	0.06

Longer Term Borrowing Rates

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
1 Year (Market)	0.83	0.83	0.56	0.43	0.31	0.24	0.16
10 Year (PWLB)	2.17	2.10	2.02	2.01	1.94	2.21	2.06
25 Year (PWLB)	2.65	2.44	2.45	2.47	2.46	2.77	2.56

3.13 Market rates are based on LIBOR rates and PWLB rates are for new loans based on principal repayable at maturity. The rates are shown for the end of each month.

Borrowing and Investments

Turnover During the Period

	No of deals	Turnover £m
Short Term Borrowing	-	-
Short Term Investments	9	45

Position at Month End

	Mar £m	Apr £m	May £m	Jun £m	Jul £m	Aug £m	Sep £m
Total Borrowing	177	172	172	172	172	172	172
Total Investments	(85)	(75)	(100)	(100)	(100)	(100)	(95)
Call Account Balance	(21)	(27)	(27)	(26)	(18)	(22)	(24)

Investment Benchmarking

Benchmark	Benchmark Return %	Performance Apr - Sep %	Investment Interest Earned £000
7 day	-0.05	0.19	26
1 month	0.01	0.25	1
3 months	0.19	0.45	8
6 months	0.31	0.67	47
12 months	0.46	1.00	206
Over 12 months		1.51	227
Property Fund		3.95	90
Total			605

3.14 This shows the Council has exceeded the benchmark for all investments between April and September 2020 ensuring the maximum yield for all funds invested.

3.15 At 30th September 2020 Halton Borough Council held £5m in the CCLA Local Authority Property Fund. There is no benchmark available for this income.

Budget Monitoring

Net Interest at 30th September 2020			
	Budget Year to Date £000	Actual Year to Date £000	Variance (o/spend) £000
Investment	(608)	(605)	(3)
Borrowing	550	550	-
Total	(59)	(56)	(3)

New Long Term Borrowing

3.16 The Council has not borrowed any long term funds during this period.

Policy Guidelines

3.17 The Treasury Management Strategy Statement (TMSS) for 2020/21, which includes the Annual Investment Strategy, was approved by the Council on 04 March 2020. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

- 3.18 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in line with Sector's credit rating methodology.

Treasury Management Indicators

- 3.19 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 were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 2.

Debt Rescheduling

- 3.20 No debt rescheduling was undertaken during the quarter.

5.0 POLICY IMPLICATIONS

- 5.1 None.

6.0 FINANCIAL IMPLICATIONS

- 6.1 The financial implications are as set out in the report.

7.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

- 7.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

8.0 RISK ANALYSIS

- 8.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Authority operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

9.0 EQUALITY AND DIVERSITY ISSUES

- 9.1 None.

10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

- 10.1 There are no background papers under the meaning of the Act.

Treasury and Prudential Indicators – 2019/20

Prudential Indicators	2018/19	2019/20	
	Full Year Actual £000	Original Estimate £000	Full Year Actual £000
Capital Expenditure	21,901	19,565	43,340
Net Financing Need for the Year <i>(Borrowing Requirement)</i>	3,254	10,591	13,094
Increase / (Decrease) in CFR <i>(Capital Financing Requirement)</i>	(14,817)	2,049	4,366
Ratio of Financing Costs to Net Revenue Stream * <i>(Proportion of cost of borrowing to Council's net revenue)</i>	6.7%	7.2%	6.4%
External Debt ** <i>(Borrowing plus PFI and lease liabilities)</i>	553,074	546,519	551,519
Operational Boundary <i>(Limit of which external debit is not expected to exceed)</i>	856,312	841,500	841,500
Authorised Limit <i>(Limit beyond which external debit is prohibited)</i>	926,312	889,540	889,540

Maximum Principal invested > 365 days	Investment	2018/19	2019/20
	Limit £000	Actual £000	Actual £000
Principal Sums Invested over 365 days	30,000	25,000	30,000

* Financing Costs updated for 18/19 and 19/20 to include the interest cost of Mersey Gateway borrowing

** External Debt for 18/19 and 19/20 updated to include the long-term liability relating to The Grange and Mersey Gateway PFI schemes.

Appendix 2

Treasury and Prudential Indicators – 2020/21 – Estimate at 30th September 2020

Prudential Indicators	2019/20	2020/21	
	Full Year Actual £000	Original Estimate £000	Quarter 2 Estimate £000
Capital Expenditure	43,340	38,782	53,612
Net Financing Need for the Year <i>(Borrowing Requirement)</i>	13,094	8,369	23,583
Increase / (Decrease) in CFR <i>(Capital Financing Requirement)</i>	4,366	(4,623)	13,862
Ratio of Financing Costs to Net Revenue Stream <i>(Proportion of cost of borrowing to Council's net revenue)</i>	6.4%	6.0%	6.8%
External Debt <i>(Borrowing plus PFI and lease liabilities)</i>	551,519	539,676	539,676
Operational Boundary <i>(Limit of which external debit is not expected to exceed)</i>	841,500	586,520	586,520
Authorised Limit <i>(Limit beyond which external debit is prohibited)</i>	889,540	623,841	623,841

Maximum Principal invested > 365 days	Investment	2019/20	2020/21
	Limit £000	Actual £000	Estimate £000
Principal Sums Invested over 365 days	40,000	30,000	30,000