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09 April 2021

Dear Councillor

I am now able to enclose, for consideration at the meeting of the **GOVERNANCE COMMITTEE** on Thursday 15 April 2021 at 6.00 pm, the following report that was unavailable when the agenda was printed.

7 **TREASURY MANAGEMENT REPORT - QUARTER THREE** (Pages 2 - 18)

To consider the report of the Head of Finance and Investment.

Yours sincerely

Chief Executive

Subject:	**TREASURY MANAGEMENT QUARTER 3 2020/21**
Meeting and Date:	**Governance Committee – 15 April 2021**
Report of:	**Helen Lamb – Head of Finance and Housing**
Portfolio Holder:	**Councillor Christopher Vinson – Portfolio Holder for Finance and Governance**
Decision Type:	**Non-Key Decision**
Classification:	**Unrestricted**
Purpose of the report:	To provide details of the Council's treasury management for the quarter ended 31 December 2020 (Q3).
Recommendation:	That the report is received.

1. **Summary**

1.1 The Council's investment return for the period to 31st December was 2.88% (annualised), which outperformed the benchmark[1] by 2.81%. The total forecast interest and dividends income for the year £1,551k as at 31st December, which is £199k less than the original budget estimate of £1,750k. The long-term investments have been generating a reasonable income return considering the impact of the global pandemic.

1.2 The Council remained within the majority of its Treasury Management guidelines and complied with the Prudential Code guidelines during the period. The only exception was the limit on short term borrowing which was exceeded at the end of March due to retaining additional cashflow funds whilst assessing the potential cashflow impact of the Coronavirus lockdown.

2. **Introduction and Background**

2.1 CIPFA (the Chartered Institute of Public Finance and Accountancy) issued the revised Code of Practice for Treasury Management in November 2011; it recommends that members should be updated on treasury management activities at least twice a year, but preferably quarterly. This report therefore ensures this council is implementing best practice in accordance with the Code.

2.2 Council adopted the 2020/21 Treasury Management Strategy (TMS) on 26th February 2020 as part of the 2020/21 Budget and Medium-Term Financial Plan.

2.3 In order to comply with the CIPFA code referred to above, a brief summary is provided below, and Appendix 1 contains a full report from the Council's Treasury Management Advisors, Arlingclose.

2.4 Members are asked to note that in order to minimise the resource requirements in producing this report, Arlingclose's report has been taken verbatim. Treasury advisors

1 The "benchmark" is the interest rate against which performance is assessed. DDC use the 3 month London Inter-Bank Bid Rate or LIBID, as its benchmark, which was 0.07 at the end of the quarter.

generally use a more journalistic style than is used by our officers, but in order to avoid changing the meaning or sense of Arlingclose's work, this has not been edited out.

3. **Economic Background**

3.1 The report attached (Appendix 1) contains information up to the end of December 2020; since then we have received the following update from Arlingclose (in italics). Please note that any of their references to quarters are based on *calendar* years:

"Main points since December:

I. *The medium-term global economic outlook has improved with the rollout of vaccination programmes, of which the UK remains at the forefront. The Roadmap out of Lockdown has bolstered expectations through March.*

II. *The ONS Q4 2020 growth was higher than expected at 1%, leaving the UK economy 8% smaller than Q4 2019. January GDP fell by 2.9%, but less than Bank of England expectations. Unemployment had risen to 5.1% in the three months to December.*

III. *Support packages such as the Coronavirus Job Retention Scheme were extended in the Government's Budget, reducing the downside risks facing the UK economy. However, the extension of furlough will not totally mitigate an inevitable rise in unemployment when costs start to be shared with employers.*

IV. *While restrictive measures are likely to continue in the UK until most of the population is vaccinated by the second half of 2021, the end of the strict lockdowns in Q2 will prompt a sharp increase in GDP. Meanwhile, inflation is set to rise quickly back to target due to weaker base effects as the pandemic hit in 2020. This will be partly offset by the extensions to VAT reductions and the freezing of various duties.*

V. *There remain risks to the more positive narrative that has developed since the turn of the year. This is especially apparent in the Eurozone, where virus cases are once again on the rise due to the slow vaccine rollout, and recent issues in both the UK and Eurozone with vaccine supply.*

VI. *The uncertain outlook will maintain pressure on central banks to maintain loose monetary conditions for the foreseeable future. Bank Rate is unlikely to change despite developing market expectations.*

VII. *Longer term yields have risen sharply, albeit remaining at low levels. US stimulus and the relaxation of restrictions has boosted global growth and inflation expectations, raising expectations of monetary tightening.*

VIII. *Upward movement in gilt yields could continue in the short term due to market momentum and rising CPI rates, but this is likely to taper once inflation fears recede as the effect of weak base effects subsides.*

IX. *Arlingclose expects Bank Rate to remain at the current 0.10%level. The risks of a Bank Rate cut over the medium term have reduced further.*

X. *Gilt yields could continue to increase in the short term, but will begin to taper and reduce once the market's expectation of rises in Bank Rate and inflation fears subside.*

XI. *Longer term yields may face upward pressure towards the end of our forecast period as the economy moves back to a sustained footing and policy expectations start to strengthen.*

XII. *Downside risks remain– the damage from the pandemic will have lasting effects and there is the risk of further virus mutations due to the uneven global rollout of vaccines. Downside risks also arise from potential future vaccine shortages as the global demand for vaccines increases.*

4. **Annual Investment Strategy**

4.1 The investment portfolio, as at the end of December 2020, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £72.5m. The decrease reflects normal cashflow fluctuations arising from the timing of 'major preceptor' payments, which are made over twelve months, while the Council Tax receipts that fund them typically come in over the ten months to January and then decline.

4.2 As at 31st December 2020, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£11.4m at 31 December 2020). This was due to the Council receiving additional central government funding for business support grants.

5. **New Borrowing**

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of December 2020, the Council had £11 million in short term loans with other Local Authorities as part of the Council's strategic cash management objectives.

6. **Debt Rescheduling**

6.1 At this time, it is not considered of benefit to the Council to undertake any further rescheduling of its long-term debt.

7. **Compliance with Treasury and Prudential Limits**

7.1 The Council has operated within the Prudential Indicators in compliance with the Council's Treasury Management Practices.

8. **Appendices**

Appendix 1 – Arlingclose Treasury Management Report for Q3 2020/21

Appendix 2 – Investment portfolio as at 31 December 2020

Appendix 3 – Borrowing portfolio as at 31 December 2020

Appendix 4 – Investment portfolio as at 31 March 2021

9. **Background Papers**

Medium Term Financial Plan 2019/20 – 2022/23

Contact Officer: Dani Loxton, extension 42285

Treasury Management Report Q3 2020/21

Introduction

In March 2012 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports. This quarterly report provides an additional update.

The Authority's treasury management strategy for 2020/21 was approved at a meeting on 26th February 2020. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 26th February 2020.

External Context

Economic background: Some good news came during the quarter as two COVID-19 vaccines were given approval by the UK Medicines and Healthcare products Regulatory Agency (MHRA). The UK Medicines and Healthcare products Regulatory Agency (MHRA) provided authorisation for emergency supply of two COVID-19 vaccines in December and the rollout to individuals in the highest priority groups began in earnest.

A Brexit trade deal was agreed with only days to spare before the 11pm 31st December 2020 deadline Having been agreed with the European Union (EU) on Christmas Eve, the Brexit trade deal was voted through the House of Commons by 521 votes to 73 and then written into law after passing through the House of Lords and given royal assent.

The Bank of England (BoE) maintained Bank Rate at 0.1% during the quarter but extended its Quantitative Easing programme by £150 billion to £895 billion at its November 2020 meeting. In its December interest rate announcement, the BoE noted that plans to roll out COVID-19 vaccines would reduce some of the downside risks to the economic outlook but that recent rises in the number of infections is likely to lead to weaker GDP growth than had been predicted in its November Monetary Policy Report.

Government initiatives continued to support the economy as the furlough (Coronavirus Job Retention) scheme was extended once again to April 2021, supporting some 10 million jobs, and meaning that by then time the government would have provided taxpayer support to jobs for over a year.

GDP growth rebounded by 16.0% (upwardly revised from first estimate of 15.5%) in Q3 2020 (Jul-Sep) according to the Office for National Statistics (ONS), pulling the annual growth rate up to -8.6% from -20.8% in Q2. Construction rose by a huge 41% over the quarter, services output was up almost 15% as was production output. However, recent monthly estimates of GDP have shown growth is slowing and only a 1.1% monthly rise was managed in September.

The headline rate of UK Consumer Price Inflation (CPI) rose to 0.3% year/year in November, below expectations (0.6%) and still well below the Bank of England's 2% target. The ONS' preferred measure of CPIH which includes owner-occupied housing was 0.6% year/year (0.8% expected). The weaker-than-expected readings were due to falling prices for clothing as Black Friday deals started earlier than usual and for food and non-alcoholic drinks.

In the three months to October, labour market data showed the unemployment rate increased from 4.3% to 4.9% while wages rose 2.7% for total pay in nominal terms (2.8% for regular pay) and was up 1.9% in real terms (2.1% for regular pay). The employment rate fell to 75.2% from 75.8%. Unemployment is expected to increase strongly once the various government job support schemes come to an end, with the BoE predicting unemployment could peak at almost 8% in the second quarter of 2021.

The US economy rebounded at an annualised rate of 33.4% in Q3 2020 (Jul-Sep), fuelled by more than $3 trillion in pandemic relief. The Federal Reserve maintained the Fed Funds rate at between 0% and 0.25%.

The European Central Bank maintained its base rate at 0% and deposit rate at -0.5% but increased the size of its asset purchase scheme to €1.85 trillion and extended it until March 2022.

Financial markets: Equity markets continued to rise, and the Dow Jones beat its pre-crisis peak on the back of continued outperformance by a small number of technology stocks. The FTSE indices continued to perform well, with the more internationally focused FTSE 100 getting back to around 60% of its pre-March level while the more UK-focused FTSE 250 was closer to 80% of its previous peak over the same period.

Ultra-low interest rates prevailed through the quarter. Gilt yields remained low but volatile over the period with the yield on some short-dated UK government bonds continuing to remain negative. The 5-year UK benchmark gilt yield started the October–December period at -0.07% and ended at -0.09% (with much volatility in between). The 10-year gilt yield fell from 0.23% to 0.19% over the same period but peaked at 0.40% in November during a volatile quarter. The 20-year fell from 0.76% to 0.69%. 1-month, 3-month and 12-month SONIA bid rates averaged -0.01%, 0.06% and 0.07% respectively over the three months.

At the end of December, the yield on 2-year US treasuries was around 0.12% while for 10-year treasuries the yield was 0.92%. German bund yields remain negative across most maturities.

Credit review: After rising in late October/early November, credit default swap spreads declined over the remaining period of the calendar year to broadly pre-pandemic levels and the gap in spreads between UK ringfenced and non-ringfenced entities remained. At the end of the period Barclays Bank Plc was trading the highest at 57bps and Standard Chartered the lowest at 32bps. The ringfenced banks were trading between 33 and 36bps.

During the period Moody's downgraded the UK sovereign rating to Aa3 with a Stable outlook which then impacted a number of other UK institutions, banks and local government. These included Cornwall Council and Guildford BC which were downgraded to Aa3.Transport for London, Aberdeen CC, Lancashire CC, Lloyds Bank and HSBC Bank downgraded to A1 and Warrington BC was downgraded to A2.

While the approval of two coronavirus vaccines is a credit positive, there remains much uncertainty around the extent of the losses banks and building societies will suffer due to the economic slowdown which has resulted due to pandemic-related lockdowns and restrictions. The institutions on Arlingclose's counterparty list and recommended duration remain under constant review, but at the end of the period no changes had been made to the names on the list or the recommended maximum duration of 35 days.

Local Context

On 31st March 2020, the Authority had net borrowing of £51.9m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.20 Actual £000
General Fund CFR	62,506
HRA CFR	69,617
Total CFR	**132,123**
Less: Usable reserves	(71,292)
Less: Working capital	(8,897)
Net borrowing	**51,934**

Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk.

The treasury management position on 31st December 2020 and the change during over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.20 Balance £000	Movement £000	31.12.20 Balance £000	31.12.20 Rate %
Long-term borrowing	75,632	1,193	76,825	
Short-term borrowing	31,367	(20,367)	11,000	
Total borrowing	**106,999**	**(19,174)**	**87,825**	**3.46%**
Long-term investments	45,476	4,524	50,000	
Short-term investments	4	1	5	
Cash and cash equivalents	9,585	1,829	11,414	
Total investments	**55,065**	**6,354**	**61,419**	**3.82%**
Net borrowing	**51,934**		**26,406**	

£18m of short-term borrowing repaid in the year to 31th December 2020 as well as a repayment made to the HRA loan of £1.2m. Cash and cash equivalents increased by £1.8m due to normal cash flow movements. £4.5m year-end fair value adjustment to pooled investment funds reversed in quarter one.

Borrowing Update

In November 2020 the PWLB published its response to the consultation on 'Future Lending Terms'. From 26th November the margin on PWLB loans above gilt yields was reduced from 1.8% to 0.8% providing that the borrowing authority can confirm that it is not planning to purchase 'investment assets primarily for yield' in the current or next two financial years. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. As part of the borrowing process authorities will now be required to submit more detailed capital expenditure plans with confirmation of the purpose of capital expenditure from the Section 151 Officer. The PWLB can now also restrict local authorities from borrowing in unusual or large amounts.

Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. Misuse of PWLB borrowing could result in the PWLB requesting that Authority unwinds problematic transactions, suspending access to the PWLB and repayment of loans with penalties.

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders.

The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able to take advantage of the reduction in the PWLB borrowing rate.

Municipal Bonds Agency (MBA): The MBA revised its standard loan terms and framework agreement. Guarantees for the debt of other borrowers are now proportional and limited and a requirement to make contribution loans in the event of a default by a borrower has been introduced. The agency has issued 5-year floating rate and 40-year fixed rate bonds in 2020, in both instances Lancashire County Council is the sole borrower and guarantor. A planned third bond issuance by Warrington Borough Council was withdrawn in early December after the reduction in PWLB borrowing rates.

If the Authority intends future borrowing through the MBA, it will first ensure that it has thoroughly scrutinised the legal terms and conditions of the arrangement and is satisfied with them.

Borrowing Strategy during the period

At 31st December 2020 the Authority held £87.8m of loans, decrease of £19m since 31st March 2020, as part of its strategy for funding previous years' capital programmes. Outstanding loans on 31st December are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.20 Balance £000	**Net Movement £000**	**31.12.20 Balance £000**	**31.12.20 Weighted Average Rate %**
Public Works Loan Board	77,999	(1,174)	76,825	3.46%
Local authorities (short-term)	29,000	(18,000)	11,000	0.09%
Total borrowing	**106,999**	**(19,174)**	**87,825**	

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

In keeping with these objectives, no new long-term borrowing was undertaken in the quarter. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it to be more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in temporary / short-term loans is shown in table 3 above.

The Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital.

Treasury Investment Activity

On 1st April 2020 the Authority received central government funding to support small and medium businesses during the coronavirus pandemic through grant schemes. £27.6m was received, temporarily invested in short-dated, liquid instruments such as call accounts and Money Market Funds.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £52.3 and £72.5 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.20 Balance £000	Net Movement £000	31.12.20 Balance £000	31.12.20 Income Return %
Banks & building societies (unsecured)	5,055	6,310	11,365	0.01%
Money Market Funds	4,534	(4,480)	54	0.08%
Other Pooled Funds				
- *Short-dated bond funds*	7,861	139	8,000	0.63%
- *Strategic bond funds*	7,474	526	8,000	3.05%
- *Property funds*	5,625	375	6,000	3.80%
- *Multi asset income funds*	24,516	3,484	28,000	4.00%
Other Pooled Funds Sub-Total	45,476	4,524	50,000	
Total investments	**55,065**	**6,354**	**61,419**	

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Continued downward pressure on short-dated cash rate brought net returns on sterling low volatility net asset value money market funds (LVNAV MMFs) close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short-term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely below zero. Funds invested for 3 weeks earn -0.03% rising to -0.01% for a deposit of 4 months or more. The rate was 0% for up to 3-week deposits.

The net return on Money Market Funds net of fees, which had fallen after Bank Rate was cut to 0.1% in March, are now at or very close to zero; fund management companies have temporarily lowered or waived fees to avoid negative net returns.

Given the increasing risk and low returns from short-term unsecured bank investments, the Authority has diversified into more secure and/or higher yielding asset classes as shown in table 4 above. £50m that is available for longer-term investment is held in pooled investment funds.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2020	4.88	A+	100%	1	2.75%
31.12.2020	5.33	A+	100%	1	2.55%
Similar LAs	4.68	A+	65%	13	1.16%
All LAs	4.73	A+	63%	13	0.77%

Externally Managed Pooled Funds: £50m of the Authority's investments are invested in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of 1.15%, comprising a 3.13% income return which is used to support services in year, and -1.72% of unrealised capital loss.

The Authority is invested in bond, multi-asset and property funds. The falls in the capital values of the underlying assets, in particular bonds and equities were reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12-month period. Since March there here has been improvement in market sentiment which is reflected in an increase in capital values of the short-dated, strategic bond and multi-asset income funds in the Authority's portfolio. The recovery in UK equities has lagged those of US and European markets. The capital value of the property fund is below that at 31st March.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns will exceed cash interest rates. In light of their performance over the medium / long term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.

In 2020/21 the Authority expects to receive significantly lower income from its cash and short-dated money market investments, including money market funds, as rates on cash investments are close to zero percent. Income from most of the Authority's externally managed funds will also be lower than in 2019/20 and earlier years. Whilst the arrival and approval of vaccines against COVID-19 and the removal of Brexit uncertainty that has weighed on UK equities are encouraging developments, dividends and income distribution will also depend on other factors including but not limited to the length of time economies take to recover from the impact of the pandemic, the fund's sectoral asset allocation, securities held/bought/sold and, in the case of equities, the enforced dividend cuts or deferral required by regulatory authorities or due to corporates reducing dividends to safeguard liquidity during a period of economic uncertainty.

Non-Treasury Investments

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in the Investment Guidance issued by the Ministry of Housing, Communities and Local Government (MHCLG) and Welsh Government, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

Following the approval of the Property Investment Strategy in November 2016, work continues to identify and progress suitable investments to deliver economic regeneration and to generate additional income streams for the future. Additionally, the Property Investment team continues to work on a number of residential developments both utilising DDC owned properties and land, as well as with external developers.

The 2020/21 budget includes a forecast of total income (rent and service charges) of £1.94m. Costs including management costs, minimum revenue provision and long term borrowing of £1.30m are forecast resulting in retained income for the General Fund of £640k.

Treasury Performance

The Authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below.

Table 6: Performance

	Actual £000	Budget £000	Over/ under	Actual %	Benchmark %	Over/ under
Interest Received	1,551	1,750	(199)	2.88%	0.07%	2.81%
Interest Payable	2,521	2,521	0	3.46%	3.46%	0

Compliance

The Strategic Director of Corporate Resources reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 8 below.

Table 7: Debt Limits

	31.12.20 Actual	2020/21 Operational Boundary £m	2020/21 Authorised Limit £m	Complied?
Borrowing	87.8	333	338.5	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 8: Investment Limits

	31.12.20 Actual	2020/21 Limit	Complied?
Any single organisation, except the UK Government	<£1m	£8m per bank	✓
Any group of organisations under the same ownership	0	£16m per group	✓
Negotiable instruments held in a broker's nominee account	0	£15m	✓
UK Government	0	Unlimited	✓
Unsecured investments with building societies	0	£8m	✓
Pooled Investment Funds	£50m	£10m per fund	✓
Money Market Funds	<£1m	£10m per fund	✓
Operational bank	£11.4m	£20m	✓

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.12.20 Actual	2020/21 Target	Complied?
Portfolio average credit rating	5.33	6	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	31.12.20 Actual	2020/21 Target	Complied?
Total cash available within 3 months	£11.4m	£8m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

Interest rate risk indicator	31.12.20 Actual	2020/21 Limit	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	614	550	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	614	550	✓

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.12.20 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	12,193	25%	0%	✓
12 months and within 24 months	3,694	50%	0%	✓
24 months and within 5 years	7,934	50%	0%	✓
5 years and within 10 years	16,012	100%	0%	✓
10 years and above	47,992	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£30m	£30m	£30m
Complied?	✓	✓	✓

Other

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard has been delayed for a further year until 2022/23.

Arlingclose's Outlook for the remainder of 2020/21

	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Official Bank Rate													
Upside risk	0.00	0.00	0.15	0.15	0.15	0.15	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Cas	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
Downside risk	0.30	0.40	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50

The medium-term global economic outlook has improved with the distribution of vaccines, but the recent upsurge in coronavirus cases has worsened economic prospects over the short term.

Restrictive measures and further lockdowns are likely to continue in the UK and Europe until the majority of the population is vaccinated by the second half of 2021. The recovery period will be strong thereafter, but potentially longer than previously envisaged.

Signs of a slowing UK economic recovery were already evident in UK monthly GDP and PMI data, even before the second lockdown and Tier 4 restrictions. Employment is falling despite an extension to support packages.

The need to support economic recoveries and use up spare capacity will result in central banks maintaining low interest rates for the medium term.

Brexit, whatever the outcome of current negotiations, will weigh on UK activity. The combined effect of Brexit and the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation. The Bank of England will therefore maintain loose monetary conditions for the foreseeable future.

Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid longer-term inflation expectations. There is a chance yields may follow a slightly different path in the medium term, depending on investor perceptions of growth and inflation, the deployment of vaccines or if the UK leaves the EU without a deal.

Arlingclose expects Bank Rate to remain at the current 0.10% level. The central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.

Gilt yields will remain low in the medium term. Shorter term gilt yields are currently negative and will remain around zero or below until either the Bank expressly rules out negative Bank Rate or growth/inflation prospects improve.

Downside risks remain, and indeed appear heightened, in the near term, as the government reacts to the escalation in infection rates and the Brexit transition period comes to an end.

In-house as at 31/12/20

APPENDIX 2

Organisation	Issue Date	Book cost	Market yield %	Government Sovereign Debt rating	Options available
In-house investments - Long Term					
CCLA Property investment Fund	30/06/17	3,000,000	3.80%	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund	31/07/17	3,000,000	3.80%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	15/12/17	6,000,000	4.03%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	3.05%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.63%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	4.03%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	4.03%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.59%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	3.05%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/19	8,000,000	6.00%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	16/12/19	2,000,000	6.00%	UK - Gov 'AA'	5 Years +
		50,000,000			
		50,000,000	**Total Portfolio**		

Cashflow:

Call Accounts/MMF (as at 31/12/20)		Rate
Global Treasury Fund (Goldman Sachs Money Market Fund)	4,106	0.01%
Standard Life Investments (Money Market Fund)	50,000	0.01%
Natwest SIBA	11,358,678	0.10%
Santander	503	0.05%
Bank of Scotland	5,023	0.10%
Barclays	374	0.00%
Total Cash flow	**11,418,683**	
Total Portfolio a	**61,418,683**	

<u>Dover District Council Borrowing - 2020/21</u> **APPENDIX 3**

Interest Type	Date Loan Taken Out	Date Loan Matures	Repayment Dates	Loan Number	Principal Balance 01-Apr-20	Interest Rate %	Principal To Be Repaid 2020/21	Principal Balance 31-Mar-21	Interest Payable 2020/21	Lender	Type of loan
Long Term Borrowing											
Fixed	02/10/97	02/10/57	APR-OCT	479961	1,000,000	6.75		1,000,000	67,500	PWLB	Principal due on Maturity
Fixed	28/05/97	28/05/57	MAY-NOV	479542	2,000,000	7.38		2,000,000	147,500	PWLB	Principal due on Maturity
Fixed	23/08/46	23/06/26	JUNE-DEC	131582	290	2.50	45	245	7	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	27/09/46	27/06/26	JUNE-DEC	131583	54	2.50	8	45	1	PWLB	Equal Instalment of Principal *(EIP)*
Fixed	16/11/01	30/09/26	SEPT-MAR	486237	1,000,000	4.75		1,000,000	47,500	PWLB	Principal due on Maturity
Fixed	26/03/12	26/03/42	SEPT-MAR	499853	73,997,937	3.18	2,367,345	71,630,591	2,334,462	PWLB	Annuity (HRA Financing)
					77,998,280		**2,367,398**	**75,630,882**	**2,596,971**		
Short Term Borrowing											
Fixed	05/10/20	05/01/21	On Maturity		0	0.05	6,000,000	0	756	Islington Brough Council	Short term loan for Strategic cash flow purposes
Fixed	10/11/20	10/02/21	On Maturity		0	0.03	5,000,000	0	378	Barnsley Metropolitan BC	Short term loan for Strategic cash flow purposes
					0		**11,000,000**	**0**	**1,134**		*Sub-total*
Fixed	01/05/12	01/11/27	MAY-NOV		60,966	0.00	8,710	52,257	0	Lawn Tennis Association	Interest free
					78,059,247		**2,376,108**	**75,683,139**	**2,598,105**		

In-house as at 31/03/21

APPENDIX 4

Organisation	Issue Date	Book cost	Market yield	Government	Options available
In-house investments - Long Term					
CCLA Property investment Fund	30/06/17	3,000,000	4.19%	UK - Gov 'AA'	*5 Years +*
CCLA Property investment Fund	31/07/17	3,000,000	4.19%	UK - Gov 'AA'	*5 Years +*
Investec Diversified Income Fund	15/12/17	6,000,000	4.11%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	15/12/17	6,000,000	2.45%	UK - Gov 'AA'	5 Years +
Payden and Rygel	28/02/18	8,000,000	0.97%	UK - Gov 'AA'	2 Years +
Investec Diversified Income Fund	01/08/18	2,000,000	4.11%	UK - Gov 'AA'	5 Years +
Investec Diversified Income Fund	03/09/18	2,000,000	4.11%	UK - Gov 'AA'	5 Years +
CCLA Diversified Income Fund	20/09/18	8,000,000	3.29%	UK - Gov 'AA'	5 Years +
Columbia Threadneedle Strategic Bond Fund	13/12/18	2,000,000	2.45%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	28/02/19	8,000,000	5.00%	UK - Gov 'AA'	5 Years +
Kames Diversified Monthly Income Fund	16/12/19	2,000,000	5.00%	UK - Gov 'AA'	5 Years +
		50,000,000			
		50,000,000	**Total Portfolio**		

Cashflow:

Call Accounts/MMF (as at 31/03/21)		**Rate**
Global Treasury Fund (Goldman Sachs Money Market Fund)	4,106	0.01%
Standard Life Investments (Money Market Fund)	1,000	0.01%
Natwest SIBA	6,924,811	0.10%
Santander	503	0.05%
Bank of Scotland (BOS)	5,023	0.10%
Barclays	374	0.00%
Total Cash flow	**6,935,816**	