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| **Subject:** | **TREASURY MANAGEMENT QUARTER 1 AND 2 2020/21** |
| **Meeting and Date:** | **Governance Committee – 26 November 2020** |
| **Report of:** | **Helen Lamb – Head of Finance and Investment** |
| **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 quarters ended 30th June 2020 (Q1), 30th September 2020 (Q2) and an update of activity to date. |
| **Recommendation:** | That the report is received. |

## 1. Summary

1.1 The Council's investment return for the period to 30th June was 2.50% (annualised), this had improved to 2.80% by 30th September which outperformed the benchmark[1] by 2.21% (2.67% for end of September) The total forecast interest and dividends income for the year £1,621k as at 30th June, which is £129k less than the original budget estimate of £1,750k. As at 30th September there was a slight improvement to £1,624k. 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.

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 0.67 at the end of the quarter.

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 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 5) contains information up to the end of September 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 September:*

I. *The medium-term global economic outlook remains weak. Second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK. This ebb and flow of restrictions on normal activity will continue for the foreseeable future, at least until an effective vaccine is produced and importantly, distributed.*

II. *The global central bank and government responses have been significant and are in many cases on-going, maintaining more stable financial, economic and social conditions than otherwise.*

III. *Although these measures supported a sizeable economic recovery in Q3, the imposition of a second national lockdown in England during November will set growth back and likely lead to a fall in GDP in Q4.*

IV. *Signs of a slowing economic recovery were already evident in UK monthly GDP and PMI data, even before the latest restrictions. Despite some extension to fiscal support measures, unemployment is expected to rise when these eventually come to an end in mid-2021.*

V. *This situation will result in central banks maintaining low interest rates for the medium term. In the UK, Brexit is a further complication. Bank Rate is therefore likely to remain at low levels for a very long time, with a distinct possibility of being cut to zero. Money markets continue to price in a chance of negative Bank Rate.*

VI. *Longer-term yields will also remain depressed, anchored by low central bank policy rates, expectations for potentially even lower rates and insipid 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 development of a vaccine or if the UK leaves the EU without a deal.*

VII. *Arlingclose expects Bank Rate to remain at the current 0.10% level.*

VIII. *Additional monetary loosening through increased financial asset purchases was delivered as we expected. Our central case for Bank Rate is no change, but further cuts to zero, or perhaps even into negative territory, cannot be completely ruled out.*

IX. *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.*

X. *Downside risks remain in the near term, as the government continues to react to the escalation in infection rates and the Brexit transition period comes to an end.*

## 4. Annual Investment Strategy

4.1 The investment portfolio, as at the end of June 2020, is attached at Appendix 2. Total balances held for investment and cash-flow purposes were £72.5m, decreasing to £51.8m at the end of September (see Appendix 6). 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 30th June 2020, the Council's investment portfolio totalled £50m (see Appendix 2). Cashflow funds were higher than anticipated (£22.5m at 30 June 2020). This was due to the Council receiving £27.6m in funding for business support grants, by 30 September most of this had be paid out to local businesses.

4.3 Cashflow funds have since decreased (to £51.8.5m at 30 September 2020) due to normal cashflow fluctuations. Short term borrowing will be used to cover fluctuations in the cash flow requirements as needed, instead of holding excess funds in call accounts.

## 5. New Borrowing

5.1 The Council's borrowing portfolio is attached at Appendix 3. At the end of June 2020, the Council had £29 million in short term loans with other Local Authorities as part of the Council’s strategic cash management objectives. £18 million of short-term loans had been repaid by the end of September 2020.

## 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 Q1 2020/21

Appendix 2 – Investment portfolio as at 30 June 2020

Appendix 3 – Borrowing portfolio as at 30 June 2020

Appendix 4 – Investment portfolio as at 31 August 2020

Appendix 5 – Arlingclose Treasury Management Report for Q2 2020/21

Appendix 6 – Investment portfolio as at 30 September 2020

Appendix 7 – Borrowing portfolio as at 30 September 2020

Appendix 8 – Investment portfolio as at 31 October 2020

9. **Background Papers**

Medium Term Financial Plan 2019/20 – 2022/23

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