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

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