ST HELENS BOROUGH COUNCIL	**Audit & Governance Committee** **23 November 2020**

Report Title:	**Interim Treasury Management Strategy Report 2020/21**
Cabinet Portfolio	Finance and Governance
Cabinet Member	Councillor Martin Bond
Exempt Report	No
Reason for Exemption	Open
Key Decision	No
Public Notice issued	N/A
Wards Affected	All Wards
Report of	Cath Fogarty Executive Director of Corporate Services cathfogarty@sthelens.gov.uk 01744 673202
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Borough priorities		
Please mark **X** for any priority supported by this report **NB** Use Section 4 - Background Information to explain how each selected priority is supported	Ensure children and young people have a positive start in life	
	Promote good health, independence and care across our communities	
	Create safe and strong communities for our residents	
	Support a strong, diverse and well-connected local economy	
	Create a green, thriving and vibrant place to be proud of	
	Be a modern, efficient and effective Council	X

1. Summary

1.1 The report gives an update of the Council's Treasury Management position, including the Council's Treasury Management Limits and Prudential Indicators for 2020/21 to 2022/23.

2. Recommendations for Decision

Audit and Governance Committee is recommended to consider and note the Interim Treasury Management Strategy Report 2020/21.

3. Purpose of this Report

3.1 The Terms of Reference of the Audit and Governance Committee require it to provide independent review of the Council's governance, risk management and control frameworks. Such responsibilities incorporate those arrangements relating to the Treasury Management activity of the Council and the need for those Members charged with corporate governance to have oversight of the Treasury Management Strategy of the Council.

4. Background / Reasons for the recommendations

4.1 Background

4.1.1 The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) was adopted by Council on 28 February 2018.

The primary requirements of the Code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Consideration of an Annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, an Interim Review Report and an Annual Report (outturn report) covering activities during the previous year;

- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management policies and practices and for the execution and administration of Treasury Management decisions; and
- Delegation by the Council for the role of scrutiny of the Treasury Management Strategy and Policies to a specific named body. For this Council, the delegated body is the Audit and Governance Committee.

4.1.2 This interim report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An update on Interest Rates and prospects for future Interest Rates;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy and an update on the current investment and borrowing portfolios;
- A review of any debt rescheduling undertaken and any possible opportunities during 2020/21;
- An update on other issues affecting Treasury Management;
- An update on the latest Treasury Management Budget position: and
- A review of compliance with Treasury Limits and Prudential Indicators for 2020/21 and forward Treasury Limits and Prudential Indicators for 2021/22 and 2022/23.

4.2 Interest Rate Forecasts

4.2.1 The Council's treasury advisor, Link Asset Services, has provided the following forecast:

%	Q4 20	Q1 21	Q2 21	Q3 21	Q4 21	Q1 22	Q2 22	Q3 22	Q4 22	Q1 23
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5yr PWLB	1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB	2.10	2.10	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB	2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB	2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

4.2.2 The Monetary Policy Committee (MPC), has left bank rate unchanged at 0.10% since reducing the rate twice in quick succession in March in response to the coronavirus pandemic, voting unanimously at its last meeting, on 5 November 2020, to maintain the rate. The forecast above is based upon the latest information.

4.2.3 Due to significant uncertainties about the direct impact of COVID-19 on the economy and the future result of negotiations with the European Union around a comprehensive free trade agreement on 1 January 2021, the Bank of England have stated that it will continue to monitor the situation closely and stands ready to adjust monetary policy accordingly to deliver its objectives.

4.2.4 At the time of drafting the initial Treasury Management Strategy, Link Asset Services had envisaged that the bank rate would stay at 0.75% until the second quarter of 2021 and would then rise again in the second quarter of 2022 to 1.25%. This forecast was produced prior to the current pandemic and was consistent with other forecasters estimates.

4.2.5 The current forecast is that there will be no rate increases over the same period. Commentators have discussed the possibility of negative interest rates, but the Bank of England quashed these in August, at least in the next six months, with “other instruments available”, such as quantative easing, which the bank extended by £150bn at its meeting on 5 November 2020, and the use of forward guidance. At its meeting in September, the MPC was briefed on the Bank of England’s plans to explore how a negative bank rate could be implemented effectively. However, any forecast is difficult due to significant uncertainties around the ongoing economic impact of COVID-19, Brexit negotiations and uncertainty regarding the rate of UK and world economic growth.

4.2.6 The first half of 2020 has seen the UK experience one of the largest falls in GDP of any developed nation as a result of COVID-19. The fall of 21.8% is to be expected, as the UK economy is skewed towards customer-facing services, an area particularly vulnerable to being damaged by lockdown. With the response to a second wave being focused on more localised lockdowns and a potentially shorter national lockdown, it remains to be seen what the economic damage caused will be compared to the full lockdown period.

4.2.7 Link Asset Services also highlight the fact that, due to uncertainty and potential volatility in markets, there is a wide spread of potential outcomes during the forecast period and forecasting remains difficult. Bank Rate forecasts will be liable to further amendment depending upon how economic data and developments in financial markets transpire over the next year.

4.2.8 The above forecasts for PWLB rates are based upon the PWLB certainty rate, which was introduced in November 2012; this rate reduces PWLB borrowing by 0.20% for most local authorities, including St Helens.

4.2.9 PWLB interest rates are subject to future uncertainty, dependent upon underlying economic conditions, but also due to Government intervention. In October 2019, HM Treasury added an additional 1% margin over gilt yields to all PWLB rates.

4.2.10 As part of the Budget speech on 11 March, Government announced that a consultation would take place to consider the future lending terms of the Public Works Loan Board (PWLB), considering a limited intervention to address the issue of Local Authorities borrowing from PWLB to buy investment assets, primarily for yield. The consultation closed on 31 July 2020 and the outcome is awaited.

4.3 Treasury Management Strategy and Annual Investment Strategy Update

4.3.1 <u>Investments</u>

The Treasury Management Strategy Statement for 2020/21 was previously considered by Cabinet on 26 February 2020 and approved by Council on 4 March 2020. The Council’s Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Council’s investment priorities as the security of capital and liquidity of investments.

The Council aims to achieve the optimum return (yield) on its investments, commensurate with the proper levels of security and liquidity, and having properly assessed all inherent risks, as detailed in its Treasury Management Practices (TMP’s).

Further detail of the Council’s investment portfolio is provided to Cabinet and Council as part of each Financial Monitoring Report. The Council held £134.825m of investments at 30 September 2020 (£118.415m at 31 March 2020) and the following table provides details of the investment returns achieved thus far during 2020/21.

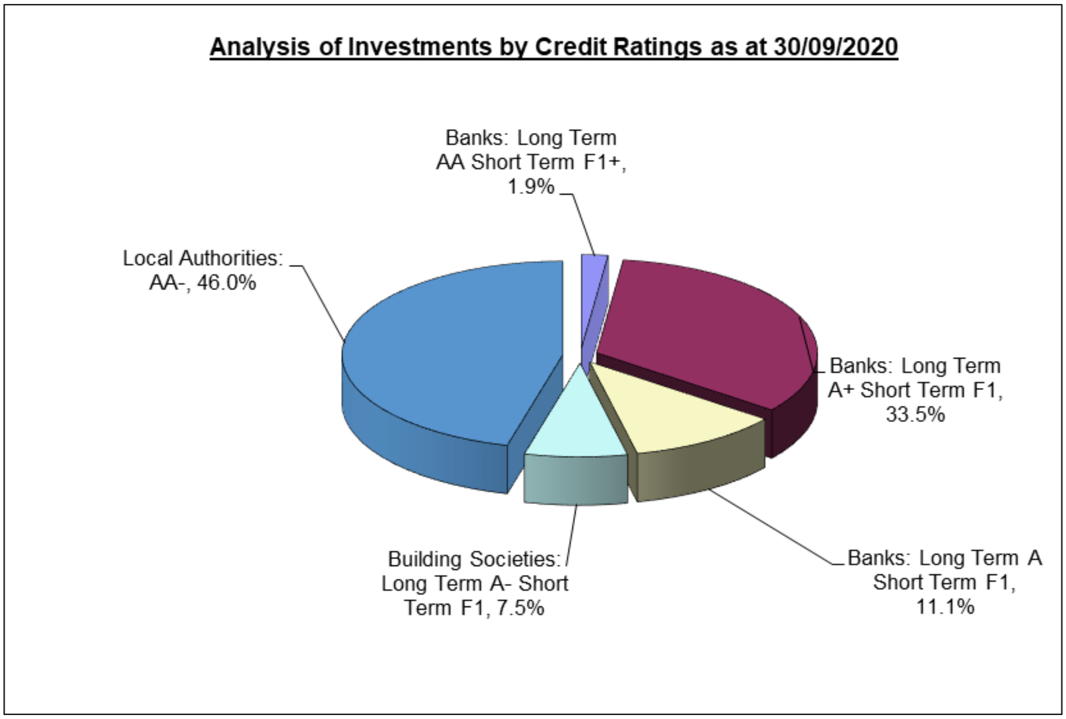
At the mid-point in the year, cash holdings have increased from the balances held at the end of 2019/20, as a consequence of the current profile of income received from grant being received earlier in the year whereas the Council’s expenditure profile tends to occur more evenly across the year. The cash position has also been impacted upon by additional receipts received in response to the COVID-19 pandemic.

Despite the continued limitations on the availability of high-quality counterparties, the Council's investments have continued to achieve returns comparable to the benchmark returns as detailed in the following table. Any sudden changes in rates will impact upon performance against benchmarks as investment decisions need to be made based upon both the desire to maximise interest returns and managing the liquidity of the authority’s investments for cashflow purposes, whilst, most importantly, ensuring the security of investments. For a number of years, where possible, the Council has taken advantage of favourable rates and locked into investment deals for longer periods.

Investment Returns 2020/21 up to 30/09/2020

2020/21	Returns Achieved			Benchmark Returns			Performance relative to Benchmarks		
Month	Fixed Term Investments	Call Accounts	**Combined Return**	1 Year LIBID	7 Day LIBID	**Combined LIBID**	Fixed Term	Call	**Overall +/- return**
April	1.076%	0.322%	**0.781%**	0.730%	-0.020%	**0.436%**	0.346%	0.342%	**0.344%**
May	1.032%	0.254%	**0.678%**	0.550%	-0.050%	**0.277%**	0.482%	0.304%	**0.401%**
June	0.905%	0.120%	**0.627%**	0.390%	-0.070%	**0.227%**	0.515%	0.190%	**0.400%**
July	0.834%	0.095%	**0.615%**	0.230%	-0.060%	**0.144%**	0.604%	0.155%	**0.471%**
August	0.688%	0.113%	**0.552%**	0.140%	0.070%	**0.124%**	0.548%	0.043%	**0.428%**
September	0.592%	0.119%	**0.494%**	0.050%	0.070%	**0.054%**	0.542%	0.049%	**0.440%**

The following pie chart details the split of the Council’s investment by type and the credit rating assigned to the different groups of Counterparties.



4.3.2 Council's Investment Strategy and Counterparty Criteria

The investment strategy approved in the Treasury Management Strategy Statement is currently being adhered to and forming the basis upon which Officers have operated thus far. The counterparty criteria, which practically forms the basis on which Officers make decisions regarding those institutions with whom the Council will deal, is subject to constant review during the year and, through delegation to the Executive Director of Corporate Services, this can be amended by way of Administrative Decision.

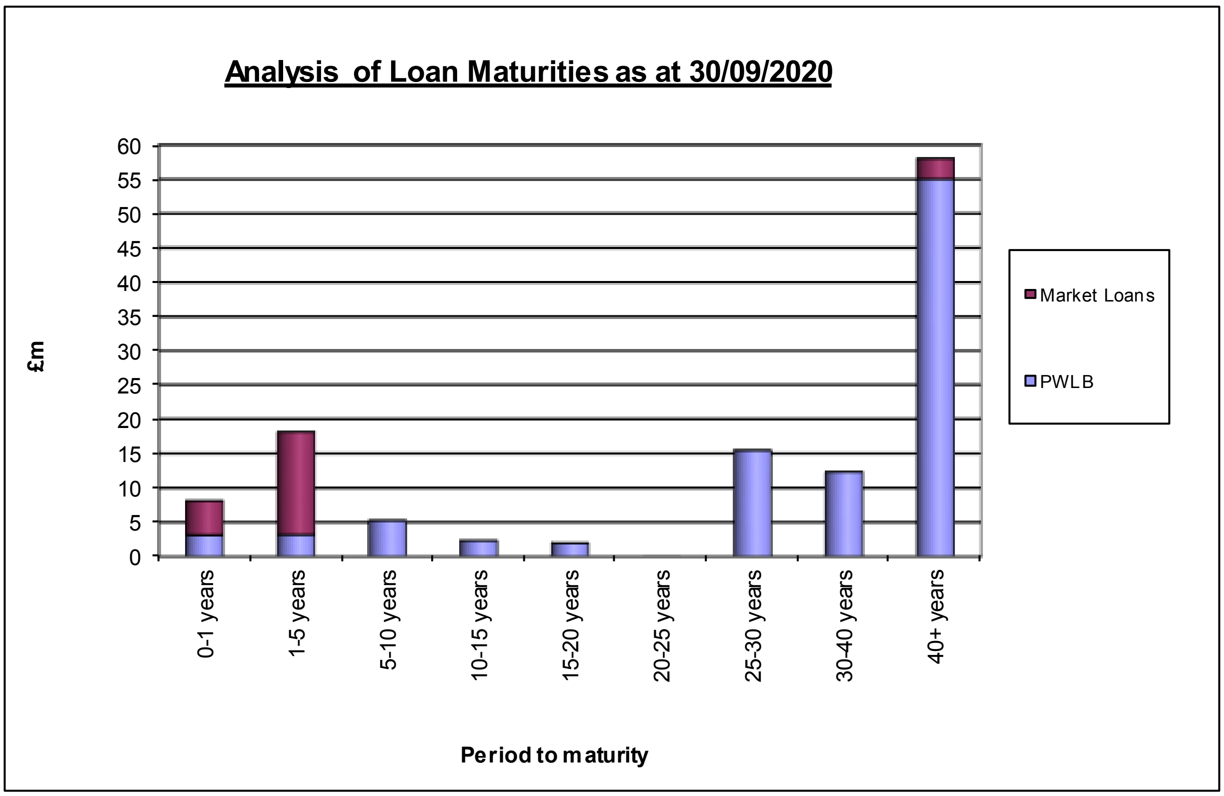
Admin Decisions CORP000742 (24 April 2020) and CORP000795 (12 October 2020) approved a number of changes to the counterparty criteria to ensure the Council can place its assets in a secure and appropriate way. Changes have been made to the Long-Term Rating (AA- to A+), Short Term Rating (F1+ to F1) and Sovereign Rating (AA+ to AA-) to reflect rating downgrades that have been made due to the current economic climate, with an increase in the upper investment limit with these institutions from £20m to £25m. The new ratings still represent High Credit Quality with a low level of default risk.

The decisions also approved an increase in the total limit for investments that can be held with Local Authorities and Other Public Sector Bodies from £80m to £100m, with a maximum limit of £15m per organisation, an increase from the previous limit of £10m. Investments with Local Authorities are statute backed and, therefore, carry no risk, whilst current returns from investments with Local Authorities are producing yields that are at least as good as those gained from investing with other financial institutions.

4.3.3 Borrowing

The strategy of financing capital expenditure by running down cash balances (i.e. in lieu of new borrowing) was formulated predominantly to minimise credit risks associated with holding investments in these times of uncertainty and to protect the Council’s budgetary position against diminishing investment returns. That rationale still holds good and, in that context, it is considered that the Borrowing Strategy approved is still fit for purpose. However, it must be noted that this strategy has led to the Council having an "underborrowed" position, in that borrowing to fund historic capital spend has been deferred and may need to be secured at some stage in the future. Consideration of when this borrowing may need to be secured needs to be considered in light of potential changes to PWLB borrowing following the consultation exercise mentioned in 4.2.10.

The Council has outstanding debt of £121.565m, with a weighted average rate of borrowing of 4.268%. The following chart shows the maturity profile of the loan portfolio as at 30 September 2020.



In accordance with the revised Prudential Code, the maturity of borrowing should be determined by reference to the earliest date on which the lender can require payment. If the lender does have the right to increase the interest rate payable (as is the case with a Market Loan (LOBO – Lender Option Borrower Option loan)), then this should be treated as a right to require payment. Due to this guidance the maturity dates of the Council's LOBO loans have been profiled as the next call date for each. This has made the Council's position look much more short-term when all of these loans have maturity dates of 30+ years. In the current interest climate and in light of recent experience whereby lenders have not sought to increase rates at call dates, it is unlikely that these loans will be called imminently.

In the current economic climate, and with the current structure of PWLB interest rates, there have been no viable opportunities to restructure debt in 2020/21.

4.3.4 Budget Estimates

The budgeted and projected treasury costs for 2020/21 are detailed in the table below.

Treasury Management Budget 2019/20	2020/21 Allowed Estimate £M	2020/21 Revised Estimate £M	2020/21 Difference £M
Debt Management Costs			
External Interest	9.444	8.344	(1.100)
Revenue Provision (repayment of principal)	3.401	3.125	(0.276)
Investment Interest	(2.015)	(1.015)	1.000
Total Treasury Cost	**10.830**	**10.454**	**(0.376)**

4.3.5 Debt management costs have been reduced to reflect the revised estimates for the costs associated with the servicing of transferred debt and decisions around the continued deferral of additional borrowing. Revenue provision has reduced as a consequence of the re-phasing of schemes within the 2019/20 capital programme, as reported to Cabinet at its meeting on 24 June 2020. Investment interest has reduced as a result of the downward movement of bank rate and available market returns and delayed investment returns on anticipated loan advances.

4.4 Treasury Limits and Prudential Indicators

4.4.1 It is a statutory duty under Section 3 of the Local Government Act 2003 and supporting Regulations for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable Borrowing Limit". The Council's approved Treasury Limits and Prudential Indicators (affordability limits) were outlined in the approved Treasury Management Strategy Statement.

4.4.2 During the financial year to date, the Council has operated within the Treasury Limits and Prudential Indicators approved by and in compliance with the Council's Treasury Management Practices. A copy of the latest Treasury Limits and Prudential Indicators are attached at Annex 1. Such revisions predominantly arise due to changes in the Council's approved capital programme.

5. Community Impact Assessment

5.1 The Community Impact Assessment identified no specific key implications.

6. Consideration of Alternatives

6.1 As part of Treasury Management practices, alternative options are considered within the approved Treasury Management Strategy.

7 Conclusions

7.1 The review of the Treasury Management Strategy identifies: -

- The UK economy faces a number of challenges, risks and uncertainties post the exit from the European Union, not least with regard to the impact on growth and interest rates;
- Bank rate has reduced and is likely to remain low;
- COVID-19 has impacted upon Treasury Management, with the reduction in bank rate due to the pandemic, leading to reduced investment income, and the ongoing uncertainty regarding the future impact on the economy;
- The actual investment returns for 2020/21 consistently outperform the accepted benchmark investment returns;
- Additional borrowing to fund strategic capital investment will be exercised with caution; and
- The original Treasury Management Strategy is still fit for purpose.

8. Implications

8.1 Legal Implications

8.1.1 The purpose of the report is to update on the Council's Treasury position in comparison to the approved Strategy Statement, in accordance with CIPFA Code of Practice.

8.2 Community Impact Assessment (CIA) Implications

8.2.1 Social Value

8.2.1.1 N/A

8.2.2 Sustainability and Environment

8.2.2.1 N/A

8.2.3 Health and Wellbeing

8.2.3.1 N/A

8.2.4 Equality and Human Rights

8.2.4.1 Potential investments are considered to ensure none are made with organisations which have poor records of equality and human rights.

8.3 Customers and Resident

8.3.1 Sound Treasury Management decisions, leading to increased investment returns and reduced debt management costs, contribute to the overall financial position of the Council.

8.4 Asset and Property

8.4.1 N/A

8.5 Staffing and Human Resource

8.5.1 None

8.6 Risks

8.6.1 The Treasury Management Strategy Statement sets out a framework to manage risks that arise from Treasury activity.

8.7 Finance

8.7.1 As set out in Section 4.3.4.

8.8 Policy Framework Implications

8.8.1 None

9. Background papers

9.1 None

10. Appendices

Appendix 1 – Treasury Limits and Prudential Indicators 2020/21 to 2022/23

Appendix 1

1 Treasury Limits and Prudential Indicators 2020/21 to 2022/23

Treasury Limits and Prudential Indicators 2020/21 - 2022/23			2020/21 Estimates	2021/22 Estimates	2022/23 Estimates
1(i)	Proposed capital expenditure that the Council plans to commit to during the forthcoming and subsequent two financial years.	**Capital Expenditure (£m)**	49.885	24.129	24.237
1(ii)	Additional in-year financing/(borrowing) requirement for capital expenditure.	**In Year Capital Financing Requirement (CFR) (£m)**	4.846	3.608	(3.252)
2	The CFR is an aggregation of historic and cumulative capital expenditure, which has yet been paid for by either revenue or capital resources.	**Capital Financing Requirement as at 31 March (£m)**	185.700	189.308	186.056
3	The "net borrowing" position represents the net of the Authority's gross external borrowing and investments sums held.	**Net Borrowing Requirement:** External Borrowing (£m) Investments Held (£m) Net Requirement (£m)	 121.563 (120.000) 1.536	 118.459 (100.000) 18.459	 115.354 (95.000) 20.354
4	Identifies the impact and trend of the revenue costs of capital financing decisions will have on the General Fund Budget over time.	**Ratio of financing cost to net revenue stream**	5.92%	5.55%	5.24%
5	The Council's Budget Strategy, as a general principle is that no unsupported borrowing should be undertaken as a means of financing capital expenditure plans.	**Incremental impact of capital investment decisions (increase in Council Tax Band D equivalent**)	NIL	NIL	NIL

Treasury Limits and Prudential Indicators 2020/21 - 2022/23			2020/21 Estimates	2021/22 Estimates	2022/23 Estimates
6	This represents an absolute limit of borrowing at any one point in time. It reflects the level of external debt, which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.	**Authorised Limit for External Debt (£m)**	183.298	171.663	168.133
7	This is the limit beyond which external debt is not normally expected to exceed.	**Operational Limit for External Debt (£m)**	165.160	162.100	158.893
8	These limits seek to ensure that the authority does not expose itself to an inappropriate level of interest rate risk and has a suitable proportion of debt.	**Upper Limit for Fixed Interest Rate Exposure**	100%	100%	100%
		Upper Limit for Variable Interest Rate Exposure	50%	50%	50%
9	This limit seeks to ensure liquidity and reduce the likelihood of any inherent or associated risk.	**Upper Limit for Sums Invested over 365 Days**	60%	60%	60%
10	This indicator is used to highlight where an authority may be borrowing in advance of need.	**Gross Debt and the CFR (£m)**	(42.048)	(49.389)	(49.952)