



PART A:	MATTERS DEALT WITH UNDER DELEGATED POWERS
REPORT TO:	AUDIT, OVERVIEW AND SCRUTINY COMMITTEE
DATE:	19 NOVEMBER 2020
REPORT OF THE:	CHIEF FINANCE OFFICER (s151) ANTON HODGE
TITLE OF REPORT:	TREASURY MANAGEMENT MID-YEAR REVIEW
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 1.1 To report on the treasury management activities to date for the financial year 2020/21 in accordance with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code).

2.0 RECOMMENDATIONS

- 2.1 It is recommended that:
- (i) Members receive this report; and
 - (ii) The mid-year performance of the in-house managed funds to date is noted.
 - (iii) The limit for Term Deposits with Local Authorities under 365 day be increased to £2m.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 The Council has adopted the Code. A provision of the Code is that a mid-year review report must be made to the Full Council relating to the treasury activities of the current year.

4.0 SIGNIFICANT RISKS

- 4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

REPORT

5.0 BACKGROUND AND INTRODUCTION

5.1 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in the Public Services and in this context is the management of the Authority's cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. The Authority has adopted the Code and complies with its requirements

5.2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.

5.3 The second major function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide towards whether the Council has a borrowing need, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.

5.4 This mid-year report has been prepared in compliance with CIPFA's Code of Practice and covers the following:

- An economic update for the first six months of 2020/21;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

6.0 POLICY CONTEXT

6.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this Code.

7.0 CONSULTATION

7.1 The Council uses the services of Link Asset Services (Link) to provide treasury management information and advice.

8.0 REPORT DETAILS

8.1 The Council's treasury advisors Link Asset Services – Treasury Solutions summarised the key points associated with economic activity in Q2 2020/21 up to 30 September 2020:

- The Coronavirus outbreak has resulted in economic damage to the UK and the world, with UK GDP falling by 23%:

- Bank Rate remained unchanged at 0.1%, with this rate now expected to continue for some time;
- Quantitative easing remains unchanged at £745bn;
- The Governor of the Bank of England stated that more quantitative easing would be favoured over the instruction of negative interest rates;
- Economic recovery is expected to be gradual and prolonged;
- Brexit uncertainties ahead of the 31 December deadline are expected to affect economic recovery;

A more detailed economic commentary on developments during Q2 2020/21 is included in **Appendix C**.

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

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	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
6 Month LIBID	0.10	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-
12 Month LIBID	0.20	0.20	0.20	0.20	0.20	0.20	0.20	-	-	-	-
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

* Net of certainty rate 0.2% discount

Treasury Management Strategy Statement and Annual Investment Strategy Update.

8.3 The Treasury Management Strategy (TMSS) for 2020/21 was approved by this Council on 20 February 2020. There are no policy changes to the TMSS, the details in this report update the position in the light of the updated economic position and budgetary changes already approved. Council's Annual Investment Strategy, which is incorporated in the TMSS, outlines the Council's investment priorities as follows:

- Security of capital
- Liquidity
- Yield

8.4 The Council will also aim to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (maximum loan period of 12 months) and only invest with highly credit rated financial institutions, using Link's suggested creditworthiness approach, including sovereign rating and credit default swap (CDS) overlay information provided by Link.

8.5 Investments during the first six months of the year have been in line with the strategy and there have been no deviations from the strategy.

8.6 As outlined above, there is still some uncertainty and volatility in the financial and banking market, both globally and in the UK. In this context, it is considered that the

strategy approved on 20 February 2020 is still fit for purpose in the current economic climate.

Investment Portfolio 2020/21

8.7 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

8.8 As highlighted in the economic commentary, the effect of Covid-19 on the economy is apparent in the financial markets, with the bank base rate cut to 0.1% and set to continue for the foreseeable. The knock on impact on investment returns will start to increase as the second half of the year, as we see investments maturing and now being replaced at much lower rates.

8.9 The Council's investment position at the beginning of the financial year was as follows:

Type of Institution	Investments (£)
UK Clearing Banks	9,208,398
Foreign Banks	-
Building Societies	-
Local Authorities	17,000,000
Total	26,208,398

8.10 A full list of investments held as at 30 September 2020, compared to Sectors counterparty list and changes to Fitch, Moodys and S&P's credit ratings during the first six months of 2020/21 is shown in annex B and summarised below:

Type of Institution	Investments (£)
UK Clearing Banks	18,136,578
Foreign Banks	
Building Societies	
Local Authorities	14,000,000
Total	32,136,578

8.11 The average level of funds available for investment purposes in the first six months of 2020/21 was £34.54m. These funds were available on a temporary basis and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants, (particularly in relation to Covid-19 funding packages for Businesses) along with progress of the capital programme.

8.12 The table below compares the investment portfolio yield for the first six months of the year against a benchmark of the average 7 day LIBID rate of -0.05%.

	Average Investment (£)	Average Gross Rate of Return	Net Rate of Return	Benchmark Return	Interest Earned (£)
Cash Equivalents	8,626,536	0%	n/a	n/a	-
Fixed Term Deposits	25,916,393	0.88%	n/a	-0.05%	115,213

8.13 The Council's budgeted investment return for 2020/21 is £205k and performance

during the financial year to 30 September 2020 is £115k. However, as the year progresses and the impact of lower returns start to take effect, **is it expected that the forecast position will be approximately £165k, £40k below the annual target.** This cost pressure is being monitored along with other Covid-19 related cost pressures and is being updated on a regular basis due to unprecedented uncertainty around future deposits and returns.

- 8.14 The current investment counterparty criteria selection approved in the TMSS is not currently meeting the requirement of the treasury management function, due to the limits on investments with Local Authorities. Following a review of counterparty limits as part of the 2020/21 strategy, Local Authority limits were reduced to £1m. Whilst there is still a good spread of Local Authorities on the list of our current deposits, during the first half of the financial year, we have experienced difficulties placing deposits with many Local Authorities at this level, and consequently have been carrying a large balance in our call account, which is currently attracting 0% return. Local Authorities are considered as high security deposits as they are backed by the UK Government and ought to be considered in line with other secure counterparties, which currently ranges up to £4m with the highest rated UK banks. It is therefore proposed to increase limits to £2m from £1m.

Compliance with Treasury and Prudential Limits

- 8.15 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 (affordability limits) are outlined in the approved Treasury Management Strategy Statement (TMSS).
- 8.16 During the financial year to date the Council has operated within the treasury limits and Prudential Indicators set out in the Council’s TMSS and in compliance with the Council’s Treasury Management Practices. The Prudential and Treasury Indicators are shown in annex A.
- 8.17 The level of borrowing is £1.53m, full details can be found at annex B. Repayments have been made in line with the loan repayment schedule. In order to fulfil the funding requirements of the current Capital Programme it is unlikely any additional borrowing will be undertaken, with any anticipated capital expenditure funded from reserves.

9.0 TREASURY MANAGEMENT FUNCTION & SWEEPING ARRANGEMENTS

- 9.1 Included within the service level agreement currently being finalised with North Yorkshire County Council (NYCC) for the provision of s151 Officer and Finance services, there is provision for treasury management support.
- 9.2 Reporting and monitoring processes are currently in place, and options are currently being explored to incorporate Ryedale into the pooled investment fund operated by NYCC. NYCC provides an investment pool where its own cash balances and those of several other public sector organisations are merged together to form a combined investment pool. Such an arrangement achieves economies of scale in terms of overall better interest returns together with the efficiencies resulting from not having to administer individual authority investment operations
- 9.3 Discussions are currently underway between the Authorities’ respective banks and progress will be reported back in due course. Prior to implementing such arrangements, RDC will also be asked to formally adopt the Investment strategy of NYCC, which will require approval of Policy & Resources committee.

10.0 IMPLICATIONS

10.1 The following implications have been identified:

a) Financial

The results of the investment strategy affects the revenue budget. The investment income return to 30 September 2020 was £115k, which is £12.5k in excess of the profiled budget, however due to the severe bank rate cut, the forecast outturn position is expected to be £165k, £40k below target. The cost of borrowing affects the revenue account, forecast interest costs for the year are £53k, which is £2k below budget.

b) Legal

There are no additional legal implications within this report.

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder)

There are no additional implications within this report.

Anton Hodge
Chief Finance Officer (s151)

Author: Michelle Oates, Senior Accountant
Telephone No: 01653 600666
E-Mail Address: michelle.oates@ryedale.gov.uk

Background Papers:

None

Background Papers are available for inspection at:

N/a

