Report to:	Audit and Governance Committee	**Date of Meeting:**	Wednesday 17 March 2021
Subject:	Treasury Management Position to January 2021		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	No	**Included in Forward Plan:**	No
Exempt / Confidential Report:	No		

Summary:

This report provides Members with a review of the Treasury Management activities undertaken to 31st January 2021. This document is the third report of the ongoing quarterly monitoring provided to Audit & Governance Committee whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation(s):

Members are requested to note the Treasury Management update to 31st January 2021, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

Reasons for the Recommendation(s):

To ensure that Members are fully appraised of the treasury activity undertaken to 31st January 2021 and to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs

The financial position on the external investment budget to the end of January indicates a deficit to the end of the period. The forecast to the end of the financial year also shows that investment income will fall below the level set in the budget.

(B) Capital Costs

None.

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets): External interest income is forecast to fall below the target set for the year.
Legal Implications: The Council has a statutory duty to review its Treasury Management activities from time to time during the financial year.
Equality Implications: None.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a
Facilitate confident and resilient communities: n/a
Commission, broker and provide core services: n/a
Place – leadership and influencer: Support strategic planning and promote innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.
Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned and cash is available when needed by the Council for improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD 6335/21) is the author of the report.

The Chief Legal and Democratic Officer (LD4436/21) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Implementation Date for the Decision

With immediate effect.

Contact Officer:	Graham Hussey
Telephone Number:	Tel: 0151 934 4100
Email Address:	graham.hussey@sefton.gov.uk

Appendices:

There are no appendices to this report

Background Papers:

There are no background papers available for inspection.

1. Background to the Report

1.1. As recommended under CIPFA's revised 2017 Code of Practice on Treasury Management in Public Services, the Council's Treasury Management Policy and Strategy document for 2020/21 (approved by Council on 27th February 2020) included a requirement for regular updates to be provided on the investment activity of the Authority. This report is the third of such reports for the year and presents relevant Treasury Management information for the period ending 31st January 2021.

1.2. The report includes information on the investments held / entered into during the period and the interest rates obtained (with a comparison of performance against a standard benchmark figure). In addition, the report highlights whether there has been any variance from the Treasury Management Policy and Strategy and the Council's approved Prudential Indicators (the operational boundaries within which the Council aims to work).

2. Investments Held

2.1. Investments held at the 31/01/2021 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	11.90	0.01	01/02/21	AAA
Aviva	11.90	0.01	01/02/21	AAA

Institution	Deposit £m	Rate %	Maturity	Rating
Blackrock	8.36	0.00	01/02/21	AAA
BNP Paribas	11.90	0.02	01/02/21	AAA
Goldman-Sachs	9.74	0.00	01/02/21	AAA
HSBC	0.76	0.00	01/02/21	AAA
Invesco	11.90	0.01	01/02/21	AAA
Morgan Stanley	9.69	0.00	01/02/21	AAA
Federated	11.90	0.01	01/02/21	AAA
Insight	9.69	0.00	01/02/21	AAA
Total	97.74			
Deposit Accounts:				
Bank of Scotland	1.44	0.01	01/02/21	A+
NatWest	2.95	0.01	01/02/21	A+
Santander	2.95	0.08	01/02/21	A+
Total	7.34			
Notice Accounts:				
Lloyds	3.00	0.10	32 days	A+
NatWest	3.00	0.10	35 days	A+
Santander	3.00	0.15	35 days	A+
Total	9.00			
Property Fund:				
CCLA	5.00	4.48	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	**119.08**			

2.2. The above cash balances represent the full range of earmarked reserves such as school's balances. The balances also include money received from the government's COVID-19 response funds which are being redistributed to local businesses. The cash is initially held in a number of highly liquid Money Market Funds to ensure security of the funds until they required to be paid out. This approach is consistent with the Council's approved Treasury Management Policy and Strategy for 2020/21. The balance of investments is therefore expected to fall significantly over the coming months as the funds are fully distributed.

2.3. All of the investments made since April 2020 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £25m. Whilst the maximum should be retained, in light of current economic conditions, a day to day operational maximum of 10% of the total portfolio is currently being imposed for specified investments. This will spread the risk for the Council but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

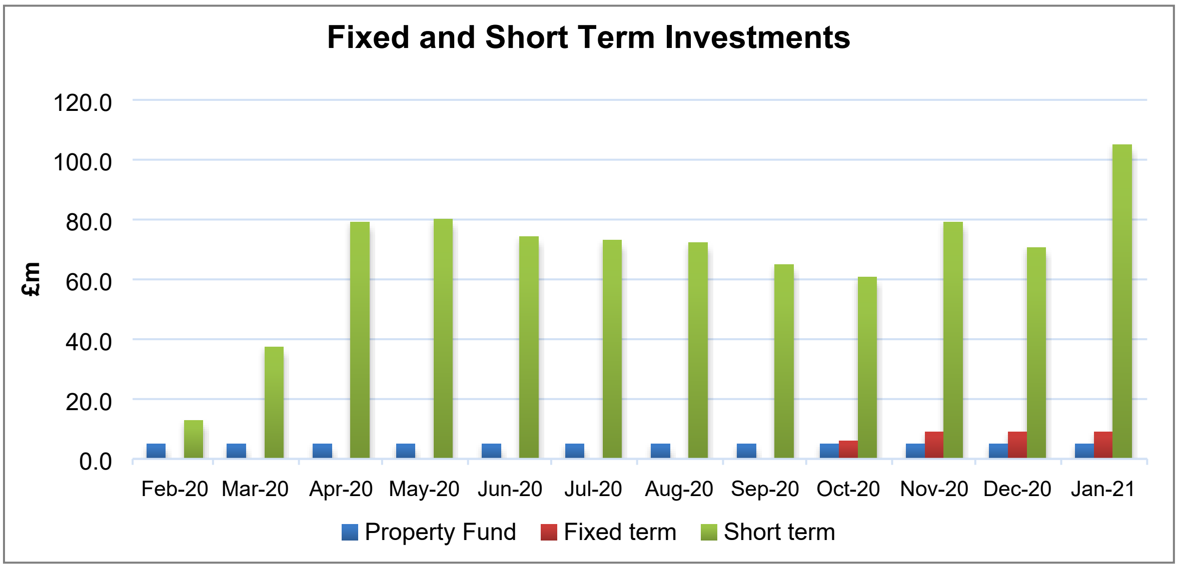
2.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 2.9).

2.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is often more buoyant than the north. The Council has in effect bought a share of the property portfolio and returns paid are in the region of 4%. This is seen as a long-term investment with the potential for the capital value of the investment to vary as property prices fluctuate.

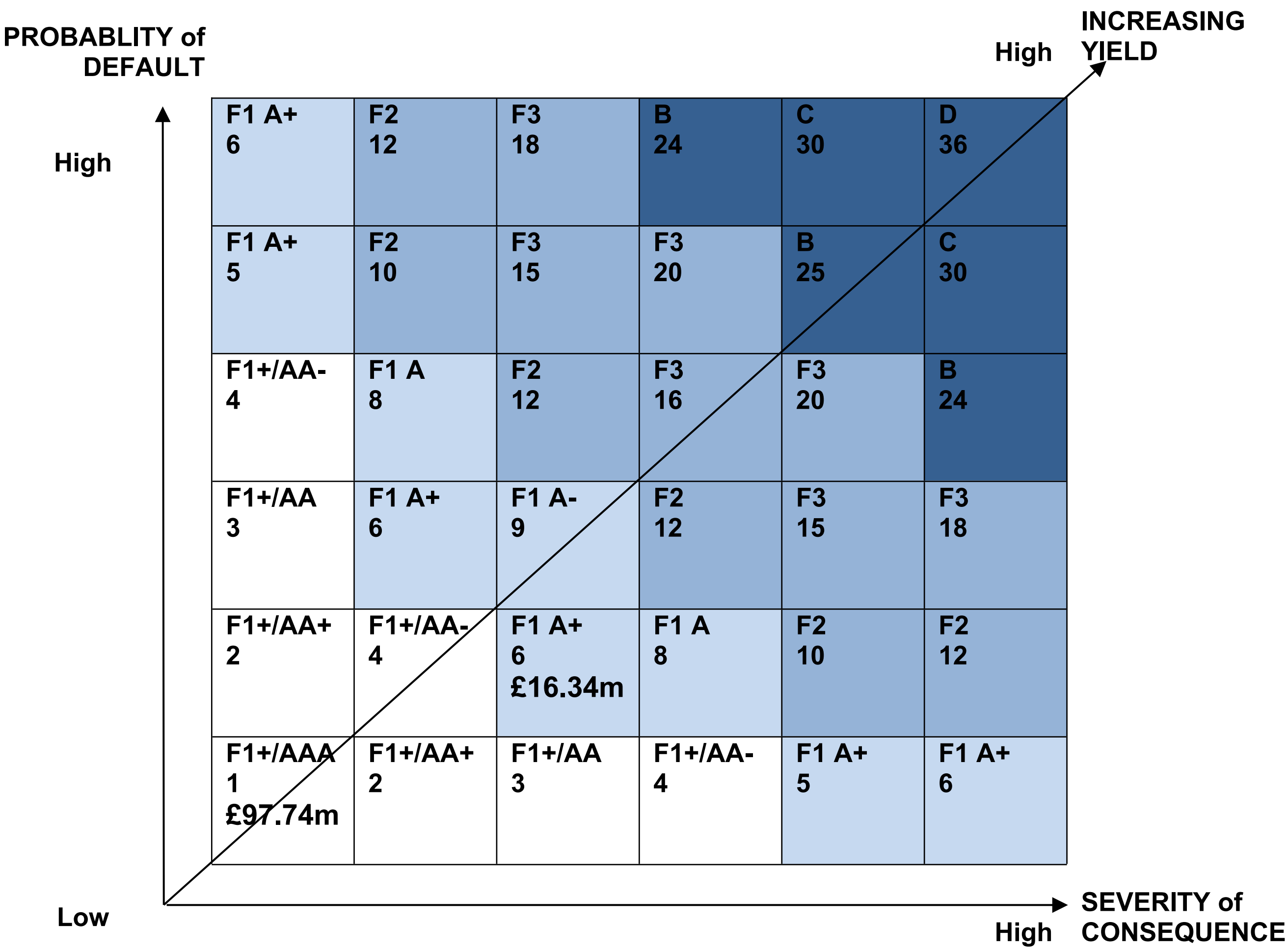
2.6. The Net Asset Value (NAV) of the Property Fund has decreased over a 12-month period to January 2021 from 301.14p per unit to 288.19p per unit, a decrease of 4.3%. Much of this decrease has been during the period March to May 2020 as the COVID-19 crisis impacted on the property market, weakening values in the retail sector. The value of the Council's investment still remains above that which it originally deposited and NAV in the fund has now stabilised.

2.7. The yield on the Property fund at the end of January 2021 was 4.48% which is consistent with returns received in the past. Rents collected by the fund since the onset of COVID-19 however, had initially fallen by as much as 50% in some sectors in early 2020 but then experienced a recovery later in the year with collection rates as high as 90% by the end of December. The forecast income from investments (see 3.1, below) has therefore been adjusted to reflect a prudent estimate of a reduction in income from the property fund.

2.8. The ratio of overnight deposits (short term) to fixed term investments and the property fund is shown below:



2.9. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield when investing:



SEFTON RISK TOLERANCE:

Risk Level	Score	Grade	Amount Invested
LOW	1 - 4	Investment Grade	£97.74m
LOW - MEDIUM	5 - 9	Investment Grade	£16.34m
MEDIUM	10 - 20	Investment Grade	£0
HIGH	21 - 36	Speculative Grade	£0

2.10. The Council will continue to maximise any investment opportunities as they arise, but in light of current economic conditions and low investment yields it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year. Cash balances available for investment will be held in overnight deposits to allow the council to respond to any exceptional demands for cash as they arise. The possibility for making long term deposits will also be reviewed now that economic conditions have stabilised to some extent.

3. Interest Earned

3.1. The actual performance of investments against the profiled budget to the end of January 2021 and the forecast performance of investments against total budget at year end is shown below:

Profile	Budget £m	Actual £m	Variance £m
January 2021	0.325	0.255	0.070

Profile	Budget £m	Forecast £m	Variance £m
Outturn 2020/21	0.415	0.317	0.098

3.2. The forecast outturn for investment income shows a shortfall against the budget for 2020/21. The impact of COVID-19 and declining economic conditions in general mean that investment rates are low, and yields are expected to be well below the estimate originally forecast in the budget.

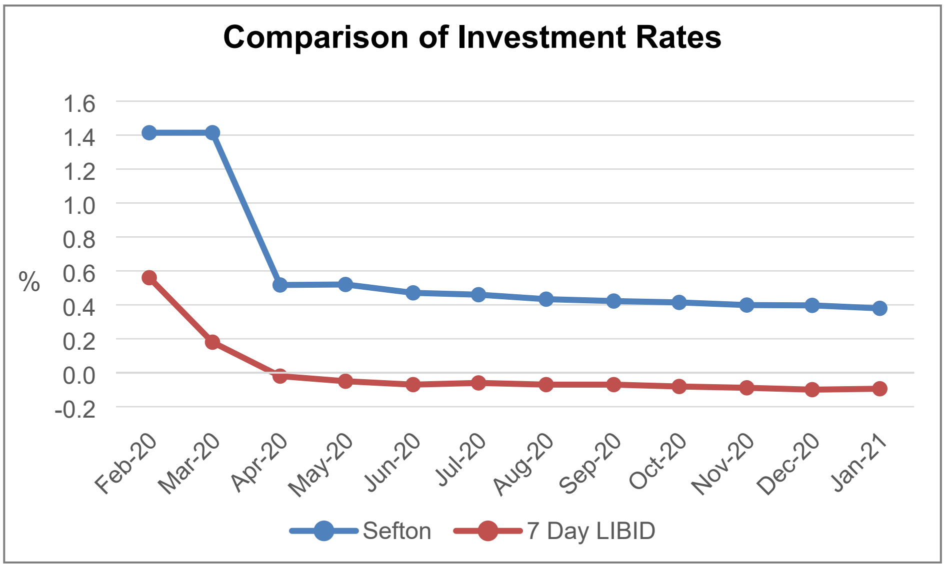
3.3. The Council invests the majority of its funds in AAA rated Money Market Funds in order to ensure security and liquidity of its cash balances. These funds however, have experienced a marked decline in yields since the onset of the pandemic. At the time of setting the budget for 2020/21 yields were around 0.75% on average. These rates have now declined to around 0% and hence forecast income is now much lower than the estimate.

3.4. The Council will continue to invest with Money Market Funds despite yields falling to zero, in order to preserve the security of its cash balances and ensure that cash is made available when needed. This is consistent with the approved Treasury Management Strategy for 2020/21 that prioritises security and liquidity with yield being a secondary consideration.

3.5. In addition to the above funds, the Council also invests in the CCLA property fund, and as mentioned in paragraph 2.7 the fund is expected to yield lower income compared with the forecast for 2020/21. The total income before the COVID-19 crisis was predicted to be £0.250m whereas at present it is anticipated that the amount to be collected will be around £0.240m.

3.6. In the current economic climate, it is considered prudent to keep investments in the short term to meet any exceptional demand for cash. It is therefore not envisaged that improved investment yields will be achieved during 2020/21 as cash balances are diminishing and held in short term deposits.

3.7. The Council has achieved an average rate of return across all of its investments of 0.38% that has out-performed the 7-day LIBID to the end of January 2021. As can be seen from the chart below, investment rates have been declining since March 2020.



4. Interest Rate Forecast

4.1. Arlingclose have supplied the interest rate forecast and commentary below:

	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 Case	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
3-month money market r													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
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
1yr money market rate													
Upside risk	0.05	0.05	0.10	0.10	0.15	0.20	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Downside risk	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15	0.15
5yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
Downside risk	0.40	0.45	0.50	0.55	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
10yr gilt yield													
Upside risk	0.30	0.35	0.40	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
Downside risk	0.50	0.50	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55	0.55
20yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
50yr gilt yield													
Upside risk	0.40	0.40	0.45	0.45	0.50	0.50	0.55	0.60	0.60	0.65	0.65	0.70	0.70
Arlingclose Central Case	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80
Downside risk	0.30	0.30	0.35	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%
PWLB Infrastructure Rate (Maturity Loans) = Gilt yield + 0.60%

Underlying assumptions:

- 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 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, or the deployment of vaccines.

Forecast:

- Arlingclose expects Bank Rate to remain at the current 0.10% level.
- 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.
- 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 ends.

5. Compliance with Treasury and Prudential Limits

5.1. For financial year 2020/21 to the end of January 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices with the exception of the following indicator:

	2020/21 Original Forecast	2020/21 Revised Forecast	Variance
Ratio of Financing Costs to Net Revenue Stream	4.1%	4.2%	0.1%

5.2. There has been a reduction in the Council's revenue streams over 2020 as a result of the COVID-19 crisis, the full impact of which is subject to a separate report presented to Cabinet and Council on a regular basis. The above variance is considered minor and financing costs for 2020/21 remain at affordable levels with the total borrowing requirement remaining below the operational boundary set at the beginning of the year.