Report to:	Cabinet Council	**Date of Meeting:**	5 November 2020 19 November 2020
Subject:	Treasury Management Mid-Year Report 2020/21		
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:**	Yes
Exempt / Confidential Report:	No		

Summary:

This report provides Members with a review of the Treasury Management activities undertaken to 30th September 2020. This document is the second report of the ongoing quarterly monitoring provided to Audit & Governance Committee and the mid-year report to Cabinet and Council, whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation to Cabinet and Council:

Members are requested to note the Treasury Management update to 30th September 2020, 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:

To ensure that Members are fully appraised of the treasury activity undertaken to 30th September 2020 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 September 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 (FD6154/20) is the author of the report.

The Chief Legal and Democratic Officer (LD 4346/20) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

N/A

Implementation Date for the Decision

With immediate effect.

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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 second of such reports for the year and presents relevant Treasury Management information for the period ending 30th September 2020.

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 30/09/2020 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	6.99	0.08	01/10/20	AAA

Institution	Deposit £m	Rate %	Maturity	Rating
Amundi	6.99	0.01	01/10/20	AAA
Aviva	6.99	0.06	01/10/20	AAA
BNP Paribas	6.99	0.04	01/10/20	AAA
Goldman-Sachs	3.27	0.01	01/10/20	AAA
Invesco	6.99	0.04	01/10/20	AAA
Morgan Stanley	6.99	0.01	01/10/20	AAA
Federated	6.61	0.05	01/10/20	AAA
Insight	6.61	0.01	01/10/20	AAA
Total	58.43			
Deposit Accounts:				
Santander	6.49	0.12	01/10/20	A+
Total	6.49			
Property Fund:				
CCLA	5.00	4.26	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	**69.92**			

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 fund which is 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. Credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the first quarter of 2020/21, due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic. The majority of ratings were however, affirmed due to the continuing strong credit profiles of UK banks. CDS prices (market indicators of credit risk) for UK banks also spiked upwards at the end of March due to the liquidity crisis throughout financial markets. Those CDS prices have returned to more average levels since then.

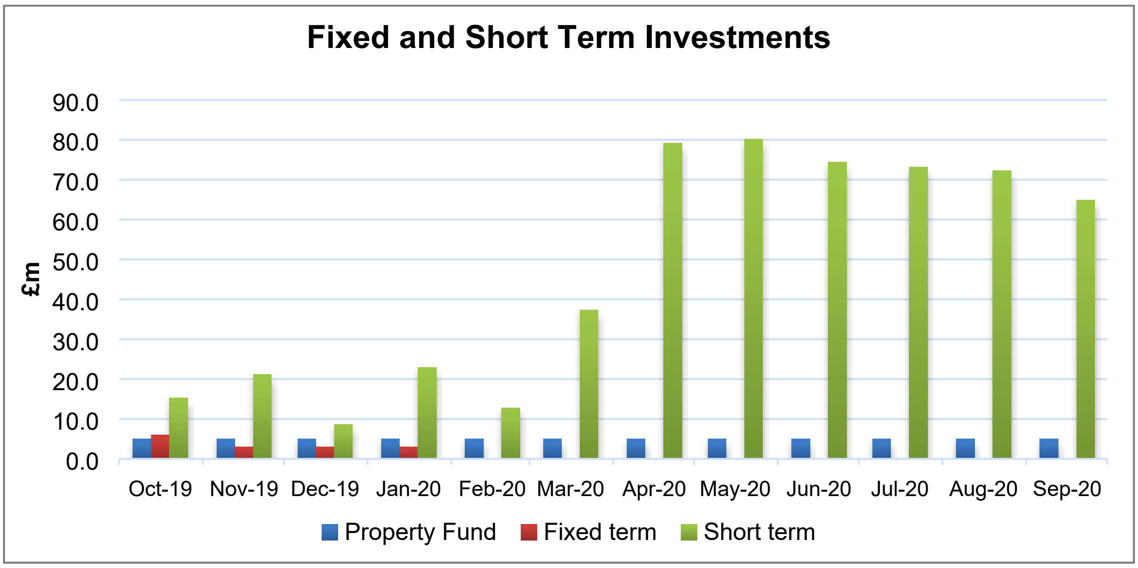
2.5. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 2.10).

2.6. 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.

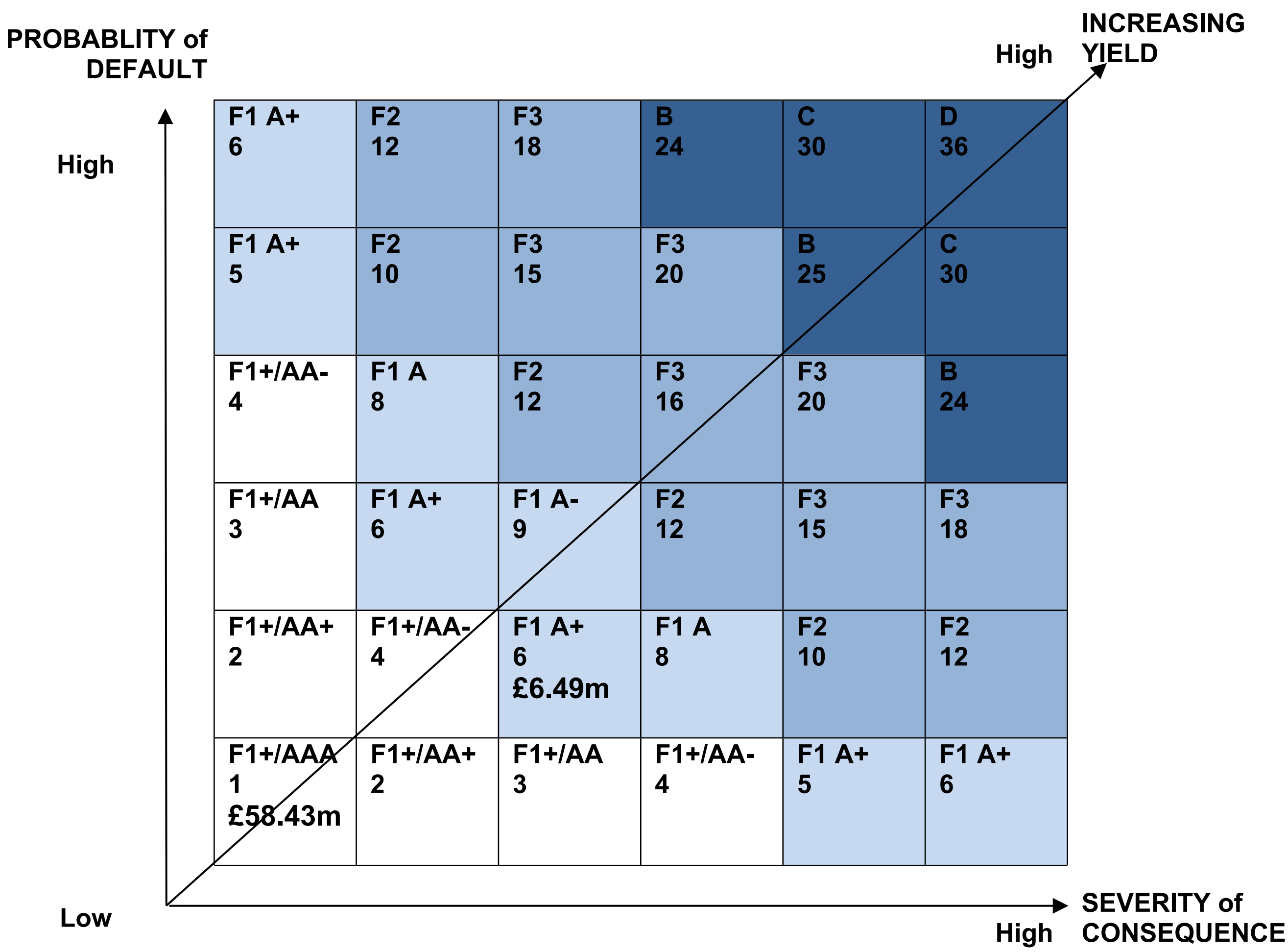
2.7. The Net Asset Value (NAV) of the Property Fund has decreased over a 12-month period to September 2020 from 303.00p per unit to 283.43p per unit, a decrease of 6.5%. Much of this decrease has been during the period March to May 2020 as the COVID-19 crisis has impacted on the property market, weakening values in the retail sector. The value of the Council's investment is still in line with the original deposit and NAV in the fund has now stabilised in recent months.

2.8. The yield on the Property fund at the end of September 2020 was 4.26% which is consistent with returns received in the past. Rents collected by the fund since the onset of COVID-19 however, have fallen to around 50% but are anticipated to improve to around 75% later in the year. The forecast income from investments (see 3.1, below) has therefore been adjusted to reflect a prudent estimate of a 50% reduction from the property fund.

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



2.10. 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	£58.43m
LOW - MEDIUM	5 - 9	Investment Grade	£6.49m
MEDIUM	10 - 20	Investment Grade	£0
HIGH	21 - 36	Speculative Grade	£0

2.11. 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 be reviewed once economic conditions stabilise.

3. Interest Earned

3.1. The actual performance of investments against the profiled budget to the end of September 2020 and the forecast performance of investments against total budget at year end is shown below:

Profile	Budget £m	Actual £m	Variance £m
September 2020	0.145	0.127	0.018

Profile	Budget £m	Forecast £m	Variance £m
Outturn 2020/21	0.415	0.208	0.207

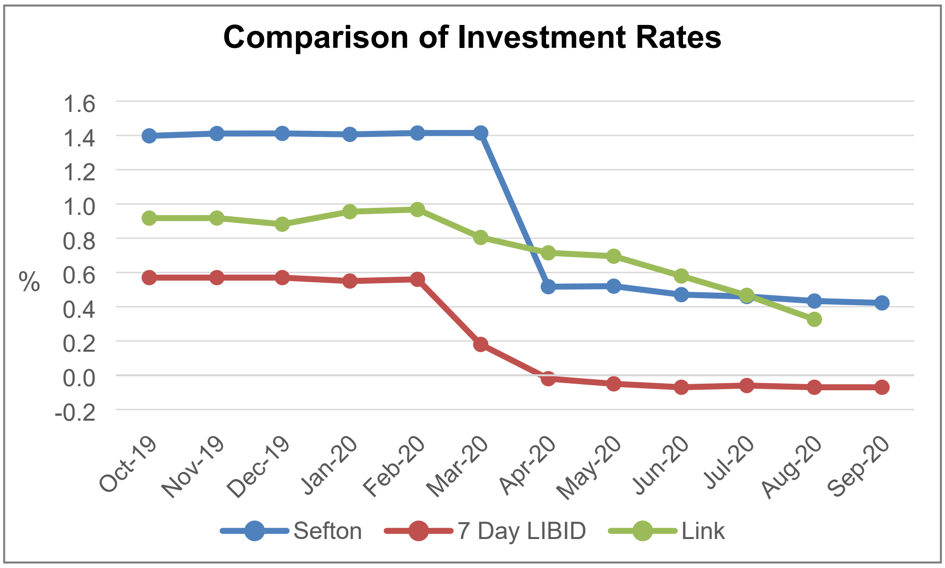
3.2. The forecast outturn for investment income shows a significant shortfall against the budget for 2020/21. The impact of COVID-19 and declining economic conditions in general mean that investment rates are low, and yields are expected to be well below the estimate originally forecast in the budget.

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 0.04% and hence forecast income is now much lower than the estimate.

3.4. In addition to the above funds, the Council also invests in the CCLA property fund, and as mentioned in paragraph 2.8 the fund is only expected to yield 50% of the forecast income 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 £0.125m.

3.5. In the current economic climate, it is considered prudent to keep investments in the short term to meet any exceptional demand for cash and to ensure payments to local businesses from the government response fund can be made as and when required. 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.

3.6. The Council has achieved an average rate of return across all of its investments of 4.22% that has out-performed the 7-day LIBID to the end of September 2020. As can be seen from the chart below, investment rates are declining since March 2020 and this is consistent with the model portfolio provided by our previous treasury advisors (Link Asset Services – see section 6).



NB: Link's September data unavailable at the time of writing.

4. Interest Rate Forecast

4.1. Link Asset Services have supplied the interest rate forecast and commentary below:

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

The coronavirus outbreak has done huge economic damage to the UK and around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left the Bank Rate unchanged at its last meeting on 6th August, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

5. Compliance with Treasury and Prudential Limits

5.1. During the first half of 2020/21 financial year, 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.

5.2. The key treasury indicators compared to the actuals as at 30th September 2020 are shown below:

External Debt:	**2020/21 £m**
Authorised limit for external debt	249.000
Operational boundary for external debt	239.000
Actual external debt 30.09.20	212.492

Maturity structure of fixed rate borrowing:	Upper Limit %	Lower Limit %	Actual %
Under 12 months	35	0	13
12 months to 24 months	40	0	9
24 months to 5 years	40	0	23
5 years to 10 years	40	0	7
10 years to 15 years	40	0	17
15 years +	90	25	32

Upper limit for principal sums invested for longer than 365 days:	Limit %	Actual %
Principal sums invested	40	8

6. Outcome of the Treasury Consultant Tender Exercise

6.1. Members will be aware that local authorities are required under the Prudential Code to receive appropriate Treasury Management advice in order to inform effective and informed decision making in what is recognised as a complex area of council business.

6.2. The Council has procured this advice for some time and has ensured that decisions made by members and officers are supported by specialist expertise to reduce the risk faced by the council.

6.3. The previous treasury management contract with Link Asset Services came to an end on 30th September 2020. Following a successful tender exercise, the Council has now appointed Arlingclose as its treasury management adviser from the 1st

October 2020 for a period of three years with an option to extend for a further 12 months.

6.4. The Council will continue to receive investment advice, economic and interest rate forecasts, and general technical advice from this new provider to ensure the efficient operation of its treasury management functions continues.