



Peter McCall

Treasury Management Activities 2020/21 Quarter 4 (January to March 2021) and Annual Report 2020/21

Public Accountability Conference 2 June and JAC Meeting 23 June 2021

Purpose of the Report

The purpose of this paper is to report on the Treasury Management Activities (TMA), which have taken place during the period January to March 2021, in accordance with the requirements of CIPFA's Code of Practice on Treasury Management.

TMA are undertaken in accordance with the Treasury Management Strategy Statement (TMSS) and Treasury Management Practices (TMPs) approved by the Commissioner in February each year.

Recommendations

The Commissioner is asked to note the contents of this report.

JAC Members are asked to note the contents of this report. The report is provided as part of the arrangements to ensure members are briefed on Treasury Management and maintain an understanding of activity in support of their review of the annual strategy.

Economic Background

The key quarterly Monetary Policy Report meeting of the Bank of England's Monetary Policy Committee kept Bank Rate and quantitative easing unchanged on 4th February, (as it also did at its 18th March meeting). However, it revised its economic forecasts to take account of a third national lockdown which started on 5th January, which is going to further delay economic recovery and do further damage to the economy.

The Bank of England removed negative interest rates as a possibility as financial institutions were not ready or able to implement them within the next 6 months and by that time the economy would be expected to be recovering strongly and so there would be no requirement for negative rates.

Link Treasury, the Commissioners advisors, are not expecting any increase in Bank Rate within the forecast horizon ending on 31st March 2024. This will result in extremely low interest rates with

minimal interest receipts for the medium term.

The Budget on 3rd March increased support to the economy and employment during 2021 and 2022 followed by substantial tax rises in the following three years to help to pay the cost for the pandemic.

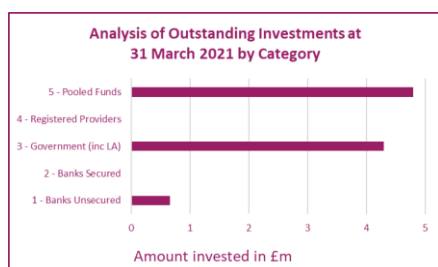
The final Brexit agreement on 24th December 2020 eliminated a significant downside risk for the UK economy but it is still an area that needs further work to ease difficulties, particularly around trade arrangements.

TM Operations and Performance Measures

The Commissioners day to day TMA are undertaken in accordance with the TMSS. The TMSS establishes an investment strategy with limits for particular categories of investment and individual counterparty limits within the categories.

Outstanding Investments: As at 31 March 2021 the total value of investments was **£9.762m** and all were within TMSS limits.

The chart below shows the outstanding investments at 31 March by category.



A full list of the investments that make up the balance of £9.762m is provided at **Appendix A**.

Investment Activity: During quarter 4 a total of 4 investments with a combined value of £6.9m were made within TM categories 1-3 (banks unsecured, banks secured and Government). In addition to these there were regular smaller investments in category 5 (money market pooled funds).

Non-specified investments: The TMSS sets a limit for investments with a duration of greater than 364 days at the time the investment is made (known as non-specified investments), this limit is £5m. At 31 March the Commissioner had no investments meeting this description.

Investment Income: The base budget for investment interest receivable in 2020/21 was set at £96k based on the interest rate predictions at the time (0.75% rising to 1.00% in qtr 4) The budget forecast was revised to £26k in quarter 2 and to £15k in quarter 3 as investment counterparties gradually reacted to the emergency base rate reductions in March 2020. The actual income achieved against this target was £15k

The average return on investment during quarter 4 was 0.01%. As a measure of investment performance, the rate achieved on maturing investments of over 3 months in duration would normally be compared with the average BOE base rate for the period of the investment.

However, during the fourth quarter of 2020/21 there were no investments maturing that had been placed for a duration of 3 months or longer. Interest rates are extremely low and the gains from longer term investments do compensate for the risks at these uncertain times. The investment durations are also being kept relatively short to allow us to react to any changes in interest

rates. All fixed term investments in qtr. 4 were placed with the Debt management office (HM Treasury) as the most secure option but this yielded a low return of 0.01% in most cases.

Cash Balances: The aim of the TMSS is to invest surplus funds and minimise the level of un-invested cash balances. The actual un-invested cash balances for the period January to March are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	90	6,637	43,212
Days Overdrawn	0	0	0

There were a number of occasions where the bank balance exceeded the target balance of £7.5k. These were all in relation to monies being paid into the main fund. Much of the large 'pay to banks' relate to seized cash including the largest balance recorded for the quarter. As is common practice, transactions of this nature made during the day are not invested as they are subject to checking by the bank and may be reversed.

There were no instances in the fourth quarter where the account was overdrawn.

Prudential Indicators

In accordance with the Prudential Code, the TMSS includes a number of measures known as Prudential Indicators which determine if the

TMSS meets the requirements of the Prudential Code in terms of *Affordability, Sustainability and Prudence*.

An analysis of the current position with regard to those prudential

indicators for the financial year 2020/21 is provided at **Appendix B**. The analysis confirms that the Prudential Indicators set for 2020/21 have all been complied with.

Annual Report on Treasury Management Operations 2020/21

Treasury Strategy: In February 2020 the Commissioner approved the 2020/21 Treasury Management Strategy Statement (TMSS). The TMSS incorporated the investment and borrowing strategies for the 2020/21 financial year. The investment strategy approved for 2020/21 was largely the same as had been adopted for the previous year. The limits for each category of investment were based on the relative security of each class of financial institution and a percentage of the estimated balances, which would be available for investment during the year.

In relation to borrowing, the Commissioner has an underlying need to borrow funds to finance the capital programme, which is measured by the Capital Financing requirement (CFR).

The CFR at the start of 2020/21 amounted to £22.10m (including

£4.58m relating to the PFI agreement for West Cumbria TPA HQ in Workington) leaving a £17.63m exposure to external borrowing at some time in the future, which is presently being covered by the use of internal funds (reserves).

The closing CFR for 2020/21 is anticipated to be £21.60m, of which £4.40m relates to the PFI thereby leaving a £17.20m exposure to the requirement to undertake external borrowing at some point.

During 2020/21 the Commissioner has maintained this strategy of using cash balances, arising primarily from reserves, to meet the cash flow commitments and was not therefore compelled to borrow.

Although long term borrowing rates remained relatively low during 2020/21, a conscious decision was made to defer long term financing decisions as the short term cost of

carrying debt (i.e. the differential between the borrowing rate estimated at 2.39% and the rate of 0.1% available as when such funding was invested), as this would have had an adverse effect on the revenue budget for the year and the immediate outlook period.

During 2018/19 the contract for the provision of treasury management advice services was re-tendered with the result that with effect from 1 April 2019 a new advisor (Link Asset Services Ltd) was appointed. Link Assets Services Ltd have continued to provide the advisory service during 2020/21.

The Commissioner, in consultation with the treasury advisors continues to look for the most opportune time to undertake any longer term borrowing to fund the capital financing requirement.

Key Statistics

Principal:

Number of investments placed during 2020/21 was **247** (197 in 2019/20).

Value of investments placed during 2020/21 was **£131.852m** (£131.362m in 2019/20).

Of these investments made, 103 were to external counterparties and as such will have attracted a £10 transfer fee per transaction. The transfer to the NatWest Liquidity Select account for overnight money is classed as an inter-account transfer' as the NatWest holds the Commissioner's main bank account. This type of transfer is free although we do pay a small fee to access the internet banking site.

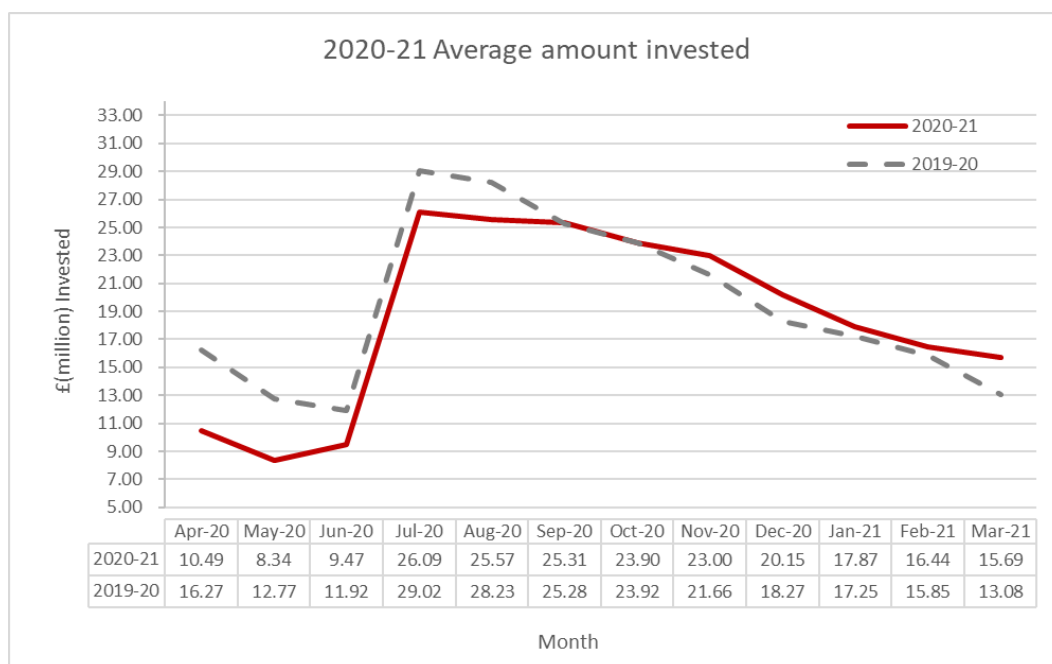
The **average** daily investment balance during 2020/21 was **£18.56m** (£19.50m in 2019/20).

The **highest** daily investment balance in 2020/21 was **£30.08m** (£33.97m in 2019/20)

The **lowest** daily investment balance in 2020/21 was **£4.24m** (£7.24m in 2019/20).

A detailed breakdown of the closing balance invested as at 31 March 2021 is provided at **Appendix A**.

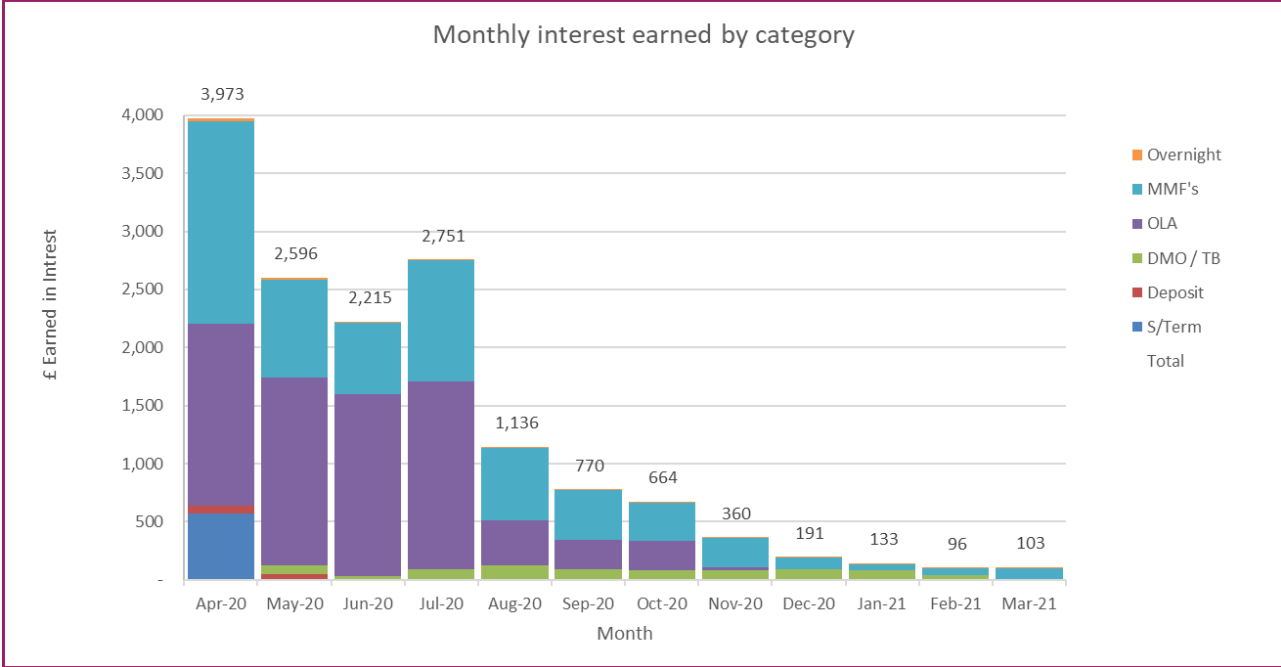
The level of cash reserves available to invest has followed the same pattern as seen in previous years. Following the introduction of the Home Office Police Pensions Grant in 2007/08, there has been an annual spike in investments in July, when the majority of the grant is received, followed by a gradual decline in balances as pension payments are made throughout the remainder of the year.



This chart illustrates the monthly average amounts invested during 2020/21 (with monthly comparatives for 2019/20).

Interest:

A total of £15k was earned in 2020/21 (£143k in 2019/20) from the Commissioner’s treasury management activities and can be broken down as follows:



The average return on investments for 2020/21 was 0.08% (0.73% in 2019/20). The base rate started the year at 0.1% and this is where it remained throughout the whole of 2020/21.

The table above shows the outturn on investment interest as £15k for 2020/21 which is £81k below the base budget of £96k. The base budget was increased in line with the plans to invest long term in a property funds. These funds yield higher returns as well as the potential for capital growth. They are backed, as the name suggests, by property. Uncertainty around the Brexit negotiations and the effect that this would have on property prices have resulted in this investment being delayed. With the global pandemic now also taking its toll on the UK economy it is unlikely that this investment will take place in the near future.

The base budget for 2020/21 is £96k and was set while the interest rate was predicted to remain at 0.75% until 2020/21 quarter 4 where it was expected to rise to 1.0%. The cash flow forecast was remodelled throughout the year to take account of the recent sudden rate cuts and the revised forecast for investment income in 2020/21 was £26k in the September report and £15k in the December report.

Treasury Operations:

As discussed above the aim of the Treasury Management Strategy is to invest surplus cash and minimise the level of un-invested cash balances, whilst limiting risks to the Commissioner's funds. Actual un-invested balances for 2020/21 for the Commissioner's main bank account are summarised in the table below:

	Number of Days	Average Balance £	Largest Balance £
Days In Credit	360	7,492	293,422
Days Overdrawn	5	(2,671)	(7,199)

The largest credit balance occurred during quarter one, the largest overdrawn balance occurred during the second quarter.

The largest un-invested balance occurred over the weekend of the 29th May 2020 (£292k) income was received late in the day from the ministry of justice for the victims grant. In line with procedure, any funds banked during the day are subject to checking by the bank and could be removed from our account again while any issues are resolved, which would have resulted in an overdrawn account.

It is therefore normal practice that this cash is not invested into the liquidity select account and would have been left in the main fund account.

The largest overdrawn balance occurred on the 13th of August (£7k) cheques were paid into the bank and subsequently did not

clear same day – so we had in effect over invested. The faster cheque clearing regime currently being implemented by the banking sector is making it difficult to predict if cheques will clear on the same day or they will clear in one day or two. Funds paid in during the day are no longer invested until they are cleared funds.

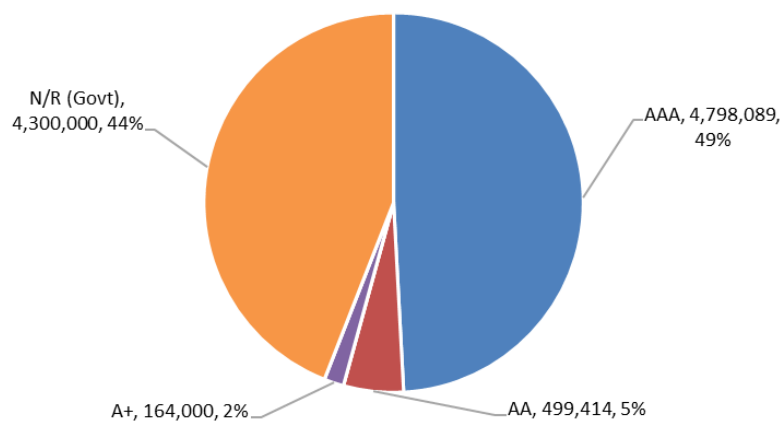
Compliance with Prudential Indicators

All treasury related Prudential Indicators for 2020/21, which were set in February 2020 as part of the annual Statement of Treasury Management Strategy, have been complied with. Further details can be found at **Appendix B**.

Appendix A Investment Balance at 31 March 2021

Category/Institution	Credit Rating	Investment Date	Investment Matures	Days to Maturity	Rate (%)	Amount (£)
Category 1 - Banks Unsecured (Includes Banks & Building Societies)						
Svenska (Deposit Acc)	AA	Various	On Demand	N/A	0.00%	499,414
NatWest (Liquidity Select Acc)	A+	31/12/2020	04/01/2021	O/N	0.01%	164,000
						663,414
Category 2 - Banks Secured (Includes Banks & Building Societies)						
						0
Category 3 - Government (Includes HM Treasury and Other Local Authorities)						
Debt Management Office	Gov	26/03/2021	22/04/2021	22	0.01%	2,150,000
Debt Management Office	Gov	26/03/2021	21/05/2021	51	0.01%	2,150,000
						0
						0
						4,300,000
Category 4 -Registered Providers (Includes Providers of Social Housing)						
None						0
						0
Category 5 -Pooled Funds (Includes AAA rated Money Market Funds)						
Invesco	AAA	Various	On demand	O/N		1,700,000
Fidelity	AAA	Various	On demand	O/N		1,698,089
BlackRock	AAA	Various	On demand	O/N		0
Goldman Sachs	AAA	Various	On demand	O/N		0
Aberdeen Standard	AAA	Various	On demand	O/N		1,400,000
						4,798,089
Total						9,761,503

Analysis of outstanding investments by credit rating of counterparty at 31 March 2021 (Minimum criteria per TMSS A-)



Note – The credit ratings in the table & chart relate to the standing as at 31 March 2021, these ratings are constantly subject to change.

Appendix B

Prudential Indicators 2020/21

Treasury Management Indicators		Result	RAG
<p>The Authorised Limit</p> <p><i>The authorised limit represents an upper limit of external borrowing that could be afforded in the short term but may not be sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is a statutory limit under section 3(1) of the Local Government Act 2003.</i></p>	TEST - Is current external borrowing within the approved limit	YES	
<p>The Operational Boundary</p> <p><i>The operational boundary represents an estimate of the most likely but not worst case scenario. It is only a guide and may be breached temporarily due to variations in cash flow.</i></p>	TEST - Is current external borrowing within the approved limit	YES	
<p>Actual External Debt</p> <p><i>It is unlikely that the Commissioner will actually exercise external borrowing until there is a change in the present structure of investment rates compared to the costs of borrowing.</i></p>	TEST - Is the external debt within the Authorised limit and operational boundary	YES	
<p>Gross and Net Debt</p> <p><i>The purpose of this indicator is to highlight a situation where the Commissioner is planning to borrow in advance of need.</i></p>	TEST - Is the PCC planning to borrow in advance of need	NO	
<p>Maturity Structure of Borrowing</p> <p><i>The indicator is designed to exercise control over the Commissioner having large concentrations of fixed rate debt needing to be repaid at any one time.</i></p>	TEST - Does the PCC have large amounts of fixed rate debt requiring repayment at any one time	NO	
<p>Upper Limit for total principal sums invested for over 365 Days</p> <p><i>The purpose of this indicator is to ensure that the Commissioner has protected himself against the risk of loss arising from the need to seek early redemption of principal sums invested.</i></p>	TEST - Is the value of long term investments within the approved limit	YES	
<p>Ratio of Financing Costs to Net Revenue Stream</p> <p><i>This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of revenue budget required to meet financing costs</i></p>	TEST - Is the ratio of capital expenditure funded by revenue within planned limits	YES	
<p>Net Borrowing and the Capital Financing Requirement</p> <p>This indicator is to ensure that net borrowing will only be for capital purposes. The Commissioner should ensure that the net external borrowing does not exceed the total CFR requirement from the preceding year plus any additional borrowing for the next 2 years.</p>	TEST - Is net debt less than the capital financing requirement	YES	
<p>Capital Expenditure and Capital financing</p> <p><i>The original and current forecasts of capital expenditure and the amount of capital expenditure to be funded by prudential borrowing for 2020/21</i></p>	TEST - Is the current capital outturn within planned limits	YES	
<p>Capital Financing Requirement</p> <p><i>The CFR is a measure of the extent to which the Commissioner needs to borrow to support capital expenditure only. It should be noted that at present all borrowing has been met internally.</i></p>	TEST - Is the capital financing requirement within planned limits	YES	