Report to Council

Date: 24th February 2021

Title: Treasury Management Strategy

Relevant councillor(s): Councillor Katrina Wood

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Recommendation: Council is asked to agree the Council's Treasury Management Strategy for 2021/22 at Appendix 1.

Executive summary

1.1 The Council is required to approve a treasury management strategy before the start of each financial year. The table below is a summary of the Council's treasury position on 30 November 2020.

	1 Apr 2020 £m	30 Sep 2020 £m	30 Nov 2020 £m
Borrowing:			
PWLB[1]	-335.5	-330.0	-327.3
LOBO[2]	-30.0	-30.0	-30.0
Accrued Interest	-2.5	-2.5	-2.5
Gross Borrowing	**-368.0**	**-362.5**	**-359.8**
Treasury Cash:			
Banks	42.2	9.0	4.0
Local Authorities (invested less than 364 days)	35.5	10.5	10.5
Money Market Funds (MMFs)	37.6	137.1	127.4
UK Government	0.0	10.0	55.8
Property Fund	20.0	20.0	20.0
Gross Treasury Investments	**135.3**	**186.6**	**217.7**
Net Cash/(Borrowing)	**-232.7**	**-175.9**	**-142.1**

[1] PWLB Public Works Loans Board. The PWLB is a statutory body, part of HM Treasury; its purpose is to lend money to local authorities. The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required.

[2]LOBOs Lender Option Borrower Option. LOBOs are long term borrowing instruments which include an option for the lender to periodically revise the interest rate. If the lender decides to revise the interest rate, the borrower then has the option to pay the revised interest rate or repay the loan.

1.2 The Council pursues a strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep external financing costs low. Treasury cash balances have been higher than anticipated due to the Council receiving Covid-19 grants in advance of incurring the expenditure and slippage in the Capital Programme due to Covid-19. Liquid cash is diversified over several counterparties and Money Market Funds to manage both credit and liquidity risks. As a consequence of holding high cash balances at certain times of the year, the Council has placed more cash with the UK Government to avoid breaching the treasury policy, these investments are low risk with low interest.

1.3 The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The Council is actively reviewing opportunities for borrowing at low rates if borrowing is required to finance items within the capital programme. A reduction of 1% in PWLB loans took effect on 26th November 2020 which presents the Council with the opportunity for borrowing for regeneration schemes at low cost. As a condition of accessing the PWLB, the Council will be asked to confirm there is no intention to buy commercial properties in the current or next two financial years.

1.4 Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2021/22. This diversification represents a change in strategy over the coming year. The majority of the Council's surplus cash is currently invested in money market funds. Following advice from the Council's treasury advisers Arllingclose the upper limit on all Money Market Fund (MMF) investments has been removed and the individual limit on a MMF has been increased from £25m to £30m. However, MMFs are a key tool to manage credit and liquidity risks and diversification across counterparties.

Content of report

1.5 In line with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management and the Council's Financial Regulations, this Council is required to submit a treasury management strategy for the following financial year to the Audit and Governance Committee to consider on 27th January 2021, prior to the Council agreeing the strategy at its meeting on 24th February 2021.

The Code of Practice defines Treasury Management as: The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. Treasury management is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code).

1.6 The Council's investment strategy sets out the approach for choosing investment counterparties. They are based on a system of credit ratings provided by the three main credit rating agencies and supplemented by additional market data (such as rating outlooks, credit default swaps and bank share prices) provided by our treasury advisors.

1.7 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

1.8 **Strategy:** The Council's Treasury Management Strategy for 2021/22, Borrowing Indicators and Treasury Indicators for security, liquidity and maturity structure of borrowing are attached as Appendix 1. These are continually monitored to ensure that we don't breach. Given the increasing risk and very low returns from short-term unsecured bank investments, the Council aims to diversify into more secure and/or higher yielding asset classes during 2021/22. The majority of the Council's surplus cash is currently invested in money market funds. This diversification represents a change in strategy over the coming year.

1.9 **Approved counterparties:** The Council may invest its surplus funds with any of the counterparty types in the table below, subject to the cash limits (per counterparty) and the time limits shown.

Approved treasury investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector Limit
The UK Government	50 years	Unlimited	n/a
Local authorities and other government entities	25 years	£10m	Unlimited
Secured investments[3]	25 years	£10m	Unlimited
Banks (unsecured)[3]	13 months	£5m	Unlimited
Building societies (unsecured)[3]	13 months	£5m	£10m
Registered providers (unsecured)[3]	5 years	£5m	£25m
Money market funds	n/a	£30m	Unlimited
Strategic pooled funds	n/a	£30m	£60m
Other investments[3]	5 years	£5m	£10m

This table must be read in conjunction with the notes below.

[3] **Minimum Credit rating:** Treasury investments in the sectors marked with a "[3]" will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account. For entities without published credit ratings, investments may be made where external advice indicates the entity to be of similar credit quality.

1.10 Building societies (unsecured) and registered providers (unsecured) have been added to the list of approved counterparties. Loans to, and bonds issued or guaranteed by, registered providers of social housing or registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department for Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

1.11 The upper limit on all Money Market Fund (MMF) investments has been removed. This is following advice from the Council's treasury advisers Arlingclose who introduced a sector limit on MMFs recognising that they all make similar underlying investments and therefore moving from 50% to 100% in MMFs may not increase underlying diversification. However, MMFs are a key tool to manage credit and liquidity risks and in the current economic climate diversification into other sectors

may increase risk, Arlingclose therefore no longer advise a 50% limit. Although no sector limit applies to money market funds, the Council will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

1.12 The strategy continues to enable the Council to invest unlimited amounts with the UK Government. On 25th September 2020 the overnight, 1- and 2-week deposit rates on Debt Management Account Deposit Facility (DMADF) deposits dropped below zero percent to -0.03%, the rate was 0% for 3-week deposits and 0.01% for longer maturities. In recent months the Council has been placing cash with the DMADF for longer maturities to avoid negative interest rates.

1.13 **Negative interest rates:** The Covid-19 pandemic has increased the risk that the Bank of England could set its Bank Base Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

1.14 The principal sums invested for periods longer than a year has been increased from £25m to £50m in 2021/22 to enable the Council to increase interest income by locking out term deposits for longer maturities.

Legal and financial implications

1.15 The publication of an annual strategy, a mid-year treasury report and an annual treasury management report conforms to best practice as required by the Code of Practice CIPFA Treasury Management in the Public Services.

Corporate implications

1.16 There are none.