



**AGENDA ITEM 06**

**JOINT AUDIT COMMITTEE  
28th SEPTEMBER 2020**

**2020/21 TREASURY MANAGEMENT UPDATE  
REPORT**

**1. PURPOSE OF REPORT**

- 1.1 This report updates members on recent Treasury Management activity, in line with recommended best practice and the revised CIPFA Code of Practice for Treasury Management. The report provides a summary of macroeconomic factors and also an update of the Police and Crime Commissioner's (PCC) position.
- 1.2 It is important to note that financial information contained within this report should not be used by any individual or organisation as a basis for making investment or borrowing decisions. The PCC and their treasury advisers will not accept any liability on behalf of any individual or organisation who seeks to act on the financial information contained within this report.

**2 ECONOMIC BACKGROUND**

- 2.1 Currently Sterling movements are still being affected by Brexit negotiations and globally currencies are moving daily in response to the Covid-19 pandemic. The Monetary Policy Committee (MPC) maintained Bank Interest Rate at 0.1% on 4 August 2020. The MPC sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. In that context, the MPC's challenge at present was to respond to the economic and financial impact of the Covid-19 pandemic. The significant points of the MPC meeting were:
- The MPC decision to keep interest rates at 0.1% was unanimous.
  - The Committee voted unanimously for the Bank of England to continue with its existing programmes of UK government bond and sterling non-financial investment-grade corporate bond purchases, financed by the issuance of central bank reserves, maintaining the target for the total stock of these purchases at £745 billion.
  - UK GDP is over 20% lower in 2020 Q2 than in 2019 Q4.
  - Twelve-month CPI inflation increased to 0.6% in June from 0.5% in May. CPI inflation is expected to fall further below the 2% target and average around 0.25% in the latter part of the year, largely reflecting the direct and indirect effects of Covid-19.
  - GDP is not projected to exceed its level in 2019 Q4 until the end of 2021. The risks to the outlook for GDP are judged to be skewed to the downside.

- In the near term, the unemployment rate is projected to rise materially, to around 7.5% by the end of the year. Looking forward the projection is that unemployment declines gradually from the beginning of 2021 onwards.
- The MPC does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably.

### 3. INTEREST RATE FORECAST

3.1 The following forecast (as at 08/09/20) of interest rates has been provided by Link Asset Services, our treasury management advisors

Forecasts	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
5 year PWLB	1.90	1.90	2.00	2.00	2.00	2.00	2.00	2.10
10 year PWLB	2.10	2.10	2.10	2.10	2.10	2.20	2.20	2.20
25 year PWLB	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.70
50 year PWLB	2.30	2.30	2.30	2.30	2.40	2.40	2.40	2.50

*Note: PWLB is the Public Works Loans Board which is the main body through which the PCC borrows money against capital requirements. The rates shown in the table are for interest only loans over different loan periods, with the principal repayable as a lump sum at the end of the loan period.*

3.2 Link Asset Services anticipate there is likely to be little upward movement in PWLB rates over the next two years as it will take economies, including the UK, a prolonged period to recover all the momentum they have lost in the sharp recession caused during the coronavirus shut down period.

### 4. ANNUAL INVESTMENT STRATEGY

4.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by the PCC in March 2020. The PCC's Annual Investment Strategy which is included in the TMSS outlines the PCC's investment priorities as "Security of Capital and Liquidity".

4.2 The best possible return on investments will be pursued but only to the extent that this is consistent with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep a proportion of investments short term, and only invest longer with other local authorities and highly credit rated financial institutions, using Link Asset Services' suggested creditworthiness approach. This creditworthiness approach includes credit rating information collected on a daily basis by Link Asset Services.

4.3 Due diligence is undertaken for all investments made including those with Local Authority bodies. A full list of investments held as at 9 September 2020 is shown in **Appendix 1**.

4.4 The level of funds invested at 9 September 2020 with bodies excluding the CCLA Property Fund was £173.4m with maturity dates ranging between 1 day and 3 years. This is high because the PCC received the full year's police pensions top up grant of £97m in July and the monthly police grant from Government of £40m has been received for September.

4.5 The average cumulative interest rate achieved on temporary investments maturing by 31 August 2020 was 0.53% which compares well with 0.27% for 3 month London Interbank Offered Rate (LIBOR) as shown in **Appendix 2**.

- 4.6 The PCC's budgeted investment return for 2020/21 is £1.2m which we are not anticipating to achieve since this budget was set prior to the Bank Base rate dropping from 0.75% to 0.1% in March 2020. Since we hold investments with higher rates it may be possible to achieve £0.85m interest for 2020/21.
- 4.7 The investment returns for 2020/21 will include returns from the £5m invested with the CCLA property fund. A longer term investment that both boosts average returns and diversifies the portfolio of investments, however with the risk that the full value of the principal may not be returned when redeemed. Dealing was suspended on the property fund on 25 March 2020 to comply with Financial Conduct Authority guidelines and a 90 day redemption period is being introduced from 28 September 2020. Dividends paid on the money held in the fund are significantly greater than interest payments received on all other investments, with the last month paid generating seven times the average rate identified in 4.5.

## 5 PRUDENTIAL INDICATORS

- 5.1 It is a statutory duty for the PCC to determine and keep under review the affordable borrowing limits that were part of the Prudential Indicators agreed in the Treasury Management Strategy Statement approved in March 2020.
- 5.2 The Prudential Indicators were not breached during the first 5 months of 2020/21, as shown in the table below:

<i><b>Prudential Indicator</b></i>	<i><b>2020/21 Indicator</b></i>	<i><b>Actual to 31/08/20</b></i>
Capital Financing Requirement (CFR)	£95.1m	£75.5m
Gross Borrowing	£113.8m	£96.6m
Authorised Limit for External Debt	£125.0m	£96.6m
Operational Boundary for External Debt	£120.0m	£96.6m
Limit of Fixed Interest Rates based on Net Debt	100%	100%
Limit of Variable Interest Rates based on Net Debt	20%	0%
<i><b>Maturity Structure of Borrowing Limits</b></i>	<i><b>2020/21 Indicator</b></i>	<i><b>Actual to 31/08/20</b></i>
Under 12 Months	25%	3%
12 Months to 2 Years	25%	0%
2 Years to 5 Years	50%	6%
5 Years to 10 Years	75%	2%
10 Years and Above	100%	89%

- 5.3 All of the PCC's borrowing to date, £96.6m, has been obtained from the PWLB as shown in **Appendix 2**. No additional borrowing has been undertaken so far in 2020/21. It is anticipated that additional borrowing will be required in line with the Estates Strategy but this will be kept under review against the actual capital spend and receipts in year.
- 5.4 The approved estates programme in 2018 is funded through a mix of financing, including capital receipts and borrowing. The COVID 19 pandemic has resulted in different demands on the estates, this will be taken into consideration as we review the programme, which may in turn affect our borrowing needs. This will be closely monitored and reported at the end of the year.

## **6 RECOMMENDATIONS**

- 6.1 The Committee is recommended to note the report which complies with the CIPFA Code of Practice for Treasury Management.

Mark Kenyon  
Chief Finance Officer  
Police and Crime Commissioner

Neil Chamberlain  
Director of Commercial Services  
West Midlands Police

**INVESTMENTS AS AT 09/09/20**

<b>Maturity</b>	<b>Borrower</b>	<b>Broker</b>	<b>Principal</b>	<b>Rate</b>	<b>Rating</b>
<b>10-Sep-20</b>	Nat West *	DIRECT	<b>47,400,000</b>	0.01	A+ F1 a
<b>25-Sep-20</b>	LB Barking & Dagenham	PREBON	<b>10,000,000</b>	0.2	Local Authority
<b>25-Sep-20</b>	Derbyshire Council	BUTLERS	<b>15,000,000</b>	0.02	Local Authority
<b>01-Oct-20</b>	Leeds Building Society	BUTLERS	<b>10,000,000</b>	0.17	A- F1 a-
<b>23-Oct-20</b>	Nottingham City Council	PREBON	<b>10,000,000</b>	0.25	Local Authority
<b>25-Nov-20</b>	Plymouth City Council	PREBON	<b>10,000,000</b>	0.3	Local Authority
<b>23-Dec-20</b>	Isle of Wight County Council	PREBON	<b>5,000,000</b>	0.7	Local Authority
<b>25-Jan-21</b>	Aberdeenshire Council	CDB	<b>10,000,000</b>	0.9	Local Authority
<b>25-Jan-21</b>	Blackpool Borough Council	CDB	<b>10,000,000</b>	0.85	Local Authority
<b>25-Feb-21</b>	Isle of Wight County Council	PREBON	<b>5,000,000</b>	0.75	Local Authority
<b>25-Mar-21</b>	Isle of Wight County Council	PREBON	<b>5,000,000</b>	0.85	Local Authority
<b>19-Apr-21</b>	Slough BC	BUTLERS	<b>5,000,000</b>	0.25	Local Authority
<b>28-May-21</b>	Fife Council	BUTLERS	<b>5,000,000</b>	0.4	Local Authority
<b>05-Jul-21</b>	London Borough of Croydon	PREBON	<b>10,000,000</b>	0.9	Local Authority
<b>13-Aug-21</b>	Staffordshire Moorlands DC	BUTLERS	<b>1,000,000</b>	0.4	Local Authority
<b>25-Mar-22</b>	Wokingham BC	PREBON	<b>5,000,000</b>	1.45	Local Authority
<b>07-Jul-23</b>	Dudley MBC	CDB	<b>10,000,000</b>	1.7	Local Authority
		TOTAL	<b>173,400,000</b>		
<b>5 to 10 years</b>	CCLA		<b>5,000,000</b>		Property Fund

- Long Term Ratings AAA to DDD the best quality to junk bonds
- Short Term Ratings F1+ to F3 the safest to the riskier
- Viability Rating aaa to bbb
- Local Authorities are assumed to have the same ratings as UK Government

\* This is an Instant Access savings account

**TREASURY MANAGEMENT REPORT: AUGUST 2020****1. LONG TERM EXTERNAL  
BORROWING**

	<b>JULY</b>		<b>AUGUST</b>	
	<b>£000</b>	<b>%</b>	<b>£000</b>	<b>%</b>
Balance b/fwd	96,617		96,617	
Loans raised in month	0		0	
Loans repaid in month	0		0	
Balance c/fwd	<b>96,617</b>		<b>96,617</b>	
Average Fixed Interest Rate		3.32%		3.32%
Average Variable Interest Rate		0.00%		0.00%
Average Overall Interest Rate		3.32%		3.32%
<b>Loan No.</b>		<b>Maturity</b>		
480124 F	800	15/10/2023	800	6.6250%
480125 F	2,200	15/10/2024	2,200	6.6250%
480126 F	2,000	15/10/2025	2,000	6.6250%
480785 F	580	31/03/2023	580	6.1250%
480784 F	2,420	31/03/2023	2,420	6.1250%
485901 F	2,000	01/09/2061	2,000	4.8750%
490558 F	2,830	01/09/2020	2,830	4.3500%
491185 F	15,000	23/01/2051	15,000	3.7000%
491764 F	5,587	15/06/2056	5,587	4.4500%
493148 F	8,200	01/03/2057	8,200	4.3500%
494753 F	5,000	15/08/2058	5,000	4.3900%
508139 F	10,000	07/12/2068	10,000	2.6400%
508154 F	10,000	10/12/2068	10,000	2.5400%
508496 F	5,000	12/02/2069	5,000	2.3700%
509005 F	10,000	28/03/2069	10,000	2.1600%
120382 F	15,000	08/10/2069	15,000	1.6300%
	<b>96,617</b>		<b>96,617</b>	
Proportion Variable		0.00%		0.00%
Proportion Fixed		100.00%		100.00%

## 2. TEMPORARY EXTERNAL BORROWING

	JULY		AUGUST	
	£000		£000	
Balance b/fwd	0		0	
Loans raised in month	0		0	
Loans repaid in month	0		0	
Balance c/fwd	0		0	
Month end cash overdrawn balance (Nat-West)	0		0	
Average value of overdrawn balance	0		0	
Number of days overdrawn	0		0	
Avg. Int. Rate (excluding O/D balance)		0.00%		0.00%
Cumulative Interest Rate (year to date)		0.00%		0.00%
Bank Base Rate		0.10%		0.10%

## 3. TEMPORARY INVESTMENTS

	JULY		AUGUST	
	£000		£000	
Balance b/fwd	69,700		154,700	
Investments made in month	153,100		55,800	
Investments realised in month	(68,100)		(52,600)	
Unrealised Investments				
Balance c/fwd	154,700		157,900	
Month end cash deposit balance (Nat-West)		216		334
Number of days in credit		31		31
<b>Average WMPA Interest Rate</b>		0.57%		0.52%
Bank Base Rate		0.10%		0.10%
<b>*SONIA rate</b>		0.0591%		0.0547%
<b>* LIBID 7 day rate</b>		-0.05%		-0.05%
<b>* LIBOR 3 month rate</b>		0.31%		0.27%

	JULY			AUGUST		
	No.	Total £000	Individual Maximum	No.	Total £000	Individual Maximum
Major Banks & Subsidiaries	1	33,700	33,700	1	36,900	36,900
Overseas Institutions	0	0	0	0	0	0
Building Societies	1	10,000	10,000	1	20,000	20,000
Other Local Authorities	13	111,000	15,000	12	101,000	15,000
		154,700			157,900	
CCLA		5,000			5,000	
		159,700			162,900	

\* SONIA – Sterling Overnight Index Average

\* LIBID – London Interbank Bid Rate

\* LIBOR – London Interbank Offered Rate