Appendix 2

The 2020/21 Treasury Management Activity for the period -

1 April 2020 to 31 August 2020

1. Introduction

1.1 The Council's approved Treasury Strategy Statement requires the Audit and Standards Committee to review details of Treasury Strategy transactions against the criteria set out in the Strategy and make observations to Cabinet as appropriate.

1.2 The Treasury Strategy Statement also requires the Audit and Standards Committee to review a formal summary report after the year end before it is considered by Council, in accordance with best practice and guidance issued by the Chartered Institute of Public Finance and Accountancy.

2. Treasury Management Activity

2.1 The timetable for reporting Treasury Management activity in 2020/21 is shown in the table below. This takes into account the timescale for the publication of each Committee agenda and is on the basis that it is preferable to report on activity for complete months. Any extraordinary activity taking place between the close of the reporting period and the date of the Audit and Standards Committee meeting will be reported verbally at that meeting.

Meeting date	Reporting period for transactions
6 July 2020	1 March to 30 June 2020 (*meeting cancelled*)
14 September 2020	1 April to 31 August 2020 (*revised reporting period*)
16 November 2020	1 September to 31 October 2020
18 January 2021	1 November to 31 December 2020
8 March 2021	1 January to 28 February 2021

2.2 Fixed Term Deposits pending maturity

The following table shows the fixed term deposits held between **1 April to 31 August 2020** and identifies the long-term credit rating of counterparties at the date of investment. It is important to note that credit ratings are only one of the criteria that are taken into account when determining whether a potential counterparty is suitable. All of the deposits met the necessary criteria the minimum rating required for deposits made after 1 April 2018 is long term A- (Fitch).

Ref	Counterparty	Date From	Date To	Days	Principal £	Int Rate %	Long-term Rating
248620	Merthyr Tidfil	25 Aug 20	25 Sep 20	31	5,000,000	0.08	*

*UK Government body and therefore not subject to credit rating

2.3 Fixed Term Deposits which have matured in the reporting period

The table below shows the fixed term deposits which have matured since **1 April 2020**, in maturity date order. It is important to note that the table includes sums reinvested and that in total the Council's investments have not increased by £489m over this period.

Ref	Counterparty	Date From	Date To	Days	Principal £	Int. Rate %	Long-term rating
245220	Debt Management Office	01 Apr 20	02 Apr 20	1	25,884,000	0.06	*
245320	Debt Management Office	02 Apr 20	09 Apr 20	7	25,884,000	0.10	*
245420	Debt Management Office	09 Apr 20	14 Apr 20	5	25,884,000	0.06	*
245520	Debt Management Office	14 Apr 20	15 Apr 20	1	25,884,000	0.06	*
245620	Debt Management Office	16 Apr 20	17 Apr 20	1	25,000,000	0.04	*
245720	Debt Management Office	17 Apr 20	20 Apr 20	3	20,000,000	0.04	*
245820	Debt Management Office	20 Apr 20	21 Apr 20	1	17,000,000	0.04	*
245920	Debt Management Office	21 Apr 20	22 Apr 20	1	16,000,000	0.04	*
246020	Debt Management Office	22 Apr 20	23 Apr 20	1	15,000,000	0.04	*
246120	Debt Management Office	23 Apr 20	24 Apr 20	1	14,000,000	0.04	*
246220	Debt Management Office	24 Apr 20	27 Apr 20	3	12,000,000	0.04	*
246320	Debt Management Office	27 Apr 20	28 Apr 20	1	12,000,000	0.04	*
246420	Debt Management Office	28 Apr 20	29 Apr 20	1	11,500,000	0.04	*
246520	Debt Management Office	29 Apr 20	30 Apr 20	1	10,500,000	0.04	*
246620	Debt Management Office	30 Apr 20	01 May 20	1	11,500,000	0.04	*
246720	Debt Management Office	01 May 20	04 May 20	3	17,000,000	0.04	*
246820	Debt Management Office	04 May 20	05 May 20	1	16,700,000	0.04	*
246920	Debt Management Office	05 May 20	12 May 20	7	14,000,000	0.04	*
247020	Debt Management Office	12 May 20	19 May 20	7	15,000,000	0.04	*
247120	Debt Management Office	19 May 20	20 May 20	1	16,000,000	0.04	*
247220	Debt Management Office	20 May 20	21 May 20	1	15,000,000	0.04	*
247320	Debt Management Office	21 May 20	28 May 20	7	10,000,000	0.04	*
247420	Debt Management Office	28 May 20	02 Jun 20	5	10,000,000	0.02	*
247520	Debt Management Office	02 Jun 20	02 Jun 20	1	8,000,000	0.04	*
247620	Debt Management Office	02 Jun 20	16 Jun 20	14	14,000,000	0.02	*
247720	Debt Management Office	15 Jun 20	16 Jun 20	1	5,000,000	0.02	*
247820	Debt Management Office	16 Jun 20	17 Jun 20	1	18,000,000	0.01	*
247920	Debt Management Office	17 Jun 20	18 Jun 20	1	18,000,000	0.01	*
248020	Debt Management Office	18 Jun 20	25 Jun 20	7	15,000,000	0.01	*
248120	Merthyr Tidfil	25 Jun 20	25 Aug 20	61	5,000,000	0.17	*
248220	Debt Management Office	25 Jun 20	29 Jun 20	4	9,500,000	0.01	*
248320	Debt Management Office	02 Jul 20	09 Jul 20	7	5,000,000	0.01	*
248420	Debt Management Office	09 Jul 20	16 Jul 20	7	5,500,000	0.01	*
248520	Debt Management Office	15 Jul 20	29 Jul 20	14	4,000,000	0.01	*
	Total				488,736,000		
	*UK Government body and therefore not subject to credit rating						

At no stage did the total amount held by any counterparty exceed the approved limit set out in the Investment Strategy. The average rate of interest earned on deposits held in the period 1 April to 31 August 2020 was 0.08%, below the average bank base rate for the period of 0.10%.

2.4 Use of Deposit accounts

In addition to the fixed term deposits, the Council has made use of the following interest bearing accounts in the period covered by this report, with the average amount held being £3.692m generating interest of approximately £3k.

	Balance at 31Aug '20 £'000	Average balance £'000	Current interest rate %
Santander Business Reserve Account	£5,000	£3,780	0.12
Lloyds Bank Corporate Account	£2,422	£5,692	0.00
Lloyds Bank Call Account	£3,500	£1,603	0.05

2.5 Use of Money Market Funds

Details of the amounts held in the two Money Market Fund (MMF) accounts used by the Council are shown below. The approved Investment Strategy allows a maximum investment of £10m in each fund, and at no time was this limit exceeded.

	Balance at 31 Aug '20 £'000	Average balance £'000	Average return %
Goldman Sachs Sterling Liquid Reserves Fund	£1,000	1,000	0.25
Deutsche Managed Sterling Fund	£6,000	2,864	0.34

2.6 Treasury Bills (T-Bills)

There were no Treasury Bills held at 31 August 2020, and there was no activity in the period.

2.7 Secured Investments

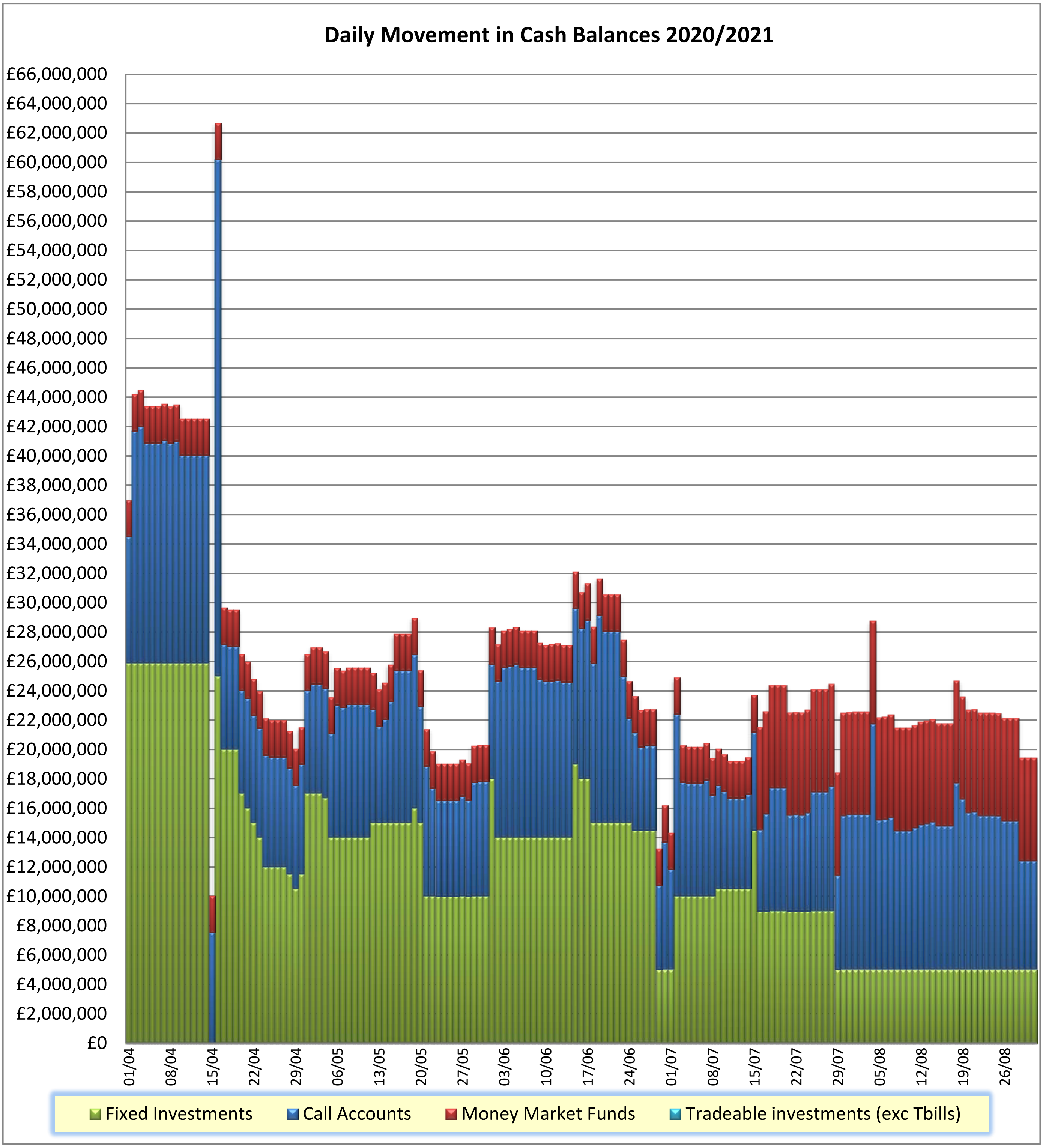
There were no Secured Investments at 31 August 2020.

2.8 Tradeable Investments

There were no Tradeable Investments at 31 August 2020, and there was no activity in the period.

3. Overall investment position

The chart below summarises the Council's investment position over the period 1 April to 31 August 2020. It shows the total sums invested each day as Fixed Term deposits, Treasury Bills, amounts held in Deposit accounts, Money Market Funds and Tradeable Investments.



4. Borrowing

The current account with Lloyds Bank generally remained with credit limits throughout most of the period with the following exceptions:

Exceptions: 1 April 2020 to 31 August 2020 – excess funds of between £1m and £28m. The Council's long term borrowing in the reporting period is £56.673m.

5. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

As at 31 August 2020, the Council has operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

Treasury Prudential Indicators	**2020/21 Estimate Indicator**	**31 August Actual Indicator**	**RAG Status/Reason**
Authorised limit for external debt (CS 4.2.3)	£132.0	£132.0	
Operational boundary for external debt (CS 4.2.3)	£122.0	£122.0	
Gross external debt (CS 4.2.2)	£88.9	£88.9	
Capital Financing Requirement (CS 2.3.4)	£113.9	£113.9	
Debt vs CFR under/(over) borrowing	£25.0	£25.0	
Investments			
Investment returns expectations	0.7	0.8	
Upper limit for principal sums invested for longer than 365 days			
Maturity structure of fixed rate borrowing - upper limits:			
Under 12 months	75%	75%	
12 months to 2 years	75%	75%	
2 years to 5 years	75%	75%	
5 years to 10 years	100%	100%	
10 years and above	100%	100%	
Capital expenditure (CS 2.1.4)	£44.6	TBC	
Ratio of financing costs to net revenue stream (CS 8.1.1):			
Proportion of Financing Costs to Net Revenue Stream (General Fund)	17.2%	17.2%	
Proportion of Financing Costs to Net Revenue Stream (HRA)	10.3%	10.3%	

Key: CS – 2020/21 Capital Strategy Appendix 1

6. Economic Background

Economic growth 2020 started with optimistic business surveys pointing to an upswing in growth after the ending of political uncertainty as a result of the decisive result of the general election in December settled the Brexit issue. However, the three monthly GDP statistics in January were disappointing, being stuck at 0.0% growth. Since then, the whole world has changed as a result of the coronavirus outbreak. The overall growth rate in quarter 1 was -2.2%, -1.7% y/y. However, the main fall in growth did not occur until April when it came in at -24.5% y/y after the closedown of whole sections of the economy. What is uncertain, however, is the extent of the damage that will have been done to businesses by the end of the lockdown period, how consumer confidence and behaviour may be impacted afterwards, whether there could be a second wave of the outbreak, how soon a vaccine will be created and then how quickly it can be administered to the population. This leaves huge uncertainties as to how quickly the economy will recover to what was formerly regarded as normality. However, some changes during lockdown are likely to be long lasting e.g. a shift to online purchasing, working from home, etc. The lockdown has also had a sharp effect in depressing expenditure by consumers which means their level of savings have increased and debt has fallen. This could provide fuel for a potential surge in consumer expenditure once some degree of normality returns.

Although the UK left the EU on 31 January 2020, we still have much uncertainty as to whether there will be a reasonable trade deal achieved by the end of 2020. At the end of June, the UK government rejected extending the transition period beyond 31 December 2020. This has increased the chances of a no-deal **Brexit.** However, the most likely outcome is expected to be a slim deal on trade in order to minimise as much disruption as possible. However, uncertainty is likely to prevail until the deadline date which will act as a drag on recovery.

After the Monetary Policy Committee left **Bank Rate** unchanged at 0.75% in January 2020, the onset of the coronavirus epidemic in March forced it into making two emergency cuts in Bank Rate first to 0.25% and then to 0.10%. These cuts were accompanied by an increase **in quantitative easing (QE),** essentially the purchases of gilts (mainly) by the Bank of England of £200bn. In June, the MPC decided to add a further £100bn of QE purchases of gilts, but to be implemented over an extended period to the end of the year. The total stock of QE purchases will then amount to £745bn. It is not currently thought likely that the MPC would go as far as to cut Bank Rate into negative territory, although the Governor of the Bank of England has said all policy measures will be considered. The Governor also recently commented about an eventual tightening in monetary policy – namely that he favours unwinding QE before raising interest rates. Some forecasters think this could be as far away as five years.

The Government and the Bank were also very concerned to **stop people losing their jobs** during this lockdown period. Accordingly, the Government introduced various schemes to subsidise both employed and self-employed jobs for three months to the end of June while the country is locked down. It also put in place a raft of other measures to help businesses access loans from their banks, (with the

Government providing guarantees to the banks against losses), to tide them over the lockdown period when some firms may have little or no income. However, at the time of writing, this leaves open a question as to whether some firms will be solvent, even if they take out such loans, and some may also choose to close as there is, and will be, insufficient demand for their services. The furlough scheme was subsequently extended for another three months to October, but with employers having to take on graduated increases in paying for employees during that period. The Bank of England expects the unemployment rate to double to 8%.

The Government measures to support jobs and businesses will result in a huge increase in the annual budget deficit for the current year, from about 2% to nearly 17%. **The ratio of debt to GDP is also likely to increase from 80% to around 105%.** In the Budget in March, the Government also announced a large increase in spending on infrastructure; this will also help the economy to recover once the lockdown is ended. Economic statistics during June were giving a preliminary indication that the economy was recovering faster than previously expected. However, it may be a considerable time before economic activity recovers fully to its previous level.

Inflation. The annual inflation rate dropped to 0.5% in May from 0.8% in April and could reach zero by the end of the year. Inflation rising over 2% is unlikely to be an issue for the MPC over the next two years as the world economy will be heading into a recession; this has caused a glut in the supply of oil which initially fell sharply in price, although the price has recovered somewhat more recently. Other UK domestic prices will also be under downward pressure; wage inflation was already on a downward path over the last half year and is likely to continue that trend in the current environment where unemployment will be rising significantly. In May's Monetary Policy Report, the Bank of England predicted that inflation would hit their 2% target by 2022. This was in the context of its forecast that GDP would rise by 3% in 2022 after a recovery during 2021. While inflation could even turn negative in the Eurozone, this is currently not likely in the UK.

EUROZONE. The Eurozone economy shrank by 3.6% on quarter in the first three months of 2020. So far, the ECB has been by far the most important institution in helping to contain the impact of coronavirus and the crisis on financial markets. Since 12th March, it has implemented a range of new policies including providing additional cheap loans for commercial banks and easing capital requirements for the banking sector. But most importantly, the ECB has stepped up and reformed its asset purchase programmes. So far, it has increased its planned asset purchases for this year by €1,470bn on top of the €20bn per month which it was already committed to. The new purchases consist of an additional €120bn within the existing Public Sector Purchase Programme (PSPP), and €1,350bn in the Pandemic Emergency Purchase Programme (PEPP). At its 4 June monetary policy meeting, the ECB Governing Council also committed to continue net asset purchases under the PEPP until at least the end of June 2021 and to continue to reinvest maturing principal payments under the PEPP until at least end-2022. It has also made clear that it would not hesitate to top up PEPP as much as needed to contain the risk of a crisis.

WORLD GROWTH. The trade war between the US and China on tariffs was a major concern to financial markets and was depressing worldwide growth during 2019. This year, coronavirus is the inevitable big issue which is going to sweep around most countries in the world and have a major impact in causing a world recession in growth in 2020.

7. Financial Implications

All relevant implications are referred to in the above paragraphs.

8. Risk Management Implications

The risk management implication associated with this activity is explained in the approved Treasury Management Strategy. No additional implications have arisen during the period covered by this report.

9. Equality Screening

This is a routine report for which detailed Equality Analysis is not required to be undertaken.

10. Legal Implications

Background Papers
LDC Treasury Management and Prudential Indicators 2020/21, Capital Strategy & Investment Strategy.