Agenda Item No:	**5**	
Committee:	Cabinet	
Date:	14 December 2020	
Report Title:	Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2020/21	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to review the Council’s Treasury Management activity for the first six months of 2020/21.

2 Key issues

- The Treasury Management Mid-Year Review 2020/21 as considered by Corporate Governance Committee on 2 November 2020 is attached.
- As part of the SR2020 announcements on 25 November 2020, the government will reform the Public Works Loans Board (PWLB) lending terms, ending the use of the PWLB for investment property bought primarily for yield.
- In addition, the government has cut PWLB lending rates by 100 base points (1%), reversing the increase in rates made in October 2019 referred to in the attached report.
- The report highlights all the key activities carried out within the Treasury Management function during the first six months of 2020/21. All activities have been conducted in accordance with the approved strategy and policies.
- Prudential indicators for, the Capital Financing Requirement (CFR) and the capital position have been revised.
- 2020/21 continues to be a challenging year and the report highlights the success in maximising investment income whilst ensuring the security and liquidity of the Council's investments.

3 Recommendation

It is recommended that Members note the report.

Agenda Item No:	8	Fenland CAMBRIDGESHIRE
Committee:	Corporate Governance Committee	
Date:	2 November 2020	
Report Title:	Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2020/21	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to review the Council's Treasury Management activity for the first six months of 2020/21 and to provide members with an update on matters pertinent to future updates to the Council's Treasury Management Strategy.

2 Key issues

- The Council has operated within its Treasury Management Strategy Statement (TMSS), Annual Investment Strategy, treasury limits and prudential indicators set by Council for the first six months of 2020/21.
- Increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023.
- From the local authority borrowing perspective, HM Treasury (without any prior warning) added an additional 1% margin over gilts to all PWLB period rates on 9 October 2019. In the March 2020 Budget a consultation with local authorities was announced on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It is looking increasingly certain HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream.
- Prudential indicators for the Capital Financing Requirement (CFR), the capital position and borrowing have been revised downwards in line with 2019-20 capital outturn and latest iteration of the Council's approved capital programme.
- Due to the Council's long term debt portfolio (£7.8m at 31/03/20) currently attracting excessive premiums for early redemption of debt, as has been the case since 2007, it is not financially advantageous for the Council to comply with the Gross Borrowing and Capital Financing Prudential Indicator in 2020/21.
- No new external borrowing is anticipated in 2020/21.
- Investment income received for the first six months of 2020/21 is £33k. This is below that budgeted for during the first 6 months of the year. Investment returns are expected to remain low. The budgeted outturn for the year has been revised downwards from £170k to £55k.
- Property Funds formed part of the Council's Annual Investment Strategy approved in February 2020 as an instrument to increase investment returns from surplus cash balances. There has been a delay in accessing Property Funds whilst the impact of COVID-19 is fully understood, with a corresponding reduction in budgeted income this year of around £75k.

3 Recommendations

It is recommended that Members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Contact Officer(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Background Paper (s)	Link Asset Services template Council Report - 20 February 2020 - General Fund Budget 2020/21 and Capital Programme 2020-23 Cabinet Report – 6 August 2020 - Capital Programme Update

Report:

1 Context

1.1 The Council's responsibilities in relation to Treasury Management are defined as part of the Local Government Act 2003 ('the Act'). The Act requires the Council to have regard to the Treasury Management Code published by the Chartered Institute of Public Finance and Accountancy, (CIPFA). CIPFA updated the Treasury Management Code in December 2017 and this report has been prepared with reference to the requirements set out in the updated Code.

1.2 Additionally, there is a statutory requirement for the Council to comply with the Prudential Code which is also published by CIPFA and was also updated in December 2017. There is a close interaction between the Treasury Management Code and the Prudential Code. The Prudential Code establishes a framework for the Council to self-regulate the affordability, prudence and sustainability of its capital expenditure and borrowing plans whilst the Treasury Management Code is concerned with how the Council uses its Treasury Management function to progress the future plans developed with reference to the Prudential Code.

1.3 Reductions in central government funding for local government and declining returns on deposits invested with financial institutions has led some local authorities to explore other avenues for generating investment returns, including investment in non-financial assets. Local authority spending on commercial property takes place in the context of the prudential framework, made up of both powers and duties created by legislation and a set of statutory codes and guidance to which authorities must have regard. In particular, there is a recognition that all authorities need to ensure they can clearly identify the strategic considerations underpinning their investment strategies and effective governance frameworks are in place to protect and preserve each authority's long-term financial sustainability. Specifically, from 2019/20, all local authorities have been required to approve a Capital Strategy which is intended to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

The Council's Capital Strategy for 2020/21 was approved by Full Council on the 20 February 2020.

Treasury Management

1.5 Treasury management is defined as "The management of the local authority's borrowing, 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."

1.6 The Council complies with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2017).

1.7 The primary requirements of the Code applicable to the 2020/21 financial year are as follows:

- Creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Council's treasury management activities.
- Creation and maintenance of Treasury Management Practices, which set out the manner in which the Council will seek to achieve those policies and objectives.

- Receipt by Full Council of an annual Treasury Management Strategy Statement, including the Annual Investment Strategy and Minimum Revenue Provision Policy for the year ahead, a Mid-year Review Report and an Annual Report covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies (including Mid-year Review Report) to a specific named body. For this Council the delegated body is Corporate Governance Committee.

1.8 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the following:

- an economic update for the first six months of 2020/21 taking account of expert analysis provided by the Council's Treasury Management Advisors, Link Asset Services;
- a review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- the Council's capital plans;
- a review of the Council's investment portfolio for 2020/21;
- a report of the Council's borrowing strategy for 2020/21;
- a report of debt rescheduling during 2020/21;
- a review of compliance with Treasury and Prudential Limits for 2020/21.

2 Economic Update

2.1 **UK**. As expected, the Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:

- The fall in **GDP** in the first half of 2020 was revised from 28% to 23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
- The peak in the **unemployment rate** was revised down from 9% in Q2 to 7½% by Q4 2020.
- It forecast that there would be excess demand in the economy by Q3 2022 causing CPI **inflation** to rise above the 2% target in Q3 2022, (based on market interest rate expectations for a further loosening in policy). Nevertheless, even if the Bank were to leave policy unchanged, inflation was still projected to be above 2% in 2023.

2.2 It also squashed any idea of using negative interest rates, at least in the next six months or so. It suggested that while negative rates can work in some circumstances, it would be "less effective as a tool to stimulate the economy" at this time when banks are worried about future loan losses. It also has "other instruments available", including QE and the use of forward guidance.

2.3 The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the "turn of the year". This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

2.4 In conclusion, this would indicate that the Bank could now just sit on its hands as the economy was recovering better than expected. However, the MPC acknowledged that the "medium-term projections were a less informative guide than usual" and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including Britain, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused. In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six-month package from 1st November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid-September.

2.5 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.

2.6 There will be some painful longer-term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services is one area that has already seen huge growth.

2.7 One key addition to the Bank's forward guidance was a new phrase in the policy statement, namely that "it 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% target sustainably". That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate

2.8 The Financial Policy Committee (FPC) report on 6th August revised down their expected credit losses for the banking sector to "somewhat less than £80bn". It stated that in its assessment "banks have buffers of capital more than sufficient to absorb the losses that are likely to arise under the MPC's central projection". The FPC stated that for real stress in the sector, the economic output would need to be twice as bad as the MPC's projection, with unemployment rising to above 15%.

2.9 **US.** The incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed tweaked its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e.following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment and to avoid the danger of getting caught in a deflationary “trap” like Japan. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long term bond yields duly rose after the meeting. The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The Federal Open Market Committee’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.

2.10 **EU.** The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.

2.11 **China**. After a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

2.12 **Japan**. There are some concerns that a second wave of the virus is gaining momentum and could dampen economic recovery from its contraction of 8.5% in GDP. Japan has been struggling to get out of a deflation trap for many years and to stimulate consistent significant GDP growth and to get inflation up to its target of 2%, despite huge monetary and fiscal stimulus. It is also making little progress on fundamental reform of the economy. The resignation of Prime Minister Abe is not expected to result in any significant change in economic policy.

2.13 **World growth**. Latin America and India are currently hotspots for virus infections. World growth will be in recession this year. Inflation is unlikely to be a problem for some years due to the creation of excess production capacity and depressed demand caused by the coronavirus crisis.

2.14 The Council’s treasury advisor, Link Group, provided the following forecasts on 11th August 2020 (PWLB rates are certainty rates, gilt yields plus 180bps):

Link Group Interest Rate View 11.8.20	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
3 month average earnings	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	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	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	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	2.40	2.40	2.40	2.50	2.50	2.50	2.50

2.15 The coronavirus outbreak has done huge economic damage to the UK and economies 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 Bank Rate unchanged at its meeting on 6th August (and the subsequent September meeting), 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.

2.16 Gilt Yields / PWLB Rates. There was much speculation during the second half of 2019 that bond markets were in a bubble which was driving bond prices up and yields down to historically very low levels. The context for that was heightened expectations that the US could have been heading for a recession in 2020. In addition, there were growing expectations of a downturn in world economic growth, especially due to fears around the impact of the trade war between the US and China, together with inflation generally at low levels in most countries and expected to remain subdued. Combined, these conditions were conducive to very low bond yields. While inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation expectations, the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers. This means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. The consequence of this has been the gradual lowering of the overall level of interest rates and bond yields in financial markets over the last 30 years. Over the year prior to the coronavirus crisis, this has seen many bond yields up to 10 years turn negative in the Eurozone. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. The other side of this coin is that bond prices are elevated as investors would be expected to be moving out of riskier assets i.e. shares, in anticipation of a downturn in corporate earnings and so selling out of equities.

2.17 Gilt yields had therefore already been on a generally falling trend up until the coronavirus crisis hit western economies during March. After gilt yields spiked up during the initial phases of the health crisis in March, we have seen these yields fall sharply to unprecedented lows as major western central banks took rapid action to deal with excessive stress in financial markets, and started massive quantitative easing purchases of government bonds: this also acted to put downward pressure on government bond yields at a time when there has been a huge and quick expansion of government expenditure financed by issuing government bonds. Such unprecedented levels of issuance in “normal” times would have caused bond yields to rise sharply. At the close of the day on 30th September, all gilt yields from 1 to 6 years were in negative territory, while even 25-year yields were at only 0.76% and 50 year at 0.60%.

2.18 From the local authority borrowing perspective, HM Treasury (without any prior warning) added an additional 1% margin over gilts to all PWLB period rates on 9 October 2019.

In the March 2020 Budget a consultation with local authorities was announced on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. It looks increasingly certain that HM Treasury will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).

2.19 It is possible that the Certainty Rate will be subject to revision downwards after the conclusion of the PWLB consultation; however, the timing of such a change is currently an unknown, although it would be likely to be within the current financial year.

2.20 As the interest forecast table for PWLB certainty rates, (gilts plus 180bps), above shows, 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. Inflation is also likely to be very low during this period and could even turn negative in some major western economies during 2020/21.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council on 20 February 2020. There are no policy changes to the TMSS.

3.2 Prudential indicators for the Capital Financing Requirement (CFR), the capital position and borrowing have been revised downwards (see below).

4 The Council's Capital Position

4.1 This part of the report is structured to update:

- the Council's capital expenditure plans;
- how these plans are being financed;
- the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- compliance with limits in place for borrowing activity.

4.2 At its meeting on 6 August 2020 the Cabinet approved revised estimates for the 2020/21 capital programme and the financing of that programme. The revised estimate addresses amendments to the programme since February, including re-profiling schemes from 2019/20 and a re-assessment of resources available in the period 2020-23.

4.3 The capital programme reflects the Council's decision to allocate a maximum of £25 million (currently budgeted for in 2020/21) to take forward schemes in accordance with the Council's Commercial and Investment Strategy. Specific schemes will be added and profiled across the life of the capital programme once these have been approved by the Investment Board. Currently, the Council expects no new external borrowing to be undertaken in 2020/21.

4.4 The table below compares the revised estimates with the original capital programme which was incorporated into the 2020/21 Treasury Management Strategy Statement (TMSS).

Capital Programme	**2020/21 Original Estimate £000**	**2020/21 Revised Estimate £000**
Capital Programme (Excluding Commercial and Investment Strategy Schemes)	5,673	5,355
Commercial and Investment Strategy Schemes	25,000	25,000
Forecast Expenditure	**30,673**	**30,355**
Financed by:		
Capital Grants	2,063	2,283
Section 106's & Contributions	244	117
Capital Receipts	225	225
Capital Reserves	361	575
Total Financing	**2,893**	**3,200**
Borrowing Requirement	**27,780**	**27,155**

4.5 The table below shows the anticipated CFR at 31 March 2021, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period; this is termed the Operational Boundary.

Prudential Indicators	**2020/21 Original Estimate £000**	**2020/21 Revised Estimate £000**
Capital Financing Requirement as at 31 March 2021	**31,073**	**3,352**
External Debt / Operational Boundary		
Borrowing	12,000	12,000
Other Long Term Liabilities Finance Leases	1,000	1,000
Commercial Activities/ Non Financial Investments	25,000	0
Total Debt 31 March	**38,000**	**13,000**

4.6 The Council's revised estimate for CFR is £27.721m lower than the original estimate. This results principally from the Council not currently projecting to take out any external borrowing (£25m) for its Commercial and Investment Strategy before 31 March 2021 although, as explained in paragraph 4.10 below, the Treasury Management strategy enables such borrowing to take place if the Council wished to do so. The remaining estimated reduction in the CFR reflects increases in financing of the capital programme from internal resources (grants, reserves and contributions) and re-profiling of capital expenditure between years.

4.7 The Council has made provision to repay all ‘borrowing’ liabilities through increased Minimum Revenue Provision (MRP) in the General Fund revenue budget.

4.8 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need. The policy permits borrowing in advance of need where it is prudent to do so. Members should note that the current limits and estimates set out below have been determined with reference to the existing capital programme.

Limits to Borrowing Activity	**2020/21 Original Estimate £000**	**2020/21 Revised Estimate £000**
Gross Borrowing (Excluding Commercial and Investment Strategy Schemes)	11,574	7,800
Plus Other Long Term Liabilities Finance Leases	243	243
Commercial Activities/ Non Financial Investments	25,000	0
Anticipated Gross Borrowing as at 31 March 2021	**36,817**	**8,043**
Anticipated Capital Financing Requirement as at 31 March 2021	**31,073**	**3,352**

4.9 As a result of the Council’s long term Public Works Loan Board (PWLB) debt portfolio of £4.5m (31/03/2020) currently attracting excessive premiums (£3.235m at the time of writing this report) if it were prematurely repaid, it is not financially advantageous for the Council to fully comply with this prudential indicator. This position has not changed following the change in the pricing of new PWLB borrowing explained in paragraph 2.18 above. A similar issue applies to the fixed rate loan of £3.3m which the Council has with Barclays. This has been the case since the housing stock transfer in 2007 and has been acknowledged and approved by Council since then. In addition, the Council's external auditors have also acknowledged this situation and have not raised any issues with our strategy.

4.10 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit, which represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level for borrowing which, while not desired could be afforded in the short term but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	2020/21 Original Estimate £000	2020/21 Revised Estimate £000
Debt	17,000	17,000
Plus Other Long Term Liabilities Finance Leases	1,000	1,000
Commercial Activities/ Non Financial Investments	25,000	25,000
Total Borrowing	**43,000**	**43,000**

4.11 The Corporate Director & Chief Finance Officer reports that no difficulties are envisaged for the current year in complying with the above prudential indicators.

5 Investment Portfolio

5.1 In accordance with the Treasury Management Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

5.2 As set out in section 2, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that increases in Bank Rate are unlikely to occur before the end of the current forecast horizon of 31st March 2023, investment returns are expected to remain low.

5.3 While the Bank of England has said that it is unlikely to introduce a negative Bank Rate, at least in the next 6 -12 months, some deposit accounts are already offering negative rates for shorter periods. As part of the response to the pandemic and lockdown, the Bank and the Government have provided financial markets and businesses with plentiful access to credit, either directly or through commercial banks. In addition, the Government has provided large sums of grants to local authorities to help deal with the Covid-19 crisis; this has caused some local authorities to have sudden large increases in investment balances searching for an investment home, some of which was only very short term until those sums were able to be passed on.

5.4 Inter-local authority lending and borrowing rates have also declined due to the surge in the levels of cash seeking a short-term home at a time when many local authorities are probably having difficulties over accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

5.5 During the pandemic all three rating agencies have reviewed banks creditworthiness around the world with similar results in many countries of most banks being placed on negative watch, but with a small number of actual downgrades.

5.6 Link Asset Services, the Council's Treasury advisors, have conducted stress testing on the Link credit methodology based list of counterparties supplied to clients, to test for the results of a one notch downgrade to all Long Term Ratings from all agencies. Under such a scenario some building societies could be removed from the creditworthiness list.

5.7 The Council held investments of £24.35m as at 30th September 2020 (£18.3m at 31st March 2020). The investment portfolio yield for the first 6 months of the year is 0.39% (7 day LIBID uncompounded rate -0.06%).

5.8 The Council has achieved investment income of £33k to 30th September 2020.The 2020/21 original estimate of £170k has been revised downwards to £55k.

5.9 Property Funds formed part of the Council's Annual Investment Strategy approved in February 2020 as an instrument to increase investment returns from surplus cash balances. There has been a delay in accessing Property Funds whilst the impact of COVID-19 is fully understood, with a corresponding reduction in budgeted income this year of around £75k.

5.10 In line with the 2017 CIPFA Codes and guidance notes greater emphasis is placed on the enhanced importance of risk management. Should the Council decide to invest in a Property Fund(s) this increases the level of risk associated with the Council's treasury management activity as the value of investments can go down as well as up and the Council may get back less than they originally invested. During the previous five years property funds have generally generated better investment returns (through capital appreciation and income) than bank deposits, though past performance or future projections are not indicative of future returns. One of the main characteristics of investment in Property Funds, compared to bank deposits, is that the Council will need to be prepared to hold on to its investment for a longer period – typically at least five years – to benefit from capital appreciation in the underlying value of the investment. Officers are working with Link Asset Services to examine the opportunities and evaluate the risks associated with investing in this way.

5.11 The Corporate Director and Chief Finance Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2020/21.

6 Borrowing Strategy

6.1 The Council's original estimated CFR for 2020/21 was £31.073m (including finance lease borrowing facilities). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

6.2 The revised estimate for the CFR has been reduced substantially to £3.352m (see paragraph 4.8 above).

6.3 The decision whether to undertake internal or external borrowing to meet the Council's financing requirements will be undertaken as and when the financing is required based on an assessment of market conditions and the Council's overall financial position at that time.

6.4 During 2020/21 the Council has used surplus cash balances in lieu of any external borrowing.

6.5 At this point in time, it is not anticipated there will be any further external borrowing undertaken during this financial year.

6.6 Commentary of future changes to PWLB borrowing is detailed in paragraph 2.18 to 2.20 of the economic update above.

7 Debt Rescheduling

7.1 Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken or is anticipated in the current financial year.