

MEETING: PENSIONS COMMITTEE

DATE: 24 JUNE 2021

TITLE: TREASURY MANAGEMENT 2020/21

PURPOSE: CIPFA's Code of Practice requires that a report on the results of the Council's actual treasury management is produced.

RECOMMENDATION: RECEIVE THE REPORT FOR INFORMATION

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Executive Summary

During the 2020/21 financial year the Council's investment activity remained within the limits originally set and total interest received on deposits was £422,000 which was above the budgeted level of £400,000. There were no defaults by institutions in which the Council had deposited money with.

1. Introduction

The Council's Treasury Management Strategy for 2020/21 was approved at Full Council on 5th March 2020.

It was decided at the Pensions Committee, 18 March 2020 to allow the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash flow for the financial year 2020/21.

The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are therefore central to the Council's Treasury Management Strategy.

This report compares the actual performance against the strategy for the financial year 2020/21 and fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government's Investment Guidance.

2. Treasury Investment Activity

During the year, the Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2020/21 the Council's investment balances have ranged between £57.0 million and £110.4 million.

Treasury Investment Position

	31.3.20 Balance £m	2020/21 Movement £m	31.3.21 Balance £m	31.3.21 Rate %	31.3.21 WAM* days
Banks & building societies (unsecured)	8.7	(0.1)	8.6	0.12	22.4
Local Authorities	0.0	20.0	20.0	0.10	56.0
Money Market Funds	9.1	16.9	26.0	0.02	1.0
Pooled Funds	8.3	0.6	8.9	5.13	365+
Total investments	26.1	37.4	63.5		

*Weighted average maturity

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 investments before seeking the highest 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. Consequently, the duration of investments and number of institutions available to deposit money with has been reduced based on the advice received from Arlingclose following the impact of the pandemic.

Continued downward pressure on short- dated cash rate brought net returns on sterling low volatility Money Market Funds close to zero even after some managers have temporarily lowered their fees. At this stage net negative returns are not the central case of most MMF managers over the short- term, and fee waivers should maintain positive net yields, but the possibility cannot be ruled out.

Deposit rates with the Debt Management Account Deposit Facility (DMADF) have continued to fall and are now largely around zero.

£8.9m of the Council's investments are held in externally managed strategic pooled equity and property funds where short term liquidity are lesser considerations, and the objectives instead are regular revenue income and long- term price stability. These funds generated an income return of 5.1% and an unrealised capital gain of £0.66m in this financial year.

The Council is invested in equity and property funds. During the initial phase of the pandemic in March 2020, the sharp falls in corporate bond and equity markets had a negative impact on the value of the Council's pooled fund holdings and was reflected in the 31st March 2020 fund valuations with every fund registering negative capital returns over a 12 month period. Since March 2020 there has been improvement in market sentiment which is reflected in an increase in capital values

of these funds in the Council's portfolio. The recovery in UK equities has lagged those of US and European markets.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council's medium to long term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years but with the confidence that over a three-to five year period total returns will exceed cash interest.

Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Income Rate of Return
31.03.2020	4.99	A+	100%	31	1.97%
31.03.2021	4.73	A+	63%	25	0.77%
Similar LAs	4.42	AA-	34%	70	0.22%
All LAs	4.63	A+	63%	14	0.90%

*Weighted average maturity

3. Compliance Report

Compliance with specific investment limits is demonstrated in the following table:

Investment Limits

	2020/21 Maximum	31.3.21 Actual	2020/21 Limit	Complied
Any single organisation, except the UK Government	£7m	£7m	£8m each	✓
Any group of organisations under the same ownership	£0m	£0m	£8m per group	✓
Any group of pooled funds under the same management	£5m	£5m	£20m per group	✓
Negotiable instruments held in a broker's nominee account	£0m	£0m	£40m per broker	✓
Foreign countries	£5m	£0m	£8m per country	✓
Registered providers and registered social landlords	£0m	£0m	£20m in total	✓
Unsecured investments with Building Societies	£0m	£0m	£8m in total	✓
Loans to unrated companies	£0m	£0m	£8m in total	✓
Money Market Funds	£40m	£26m	£40m in total	✓
Real Estate Investment Trusts	£0m	£0m	£20m in total	✓

4. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.21 Actual	2020/21 Target	Complied
Portfolio average credit score	4.73	a score of 6 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.3.21 Actual	2020/21 Target	Complied
Total cash available within 3 months	£54.6m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on interest rate exposures expressed as the proportion of net principal borrowed was:

	31.3.21 Actual	2020/21 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£460,757	£324,000	×
Upper limit on one year revenue impact of a 1% fall in interest rates	£5,096	£23,000	✓

As was reported to the Pensions Committee in the Mid Year Review on 21st January 2021, since setting this indicator the economic outlook for interest rates has changed completely with the onset of the global pandemic. The average interest rate received on short term balances was 0.07% during the six month period to 30th September 2020, with more recent investment being made as low as 0.01%. This indication was set when the base rate was 0.75% and therefore it is reasonable that there is such an impact of a 1% rise, and demonstrates the severe impact that the pandemic has had on investment returns.

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	£10m	£0	£0
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓