Gravesham Borough Council

Report to:	Finance and Audit Committee
Date:	11 November 2020
Reporting officer:	Director (Corporate Services)
Subject:	Treasury Management Mid-Year Review 2020-21

Purpose and summary of report:

To provide a mid-year review update report to Members of the Finance and Audit Committee on treasury management activity undertaken during the period April to September 2020.

Recommendations:

1. The Finance and Audit Committee note the contents of this report.
2. The Finance and Audit Committee delegate responsibility to the Chair of the Committee to amend the authorised limit and operational boundary as needed in response to the final accounting treatment agreed in respect of the St George's Centre transaction and make any necessary recommendations to Full Council.

1. BACKGROUND

1.1 **Capital Strategy** In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA) issued revised Prudential and Treasury Management Codes. As from 2020/21, all local authorities have been required to prepare a Capital Strategy which is 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.

1.2 **Treasury management** The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

1.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

1.4 Accordingly, 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."

2. INTRODUCTION

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (revised 2017). The primary requirements of the Code 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 the 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 (stewardship 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 to a specific named body. For this Council the delegated body is the Finance and Audit Committee.

2.2 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 half of the 2020/21 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2020/21;
- A review of the Council's borrowing strategy for 2020/21;
- A review of any debt rescheduling undertaken during 2020/21;
- A review of compliance with Treasury and Prudential Limits for 2020/21.

3. ECONOMIC BACKGROUND

3.1 The following economic performance update has been provided by Link Asset Services – Treasury Solutions as at 7 October 2020.

3.2 The Bank of England's Monetary Policy Committee kept Bank Rate unchanged on 6 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.

3.3 It also squashed any idea of using negative interest rates, at least in the next six months. 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.

3.4 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.

3.5 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.

3.6 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.

3.7 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 have seen huge growth.

3.8 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.

4. INTEREST RATE FORECASTS

4.1 The Council's treasury advisor, Link Asset Services, has provided the following interest rate forecast.

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

4.2 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 first to 0.25%, and then to 0.10%, it left Bank Rate unchanged at its meeting on 6 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 31 March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.

4.3 **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 a heightened expectation 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.

4.4 From the local authority borrowing perspective, HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB period rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure. It also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31 July. It is clear that the intention of HM Treasury is to 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).

4.5 Following the changes on 11 March 2020 in margins over gilt yields, the current situation is as follows:

- **PWLB Standard Rate** is gilt plus 200 basis points (G+200bps)
- **PWLB Certainty Rate** is gilt plus 180 basis points (G+180bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

It is possible that the non-HRA 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 could be likely to be within the current financial year.

4.6 **The balance of risks to the UK**

4.7 The overall balance of risks to economic growth in the UK is probably relatively even, but is subject to major uncertainty due to the virus.

4.8 There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK

4.9 Downside risks to current forecasts for UK gilt yields and PWLB rates currently include

- **UK** - second nationwide wave of virus infections requiring a national lockdown

- **UK / EU trade negotiations** – if it were to cause significant economic disruption and a fresh major downturn in the rate of growth.

- **UK - Bank of England** takes action too quickly, or too far, over the next three years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.

- A resurgence of the Eurozone sovereign debt crisis.

- Weak capitalisation of some European banks, which could be undermined further depending on extent of credit losses resultant of the pandemic

- German minority government & general election in 2021

- Other minority EU governments

- Austria, the Czech Republic, Poland and Hungary now form a strongly anti-immigration bloc within the EU. There has also been a rise in anti-immigration sentiment in Germany and France.

- Geopolitical risks, for example in China, Iran or North Korea, but also in Europe and other Middle Eastern countries, which could lead to increasing safe haven flows.

- US – the Presidential election in 2020

5. TREASURY MANAGEMENT STRATEGY STATEMENT AND ANNUAL INVESTMENT STRATEGY UPDATE

5.1 The Treasury Management Strategy Statement (TMSS) for 2020/21 was approved by Council on 25 February 2020.

5.2 There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

6. THE COUNCIL'S CAPITAL POSITION (PRUDENTIAL INDICATORS)

6.1 This part of the report is structured to update:

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

6.2 **Prudential Indicator for Capital Expenditure -** The following below shows the revised estimates for capital expenditure and the changes since the capital programme was agreed by Council as part of the budget.

Capital Expenditure	2020/21 Original Estimate £m	2020/21 Current Position £m	2020/21 Revised Estimate £m
Non HRA	5.443	1.715	22.181
HRA	19.717	6.752	20.659
Commercial activities/non-financial investments	11.754	1.111	13.049
Total	36.914	9.578	55.889

6.3 The revised estimate for commercial activities for 2020/21 totals £13.049m. This takes into account planned expenditure in relation to Brookvale Accommodation, Property and Land Acquisition schemes as well as the Land at Dering Way capital scheme.

6.4 The revised estimate for Non HRA and HRA capital schemes reflects the carried forward items from 2019/20 as well as the addition of The Charter development scheme within the capital programme which was approved by Full Council on 23 June 2020.

6.5 **Changes to the Financing of the Capital Programme -** The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increased the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

Capital Expenditure	2020/21 Original Estimate £m	2020/21 Current Position £m	2020/21 Revised Estimate £m
Total	36.914	9.578	55.889
Financed by:			
Capital Receipts	1.520	0.664	2.047
Grants/Contributions	1.175	0.354	2.152
Reserves	5.474	1.664	7.001
Major Repairs Reserve	6.889	4.807	7.583
Total Financing	**15.058**	**7.489**	**18.783**
Borrowing Need	21.856	2.089	37.106

6.6 The borrowing need for 2020/21 currently stands at £37.106m, which is based on the capital programme for the current year being fully spent. Of the total borrowing need, £6.946m internal borrowing will be utilised and £30.160m external borrowing will be sought.

6.7 **Changes to the Prudential Indicator for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary** - The table below shows the CFR, which is the underlying external need to borrowing for a capital purpose. Based on the current capital expenditure forecasts for 2020/21, the revised CFR as at year end is expected to be higher than originally estimated, based on the addition of The Charter to the capital programme in year.

Capital Financing Requirement	2020/21 Original Estimate £m	2020/21 Revised Estimate £m
CFR – Non HRA	103.222	117.379
CFR – HRA	82.511	82.511
CFR – Commercial activities/non-financing activities	35.677	35.699
Total CFR	221.410	235.589
Net Movement in CFR (between years)	15.581	(30.852)

6.8 **Prudential Indicator for External Debt and the Operational Boundary –** The table below shows the current level of debt against the expected debt position over the financial year

External Debt and Operational Boundary	External Debt	Operational Boundary	
	Current Debt Position £m	2020/21 Original Estimate £m	2020/21 Revised Estimate £m
Borrowing	81.093	116.210	116.210
Borrowing – Commercial/non-financing activities	0.000	30.000	30.000
Other long term liabilities	93.432	98.200	98.200
Total	174.525	244.410	244.410

6.9 The operational boundary is the maximum amount of borrowing which the council is permitted to undertake on a day to day basis and must not be breached other than for temporary cash flow demand purposes. This level has not been breached during the first six months of 2020/21.

6.10 The current debt position above and the revised estimate of the operational boundary is the same as that which was set when the TMSS for 2020/21 was agreed by Full Council on 25 February 2020, which includes an allowance for the

St George's Finance Lease. The final accounts process has identified an alternative treatment for this transaction and therefore the above figures may be subject to change when the final treatment is agreed between the Council and Grant Thornton, the Council's external auditors. If the operational boundary needs to be amended, this will be discussed with the Chair of the Finance and Audit Committee in due course and will be required to be subsequently approved by Full Council.

6.11 **Limits to Borrowing Activity** - The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should 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 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 which will be adhered to if this proves prudent.

Borrowing Activity	2020/21 Original Estimate £m	2020/21 Current Position £m	2020/21 Revised Estimate £m
Debt as at 1 April	89.093	89.093	89.093
Expected change in debt	2.585	(8.000)	16.742
Other long term liabilities (OLTL)	93.431	93.625	93.432
Expected change in OLTL	(0.235)	0.000	(0.235)
Total Gross Debt	**184.874**	**174.718**	**199.032**
CFR (year-end position)	221.410	235.589	235.589

6.12 The Director (Corporate Services) reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

6.13 **Prudential Indicator for the Authorised Limit** - 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 of 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.

6.14 As per Para 6.10, the authorised limit reported below is at the same level that was set when the TMSS for 2020/21 was agreed by Full Council on 25 February 2020, which includes an allowance for the St George's Finance Lease. If the authorised limit needs to be amended, this will be discussed with the Chair of the Finance and Audit Committee in due course and will be required to be subsequently approved by Full Council.

Authorised limit for External Debt	2020/21 Original Estimate* £m	2020/21 Current Position £m	2020/21 Revised Estimate £m
Borrowing	121.210	121.210	121.210
Borrowing – Commercial activities/non-financial investments	35.000	35.000	35.000
Other long term liabilities	103.200	103.200	103.200
Total	259.410	259.410	259.410

7. INVESTMENT PORTFOLIO 2020/21

7.1 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. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to see out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

7.2 As shown by the interest rate forecasts in section 4, 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 31 March 2023, investment returns are expected to remain low.

7.3 **Negative investment rates** - 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.

7.4 As for money market funds (MMFs), returns have continued to reduce. Some managers have suggested that they might resort to trimming fee levels to ensure that net yields for investors remain in positive territory where possible and practical. Investor cash flow uncertainty, and the need to maintain liquidity in these unprecedented times, has meant there is a glut of money at the very short end of the market. This has seen a number of market operators, now including the DMADF, offer nil or negative rates for very short term maturities. This is not universal, and MMFs are still offering a marginally positive return, as are a number of financial institutions.

7.5 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.

7.6 **Creditworthiness** - Although the credit rating agencies changed their outlook on many UK banks from stable to negative outlook during the quarter ended 30 June 2020 due to upcoming risks to banks' earnings and asset quality during the economic downturn caused by the pandemic, the majority of ratings were affirmed due to the continuing strong credit profiles of UK banks. However, during Q1 and Q2 2020, banks made provisions for *expected* credit losses and the rating changes reflected these provisions. As we move into the next quarters ahead, more information will emerge on *actual* levels of credit losses. (Quarterly performance is normally announced in the second half of the month following the end of the quarter.) This has the potential to cause rating agencies to revisit their initial rating adjustments earlier in the current year. These adjustments could be negative or positive, although it should also be borne in mind that UK banks went into this pandemic with strong balance sheets. Indeed, the Financial Policy Committee (FPC) report on 6 August revised down their expected credit losses for the banking sector to "somewhat less than £80bn".

7.7 The Council held £22.5m of market investments and £18.2m in pooled investment funds (i.e. Property Funds and Multi Asset Funds) as at 30 September 2020 (£32.3m and £20.0m respectively as at 31 March 2020). The internally managed investment portfolio yield for the first six months of the year is 0.54% against the 3 month LIBID benchmark of 0.11%. Appendix 2 provides a pictorial representation of investment balances and returns for the first six months of this year as well as the yield generated.

7.8 Appendix 3 provides full list of investments held as at 30 September 2020.

7.9 The Director (Corporate Services) confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2020/21.

7.10 As per the Quarter 2 Budget Monitoring Report, currently there is a forecast adverse variance of income from investments of £105k, with a further forecast adverse variance of £11k on Property Fund Management Fee. This is a direct result of the Covid-19 pandemic.

7.11 **Investment Counterparty Criteria** – The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

7.12 **PROPERTY FUNDS AND MULTI ASSET FUNDS**

7.13 In the 2016/17 £10m was placed in three Externally Managed Property Funds. In 2017/18 a further £10m was placed in three Multi Asset Funds.

7.14 The table shows the Net Asset Value (NAV) for each of the Property Funds and Multi Asset Funds as at end of September compared to the Purchase Price, along with the average gross return on investment to date.

	Purchase Price	Sept NAV	% Change NAV	Average Gross Return on Investment
Property Funds				
CCLA	£1,873,528	£1,798,584	-4.00%	4.80%
Lothbury	£4,949,648	£4,903,368	-0.94%	1.97%
Hermes	£2,883,821	£3,087,248	7.05%	3.57%
Multi Asset Funds				
JP Morgan	£5,000,000	£4,557,560	-8.85%	3.35%
Jupiter	£3,000,000	£2,158,885	-28.04%	2.95%
Aberdeen	£2,000,000	£1,743,310	-12.83%	4.11%
Total	£19,706,997	£18,248,955	-7.40%	-

Note – The average gross return is based on the 12 months to 30 September.

7.15 **Property Funds** - The % change in capital values above are based on movement from the original investment in 2016. Since 2016 the capital values of the funds had generally increased but towards the end of 2019/20 and during 2020/21 the capital values fell as a direct result of the COVID-19 pandemic. Currently only the capital value of Hermes is above the entry level. The rate of capital loss has started to stabilise as the impact of COVID-19 on the valuations can be more fully understood.

7.16 At the start of the pandemic funds temporarily suspended trading in their funds, which essentially meant that investors could neither enter nor exit the fund for a period of time. These suspensions have now been lifted and the funds are accepting new investments and permitting withdrawals, albeit generally with a longer notice period.

7.17 Future capital values and dividends may continue to be affected as the pandemic continues. Officers are closely monitoring capital values and remain in regular contact with the Property Fund Managers, to ensure they are aware of the latest developments.

7.18 **Multi Asset Funds** - The effect of the COVID-19 pandemic has been much more obvious on the Multi Asset funds, as can clearly be seen in the table above.

7.19 Despite the value of the Multi Asset funds increasing during the course of 2019/20, as the impact of the pandemic began to be felt across the world, equity markets fell in value and the resulting capital values of the funds reduced significantly. Capital values remain volatile as Governments across the world respond to the situation. Despite this, funds continue to pay dividends albeit at a lower rate than previously.

7.20 As with the Property Funds, Officers are closely monitoring capital values and remain in regular contact with Fund Managers, to ensure they are aware of the latest developments

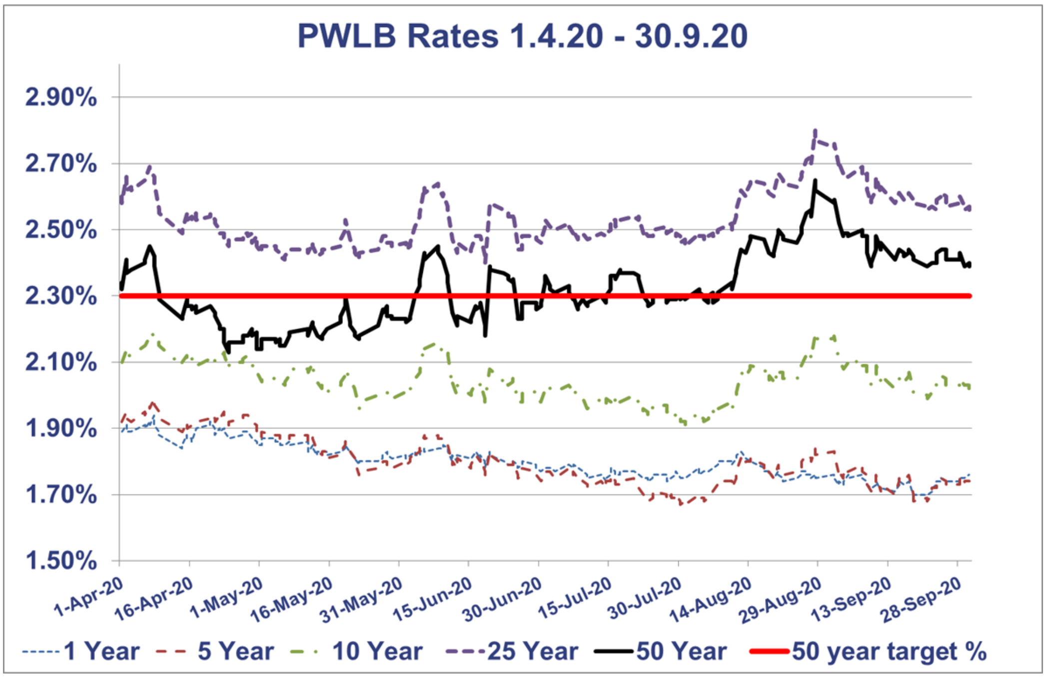
7.21 It must be remembered that investment in Property Funds and Multi Asset Funds need to be viewed as a long term investments and that values can go up as well as down. This is particularly relevant following the introduction of International Financial Reporting Standard 9 (IFRS9) which came into effect from 1 April 2018.

8. CASHFLOW

8.1 A cashflow forecast is regularly presented to Members of the Finance and Audit Committee. The most recent cashflow can be found at Appendix 4 to this report. This cashflow was produced in May 2020 in response to the developing COVID-19 pandemic. Since this time, officers have been working to obtain a better understanding of how the pandemic is affecting the day to day cashflow of the Council and are in the process of updating the cashflow to reflect this along with impact of subsequent government announcements.

9. BORROWING

9.1 The Council's Capital Financing Requirement (CFR) for 2020/21 is £235.589m. 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. The table at Para 6.11 shows the Council has borrowings of £81.093m and has utilised £25.765m of cashflow funds in lieu of borrowing. This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that upside risk to gilt yields prevails.



9.2 PWLB rates varied within a relatively narrow range between April and July but the longer end of the curve rose during August. This increase came in two periods; the first in the second week of the month was on the back of hopes for fresh US stimulus. This saw investors switch monies out of government bonds and into equities. The second shift higher at the longer end of the curve came in the latter stages of the month as investors reacted to the announcement of the tweak to the Fed's inflation target. Despite moves further out in the yield curve, the short end remained anchored on the basis of no fundamental change to the interest rate outlook.

9.3 Due to the increase in PWLB margins over gilt yields in October 2019, and the subsequent consultation on these margins by HM Treasury - which ended on 31st July 2020 - the Authority has refrained from undertaking new long-term PWLB borrowing at the present time and has continued to meet its requirements for additional borrowing by using its existing cash balances. In addition, the effect of coronavirus on the capital programme objectives is being assessed. Therefore, our borrowing strategy will be reviewed and then revised in order to achieve optimum value and risk exposure in the long-term.

10. DEBT RESCHEDULING

10.1 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 to date in the current financial year.

11. OTHER

11.1 In February 2015 the Authority became a shareholder in the Municipal Bonds Agency (MBA), with an investment of £20,000. The MBA was established by the Local Government Association (LGA) in the belief that it would provide councils with the opportunity to raise funds at significantly lower rates that those offered by the Public Works Loan Board (PWLB).

11.2 The MBA has now issued its first bond and officers are continuing to work closely with the MBA and will consider the appropriateness of any borrowing offer when the need to borrow arises.

BACKGROUND PAPERS

There are no Background Papers pertaining to this Report.

IMPLICATIONS	**APPENDIX 1**
Legal	As per section 1.13B.67 of the Council's Constitution, the Chief Finance officer has delegated responsibility from Cabinet. "in respect of borrowing and investments to arrange such loans as are legally permitted to meet the Council's borrowing requirements"
Finance and Value for Money	A summary of the perceived risks associated with Treasury Management were identified in the Treasury Management Strategy approved by Council on 25 February 2020. Officers continue to monitor the risks on a day to day basis and identify mitigating actions to minimise risks. In order to achieve a balanced budget, the authority relies upon generating maximum interest from its investments whilst minimising the exposure to risk. In order to achieve this, investments are only placed with institutions which meet the criteria set out within this report. Investment durations do not exceed those as advised by Capita Asset Services credit ratings which are associated with the specific institutions. Where the authority is required to borrow to meet the needs of the authority, officers will seek advice from Capita Asset Services on timings and options in order to ensure the best deal for the authority.
Risk Assessment	The risks associated with Treasury Management and capital expenditure are detailed within this report.
Data Protection Impact Assessment	*A data protection impact assessment (DPIA) should be carried out at the start of any major project involving the use of personal data or if you are making a significant change to an existing process.*
	a. Does the project/change being recommended through this paper involve the processing of personal data or special category data or criminal offence data? A definition of each type of data can be found on the Information Commissioner's Office website via the above links. N/A
	b. If yes to question a, have you completed and attached a DPIA including Data Protection Officer advice? N/A
	c. If no to question b, please seek advice from your nominated DPIA assessor or the Information Governance Team at gdpr@medway.gov.uk. N/A
Equality Impact	a. Does the decision being made or recommended through this paper have potential to cause adverse impact or discriminate against different groups in the

Assessment	community? If yes, please explain answer. N/A
	b. Does the decision being made or recommended through this paper make a positive contribution to promoting equality? If yes, please explain answer. N/A
	In submitting this report, the Chief Officer doing so is confirming that they have given due regard to the equality impacts of the decision being considered, as noted in the table above
Corporate Plan	Strategic Objective #3 Progress; Sound Financial Management & Successfully Managing Key Business Risks.
Crime and Disorder	Treasury Management activities are carried out in accordance with the Treasury Management Strategy and Annual Investment Strategy which minimises the risk of criminal activities. The arrangements to ensure appropriate governance around capital expenditure are set out in the Capital Strategy.
Climate Change	There are no climate change implications to this report.
Digital and website implications	N/A
Safeguarding children and vulnerable adults	N/A