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Portfolio Holder for Finance, Countryside and Transport

County Hall
Llandrindod Wells
Powys
LD1 5LG

For further information please contact

28 July 2020

Stephen Boyd
steve.boyd@powys.gov.uk
01597 826374

NOTICE OF INTENDED PORTFOLIO HOLDER DELEGATED DECISION

The Portfolio Holder has received the following report for a decision to be taken under delegated authority. The decision will be taken on **3 August 2020** (i.e. 3 clear days after the date of this note). The decision will be published on the Council's website but will not be implemented until 5 clear days after the date of publication of the decision) to comply with the call-in process set out in Rule 7.36 of the Constitution.

1.	**TREASURY MANAGEMENT QUARTER 1 REPORT**

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CYNGOR SIR *POWYS* COUNTY COUNCIL.

PORTFOLIO HOLDER DELEGATED DECISION
by
COUNTY COUNCILLOR ALED DAVIES
PORTFOLIO HOLDER FOR FINANCE

July 2020

REPORT AUTHOR: **Ann Owen**
Treasury Manager

REPORT TITLE: **Treasury Management Qtr 1 Report**

REPORT FOR: **Information**

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1. Purpose

1.1 CIPFA's 2009 Treasury Management Bulletin suggested:
"In order to enshrine best practice it is suggested that authorities report formally on treasury management activities at least twice a year and preferably quarterly."

The CIPFA Code of Practice on Treasury Management emphasises a number of key areas including the following:-

xi. Treasury management performance and policy setting should be subject to scrutiny prior to implementation.

1.2 In line with the above, this report is providing information on the activities for the quarter ending 30th June 2020.

2. Economic Background and Forecasts

2.1 The economic background is attached at Appendix B.

2.2 The most recent forecast of interest rates by the Authority's advisor is as follows:

	Sep 20	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB	1.90%	1.90%	2.00%	2.00%	2.00%	2.10%	2.10%
10yr PWLB	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%
25yr PWLB	2.50%	2.50%	2.60%	2.60%	2.60%	2.70%	2.70%
50yr PWLB	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%

3. Treasury Management Strategy

3.1 The Treasury Management Strategy approved by Full Council on 7th March 2019 is at Appendix A.

3.2 The Authority's investment priorities within the Strategy are: -

(a) the security of capital and
(b) the liquidity of its investments.

3.3 The Authority aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite has been low in order to give priority to security of investments.

4. Current Investments

4.1 The current investment market is difficult as rates are very low and in line with the 0.10% Bank Rate.

4.2 The Authority had the following investments at 30th June 2020:-

Invested with:	Principal £000's	Interest Rate	Start Date	Maturity Date
Kirklees Council	5,000	0.06%	19.06.20	03.07.20
Dorset Police	1,500	0.08%	25.06.20	03.07.20
Dorset Police	2,500	0.08%	29.06.20	03.07.20
Total	**19,405**			

The Authority's deposit accounts are not paying interest since bank rate was reduced to 0.10%. Lending to other local authorities for short periods of time was halted during April/May while further assessment of the receipt of income to the Authority and the Authority's future cashflow position was reviewed. This type of lending was re-instated in June. Fixed term deposits with BOS are currently being enabled in lieu of the deposit account paying nil interest.

4.3 Higher return rates have been difficult to achieve as the Authority is not in a position to invest its cash for more than a short period of time. However, lending rates across all periods are particularly low in the current climate.

4.4 Investment returns in future years:
Our advisors' are not currently suggesting earning rates for investments for budgeting purposes. Previous suggested rates were per below:-

2019/20	0.75%
2020/21	0.75%
2021/22	1.00%

These were based on investments for up to three months duration.

5. Credit Rating Changes

5.1 There have been no credit rating changes relevant to this Authority's position during the last quarter.

5.2 The credit rating list for end of June is attached as a separate file to this report.

6. Borrowing / Re-scheduling

6.1 Effective management of the Authority's debt is essential to ensure that the impact of interest payable is minimised against our revenue accounts whilst maintaining prudent borrowing policies.

6.2 The Authority's Capital Position:

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the current year's unfinanced capital expenditure and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through external borrowing or utilising temporary cash resources within the Council.

Net external borrowing (borrowings less investments) should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current year and next two financial years. This allows some flexibility for limited early borrowing for future years.

Original CFR Position (per original approved budget):

	As at 31.03.20 Actual	2020/21 Original Estimate	2021/22 Original Estimate	2022/23 Original Estimate
	£M	£M	£M	£M
Capital Financing Requirement	378,461	447,468	497,194	517,289

Updated CFR position as at 30.06.20:

	As at 31.03.20 Actual	2020/2021 Current Estimate	2021/22 Current Estimate	2022/23 Current Estimate
	£M	£M	£M	£M
Capital Financing Requirement	378,461	443,373	495,164	524,420

6.3 The Authority had outstanding long-term external debt of £328.2m at 31st March 2020. In relation to the CFR figure for 31st March 2020, this equated to the Authority being under borrowed by £50.3m. Using cash reserves as opposed to borrowing has been a prudent and cost-effective approach over the last few years. However, members will be aware that internal borrowing is only a temporary situation and officers have advised that, based on capital estimates, it will be necessary for the Authority to borrow at stages over the next few years.

6.4 On 9th October 2019 HM Treasury increased the margin that applies to new PWLB loans by 100bps with no prior discussion. This led to increased borrowing rates for local authorities.

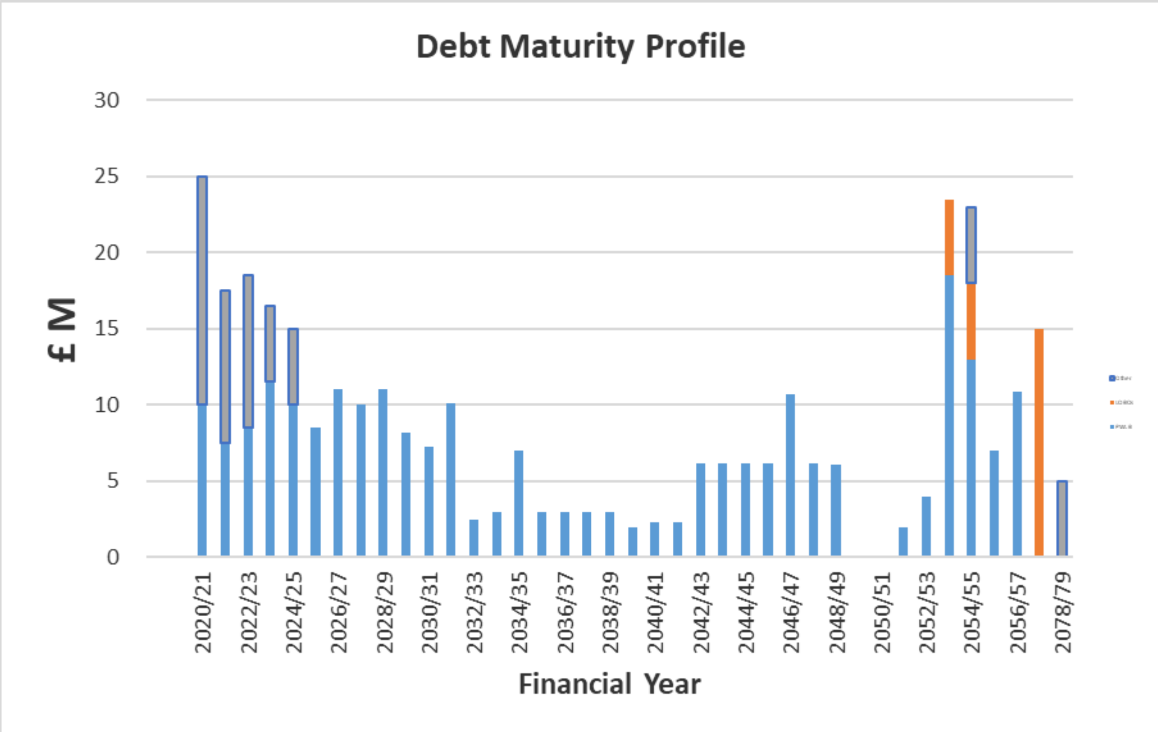
6.5 Capital Budget/Spend per efinancials:

Capital:	**Original Approved Budget £**	**Working Budget £**	**Actual Capital Spend *(not including commitments)* £**	**%age Actual Spend**
	132,872,000			
Qtr 1 end of June		123,678,035	7,908,465	6.40%

The financing of the approved capital budget includes £56.7m of Prudential Borrowing.

It remains a significant challenge to manage the Authority's cashflow and its need to borrow when the Capital working budget increases/decreases significantly during the financial year and, despite this, actual spend continues to be significantly below the working budget. This challenge is currently further magnified by the Covid 19 situation resulting in some Capital projects on hold.

6.5 *Debt Maturity Profile as at 30.06.20:*



6.6 PWLB Loans Rescheduling:

The Public Works Loans Board released a circular regarding rates on 20th October 2010. As a result of this, rates immediately increased by 0.87-0.88 basis points across the board. The overall impact of this circular was that it is far more difficult for authorities to reschedule debt. PWLB interest rates in the last quarter have not been conducive towards any rescheduling.

7. Prudential Indicators

7.1 All TM Prudential Indicators were complied with in the quarter ending 30th June 2020.

8. VAT

8.1 The Technical Section of Finance act as the authority's VAT section. VAT can pose a risk to the authority hence the Treasury Manager has been asked to include VAT information in these quarterly reports.

8.2 The monthly VAT returns were submitted within the required deadlines during the quarter ending 30th June 2020.

8.3 Key Performance Indicators:

The VAT KPI's for 2020/21 are attached at Appendix C.

Advice

N/A

Resource Implications

N/A

Legal implications

N/A

Comment from local member(s)

N/A

Integrated Impact Assessment

N/A

Recommendation

It is recommended that this report be accepted.

Contact Officer: Ann Owen
Tel: 01597 826327
Email: ann.owen@powys.gov.uk

Head of Service: Jane Thomas

Corporate Director: Ness Young

Appendix A:

Approved Treasury Management Strategy 2020/21:

Group/Institutions - Counterparty Criteria/Limits:

Specified Investments:

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	30	Up to 364 days	As per Link's matrices
Foreign Banks	5	Up to 364 days	As per Link's matrices
Other Local Authorities	25	Up to 5 years	N/A

Non-Specified Investments:

Institution	Maximum Investment per Group/Institution £M	Maximum Length	Credit Rating/Other Assessment of Risk
UK Banks	10 (£5M limit with any one institution)	Up to 2 years	As per Link's matrices
Foreign Banks	2	Up to 2 years	As per Link's matrices
Money Market Funds (max. of 5)	10	N/A	All are AAA rated
Other Local Authorities	10	Up to 5 years	N/A
Note: Limits for Specified and Non-Specified are combined limits. The maximum limit will also apply to a banking group as a whole.			

Appendix B

Economic Background

This economic overview reflects data and surveys released through May but the full extent of the impact of the pandemic has still to be fully reflected. The longer-term effects could be quite significant if the “V” shaped recovery, that markets have been hoping for, turns out to be rather slower. It is quite clear that, in the short-term, there has been a severe global downturn with mass job losses and declines in output, etc. The enormous amounts of central bank and government support has eased some of the strife through this time but is not a cure all and will not prevent some businesses going to the wall or permanent job losses. There will be a slow, fragmented global recovery as the different economies and different sectors emerge from this crisis at different times. This will almost certainly ensure that a “V” shape recovery does not occur.

The worst of lockdown is hopefully now over in the UK with the enforced closure of businesses and social distancing measures being gradually eased. The Office of National Statistics published its “Business Impact of Coronavirus Survey” which reported that the number of firms ceasing trading has slowed from 25% in early April to 18% in the first half of May. The expectation is that GDP will only make moderate progress in repairing the damage done in April while, despite the Government’s worthy efforts, there are still businesses and individuals that did not meet the criteria of its schemes. The furlough scheme will be pared back in August which will then put businesses into a position as to whether to retain staff or release them, with decisions clearly having implications for unemployment. Analysts suggest that recovery will not meet with the current levels of optimism. This could force the Bank of England to loosen policy further, in order to generate demand and push inflation in the direction of the 2% target.

The initial easing of the lockdown on May 13th generated only modest recovery in activity. Data shows that GDP declined by 5.8% m/m in March, even though lockdown was only in place for nine days. Worst hit sectors were those where social distancing was a fundamental problem such as hotels/restaurants, education and transport/leisure. A full month of lockdown in April saw an even larger decline in GDP as some sectors will have generated no activity at all. Around 20% of all firms stopped trading for the month. As an example, only 197 cars were produced in April, a 99.7% y/y decline. April should, though, be the low point for the economy, with lockdown easing now under way and workers being encouraged to return. That optimism is reflected by the improved May composite Purchasing Manufacturers Index, but there is a suggestion that the index has not factored in the full extent of the drop in economic activity.

Consumer spending will be helped by the lifting of restrictions, but it will take time to recover. Retail sales dropped by a record 18.1% m/m in April, pulling sales to 2005 levels. Online sales benefited but clothing and petrol sales were badly hit, both falling by more than 50% m/m, and even food and drink spending suffered, but to a far lesser degree. With hotels/restaurants/car sales falling outside of retail sales, overall consumption contraction will be even sharper over Q2, possibly up to 25%. On the plus side, with nothing to spend on, household debt was reduced by a record £7.4bn. The mid-May commencement of easing of restrictions does not appear to have resulted in anything other than a patchy improvement, with car sales still massively down. Consumers remain pessimistic about their financial position, indicating that a return to normality remains a way off, even though shops are starting to open. Trade will only recover very gradually, with global economies re-opening at a different pace. The March trade figures underlined the impact of the epidemic, with the trade deficit surging to a one year high of £6.7bn. Export volumes dived by 14.5% m/m, and imports by 8.1%, which exceeded those seen ahead of the initial Brexit deadline. Both exports and imports look to have fallen again in April, while tourism will have been all but non-existent and will barely improve through Q2. The lockdown has undermined demand, which will be the main driver of trade, rather than disruptions to supplies. The UK will only benefit marginally by improved conditions in China as it is not a major trading partner in the way that Europe and the US are. Exports are forecast to drop by around 15% in Q2, but imports will be hit far harder, up to 40% down, as the economy remained largely closed and will only re-open gradually.

The Coronavirus Job Retention Scheme should ensure that the rate of unemployment has not run away during the pandemic. However, there are concerns that once “furlough” starts to wind down, a pickup in job losses could occur. Prior to COVID 19, employment was healthy and rose by 210,000 in Q1, but PAYE numbers crashed by 500,000 in April, indicating that some firms were laying off employees rather than furloughing them. The claimant count unemployment rate increased to 5.8%, but with Universal Credit claims having fallen back, the rate of joblessness might peak at around 9%, which would be lower than had been initially feared. Average earnings growth fell to 2.4% in March but was set to fall further in April.

Consumer price inflation has fallen and will remain subdued as it will likely take demand some time to fully recover. April saw CPI ease to 0.8%, after the largest monthly decline since December 2008. The Governor of the Bank of England is set to be having regular correspondence with the Chancellor on why the rate has fallen outside of the 1% band of tolerance from the 2% target. This is hardly a great concern as much of this is down to lower energy prices caused by the slump in crude oil price and Ofgem’s reduced utility price cap. Fuel prices should not fall too much further as oil prices have stabilised. However, underlying core inflation has also dipped, while output price inflation is in negative territory for the first time in nearly four years. With demand having collapsed, core deflation will deepen, particularly in the hardest hit industries. Analysts do not see CPI inflation getting too close to the 2% target in the next 18 months.

Equity markets have continued to reverse losses and are expected to gradually climb over the coming years. At the end of May, the FTSE 100 had recovered 25% from the March crash. The UK pick up has been broader based than in the US, where large tech companies have been to the fore. There has also been a pickup in the value of Sterling, but this was more reflective of Dollar weakness. The exchange rate against the €uro was little changed but with Brexit talks ongoing that is not such a surprise. Analysts believe that an agreement will be cobbled together to avoid a dramatic relationship change at year end, which should help currency stability.

Monetary Policy:

Nothing has really changed or is likely to in the short term. The coronavirus pandemic and its economic impact has been the sole focus of governments and central banks. Policy has been defined by their need and desire to underpin their economies and financial markets. They have gone an extra mile or more, in adding support of the workforce whose income streams have been wiped out by the lockdown, which would thus have compromised their ability to meet financial commitments. As a result, governments have increased levels of debt to unprecedented levels, which will likely take some time after the pandemic clears to bring down to more manageable levels. Central banks are maintaining stability and viability of their financial markets with massive asset purchasing programmes. These also help to suppress upside rate pressures, having followed interest rate policies that have seen all major central banks slash interest rates to, or almost zero percent.

Policies are unlikely to change before the pandemic has died down and is in retreat, and economic activity and confidence level have started to normalise. Such a combination is unlikely until 2021 at the earliest. The risk to that scenario could be the evident urgency that some governments seem to be putting on re-opening their economies as early as possible. The risk they run is moving too swiftly, resulting in a second wave of infections, something that appears to be a growing concern in China and the US (as this report is being written). Support packages from central banks and governments may prove insufficient to get national and global economies out of the deep recession that is likely to hit most areas. As such, analysts expect more money to be pumped into the system, one way or another, to give recoveries whatever boost is required. The long and short of the current situation is that interest rates are unlikely to rise in the immediate future, but more stimulus seems inevitable.

Appendix C

VAT - Key Performance Indicators:

Creditor Invoices

VAT return for	No of high value Creditor invoices checked	No of Creditor invoices highlighted as requiring "proper" document for VAT recovery	%age of creditor invoices checked requiring "proper" document for VAT recovery
Apr-20	171	3	1.75%
May-20	132	0	0.00%
Jun-20	172	1	0.58%
Jul-20			
Aug-20			
Sep-20			
Oct-20			
Nov-20			
Dec-20			
Jan-21			
Feb-21			
Mar-21			

Income Management Entries

VAT return for	No of entries checked by formula per the ledger account code used	No of entries needing follow up check (but not necessarily incorrect)	%age of entries needing follow up check
Apr-20	648	1	0.15%
May-20	555	6	1.08%
Jun-20	Not yet completed		
Jul-20			
Aug-20			
Sep-20			
Oct-20			
Nov-20			
Dec-20			
Jan-21			
Feb-21			
Mar-21			

Debtor Invoices

VAT return for	No of Debtor invoices checked	No of checked debtor invoices with incorrect VAT code used	%age of debtor invoices with incorrect VAT code
Apr-20	49	6	12.24%
May-20	41	10	0.00%
Jun-20	Not yet completed		
Jul-20			
Aug-20			
Sep-20			
Oct-20			
Nov-20			
Dec-20			
Jan-21			
Feb-21			
Mar-21			

Purchase Cards

VAT return for	No of transactions for which paperwork requested for checking	Resolvable errors discovered	Value of VAT potentially claimable but recharged to budget due to non- response	No of transactions where VAT claimed incorrectly	%age of transactions available to be checked where VAT was claimed incorrectly	Value of VAT incorrectly claimed hence recharged to budget
Apr-20	128	9	£2,314.57	7	5.47%	£418.08
May-20	89	0	0	5	5.62%	£268.05
Jun-20	99	2	£812.00	4	4.04%	£357.51
Jul-20						
Aug-20						
Sep-20						
Oct-20						
Nov-20						
Dec-20						
Jan-21						
Feb-21						
Mar-21						

Chargebacks to service areas

The upload of appropriate documents to the Barclaycard purchase card system to enable vat recovery was made mandatory in September 2017 as a result of the lack of response from service areas/establishments to provide documents when requested. Where no document has been uploaded, any VAT amount input against the transaction is charged to the service area as there is no evidence to support the vat recovery.
Any other VAT errors that come to light as a result of the various checks are also charged to the relevant service areas.

Budget holders are able to see this clearly as chargebacks are coded to account code EX400600 and the activity code used alongside this gives the reason why this chargeback has occurred.

The total amount charged back to service areas in 2020/21 to end of June is £11,838.52. The breakdown of this is as follows:-

Reason	**£**
Not a tax invoice	5,803.07
Not a tax invoice – no response from service area	0
PCC not the named customer	0
No VAT registration number on invoice	0
No invoice uploaded to Barclaycard system	4,162.47
Invoices uploaded do not match the payment	325.92
No evidence supplied to enable vat recovery	0
Foreign VAT (not recoverable)	28.31
No VAT amount on invoice in first place	874.11
Supplier not vat registered	0
Supply not to PCC	503.42
Overaccounting for VAT	141.22
PCC Internal payment	0
Document spoilt	0
Total	**11,838.52**

Of the above £9,965.54 was potentially recoverable.

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By virtue of paragraph(s) 14 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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