CYNGOR SIR *POWYS* COUNTY COUNCIL.

AUDIT COMMITTEE
19th November 2020

CABINET
24th November 2020

REPORT AUTHOR:	**COUNTY COUNCILLOR ALED DAVIES** **PORTFOLIO HOLDER FOR FINANCE**
REPORT TITLE:	**Treasury Management Qtr 2 Report**
REPORT FOR:	**Information**

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 September 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:

	Dec 20	Mar 21	Jun 21	Sep 21	Dec 21	Mar 22	Jun 22	Sep 22
Bank rate	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
5yr PWLB	1.90%	2.00%	2.00%	2.00%	2.00%	2.00%	2.10%	2.10%
10yr PWLB	2.10%	2.10%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%
25yr PWLB	2.50%	2.50%	2.50%	2.60%	2.60%	2.60%	2.70%	2.70%
50yr PWLB	2.30%	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 28th February 2020 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 in line with the 0.10% Bank Rate. Some banks now have negative interest rates. When looking at temporary investing, the Treasury team take into account the bank fee to send the money, as a result of which it is sometimes not cost effective overall to lend money for very short periods of time where interest rates are circa 0.02% - 0.03%. However, the Authority does not have sufficient certainty around its cashflow to lend for longer periods where the return is higher. As such, not all available cash is earning interest.

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

Invested with:	Principal £000's	Interest Rate	Start Date	Maturity Date
Surrey CC	5,000	0.05%	20.08.20	20.11.20
Wirral MBC	5,000	0.02%	24.08.20	26.10.20
Surrey CC	5,000	0.03%	24.09.20	06.11.20
West Berkshire Cncl	3,000	0.03%	25.09.20	22.10.20
Total	**18,000**			

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

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 September is attached as a separate file to this report.

6. <u>Borrowing / Re-scheduling</u>

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 30.09.20:

	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	440,124	479,315	488,220

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.

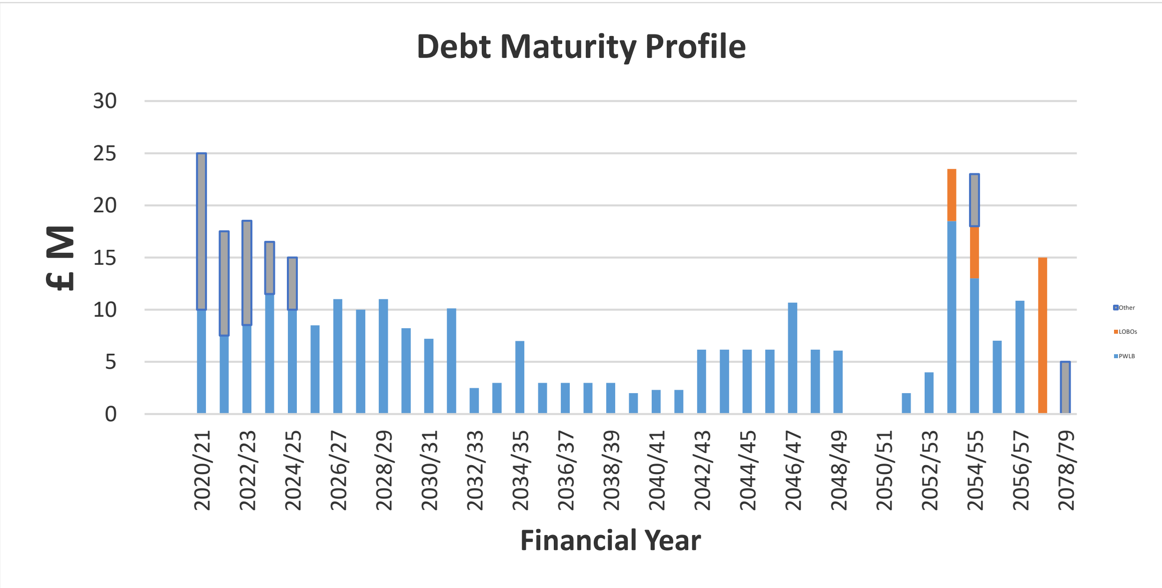
6.4 Capital Budget/Spend per efinancials:

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%
Qtr 2 end of Sept		115,050,394	21,618,172	18.80%

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 30.09.20:*



Note:
Blue = PWLB; Grey = Market Loans including other local authorities; Orange = LOBOs

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 September 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 September 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.

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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

UK

A solid post lockdown recovery was sustained in August but the outlook is less upbeat with the resurgence of COVID cases resulting in government restrictions. GDP contracted by 25.6% from peak to trough, while monthly expansions of 2.4% and 8.7% in May and June reduced the gap to pre-COVID levels to 17.3%. Household consumption, which tends to be resilient in tough times, fell by 25% as restrictive measures severely impaired consumer-facing industries. The hospitality sector was the hardest hit of all and has been able to reopen on a limited basis, with the restaurant sector provided temporary respite by the “Eat Out to Help Out” scheme.

Consumer recovery has been strong, but COVID virus concerns and rising unemployment will likely see this slowing down gently. In July, retail sales pushed higher than pre-crisis levels and that momentum continued into August. New car registrations surged to higher than pre-COVID numbers and unsecured household borrowing normalised after debt reductions were seen in the previous four months. Certain sectors, such as cinemas and theatres, remain critically down and the cessation of the “Eat Out to Help Out” scheme at the end of August saw dining out drop back. The initial burst of pent up demand was always going to be a temporary boost to the economy. However, with rising unemployment forecast as the initial furlough scheme ended, the spending capacity within the economy is likely to be reined in as households assess the outlook for their finances. The increase in virus infections and perceived or actual re-imposition of lockdowns will likely see people draw back on leaving home, thus dampening spending.

With the UK economy harder hit than its trading partners, imports suffered significantly, with a peak to trough collapse of 30%. This was far deeper than seen in exports, at 18%. This scenario resulted in a trade surplus of £18.8bn in Q2 to June but that is likely to be short-lived. The troubles over Brexit may prove supportive of trade as previous deadlines have seen stockpiling of both exports and imports.

The employment picture is expected to decline in the months and quarters ahead, with unemployment forecast to rise to 2.4 million, 7%, by the middle of next year, as the furlough scheme is closed. The numbers on the scheme have declined to around three million at the end of August. Many of the initial nine million have returned to employment, but large numbers have not, as the massive fall in PAYE employment in July indicate. That may just be the start of the problem. Job vacancies are 40% down and some unemployed will not necessarily look for work straight away, so a decline in workforce could mask the underlying problem. However, people will need to secure work at some point and that could be the point at which the unemployment surge starts. The sharp decline in bonus payments was not the cause of annual earnings easing and falling by 1.2% in June. This was more a factor of the 1.6% fall in regular pay as a result of numbers on furlough schemes which only paid 80% of salary. Earnings growth may have bottomed out but rising unemployment will prove a barrier to the upside in months to come.

September saw an increase in CPI from 0.5% to 0.7%. Whilst inflation will gradually increase, there is little likelihood of attaining the 2% target on a sustained basis. Prices rose by 1% in July on the pick-up in crude oil prices. Core inflation also picked up as furniture and clothing prices rose on increased demand as lockdown eased.

Monetary Policy – UK and Global

Nothing changes with respect to policy which is being driven by the need to regenerate activity in the global economy in the wake of the COVID 19 pandemic. The gradual and non-standardised easing of lockdown has helped to generate recovery, with some economies faring better than others. This sees them all operating at different levels and experiencing slightly different challenges in achieving the target of returning to normality. This will result in a disjointed global recovery. With the increased relaxation of lockdowns there came an increase in COVID infections which has hindered recovery and the fear that this situation will worsen as governments re-impose restrictions.

Government and central bank schemes have continued to underpin and stabilise economies as best they can, while encouraging people to re-engage with the economy more fully. As those schemes are wound down so will come more potential problems for businesses in meeting wages of employees. This could push some firms to the brink and the risk of rising unemployment as furloughed staff are not re-employed.

The role of central banks will not change in the months ahead. They need to maintain the stability and viability of financial markets, with massive asset purchasing programmes for a continued, and possibly likely lengthier, period. This will also help to manage interest rate pressures.

Policies are unlikely to change before economic activity and confidence levels have started to normalise. Such a combination is unlikely until 2021 at the earliest. The risk to that scenario is that, in re-opening their economies too early, a second wave or resurgence of infections hits which is currently being seen in a growing number of places.

Interest rates are unlikely to rise soon and support packages 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 recovery whatever boost is required.

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	189	1	0.53%
Aug-20	161	1	0.62%
Sep-20	222	1	0.45%
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	711	21	2.95%
Jul-20	709	4	0.56%
Aug-20	705	3	0.43%
Sep-20	In progress		
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	70	0	0.00%
Jul-20	79	10	12.66%
Aug-20	84	1	1.19%
Sep-20	In progress		
Oct-20			
Nov-20			
Dec-20			
Jan-21			
Feb-21			
Mar-21			

Note: Debtors vat checking is carried out by Finance via a work process prior to the invoice being raised hence the improvement in errors compared to previous years

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	142	3	£321.90	8	5.63%	£542.96
Aug-20	66	3	£706.86	4	6.06%	£48.63
Sep-20	2,016	6	£1,287.12	34	1.69%	£1,074.67
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 September is £17,794.84. The breakdown of this is as follows:-

Reason	**£**
Not a tax invoice	6,024.17
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	9,290.93
Invoices uploaded do not match the payment	426.72
No evidence supplied to enable vat recovery	0
Foreign VAT (not recoverable)	28.44
No VAT amount on invoice in first place	1,150.20
Supplier not vat registered	0
Supply not to PCC	503.42
Overaccounting for VAT	371.96
PCC Internal payment	0
Document spoilt	0
Total	**17,794.84**

Of the above £15,741.82 was potentially recoverable.