Gedling Borough Council

Report to Cabinet

Subject: Prudential Code Indicator Monitoring 2020/21 and Quarterly Treasury Activity Report for Quarter ended 30 September 2020

Date: 12 November 2020

Author: Assistant Director - Finance

Wards Affected

All

Purpose

To inform Members of the performance monitoring of the 2020/21 Prudential Code Indicators, and to advise Members of the quarterly Treasury activity as required by the Treasury Management Strategy.

Key Decision

This is not a key decision.

Recommendation

That:

1. Members note the report, together with the Treasury Activity Report 2020/21 for Quarter 2 at Appendix 1, and the Prudential and Treasury Indicator Monitoring 2020/21 for Quarter 2, at Appendix 2.

1 Background

1.1 The Council is required by regulations issued under the Local Government Act 2003 to report on its Prudential Code indicators and treasury activity. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 For 2020/21 the minimum reporting requirements are that the Full Council should receive the following reports:

- An annual Treasury Strategy in advance of the year (the TMSS, considered by Cabinet on 13 February 2020 and subsequently approved by Full Council on 5 March 2020);
- A mid-year treasury update report (this report);
- An annual review following the end of the year describing the activity compared to the Strategy.

In accordance with best practice, quarterly monitoring reports for treasury activity are provided to Members, and this exceeds the minimum requirements.

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the position at 30 September 2020 and highlights compliance with the Council's policies.

2 Proposal

2.1 <u>Economic update - UK</u>

As expected, the Bank of England's Monetary Policy Committee (MPC) kept bank rate unchanged at its August and September meetings, along with the level of Quantitative Easing (QE). The Bank's forecasts were optimistic in three areas:

- The fall in GDP in the first half of 2020 was revised from 28% to 23% and subsequently to 21.8%. Whilst this was still one of the largest falls in output of any developed nation, it was to be expected as the UK economy is heavily skewed towards consumer-facing services, an area particularly vulnerable to damage by the lockdown;
- The peak in the unemployment rate was revised downwards from 9% in Q2 to 7.5% by Q4 of 2020;
- There may be excess demand in the economy by Q3 of 2022, causing CPI inflation to rise above the 2% target, based on market rate expectations for a further loosening of Bank of England policy. Even if Bank policy was unchanged, inflation was still projected to be above 2% in 2023.

The Bank of England indicated that it does not expect to use negative interest rates, at least in the next six months, and suggested that whilst negative rates can work in some circumstances, they would be "less effective as a tool to stimulate the economy" at a time when banks are worried about future loan losses. It suggested that it "has other instruments available", including QE and the use of forward guidance. The MPC indicated that it expected the £300bn of QE purchases announced between its March and June meetings to continue until "the turn of the year", implying that the pace of purchases will slow from £14bn per week at the height of the crisis, and around £7bn more recently, to around £4bn.

The minutes of the MPC meeting included multiple references to the downside risks that were judged to persist in both the short and medium term, and that there were already potential dangers with the spread of a second wave of the pandemic in many countries. At the date of preparing this report, the adverse impact on the UK and World economies of the second wave is clear. The number of infections is rising, along with fears about the economic impact of the increasing restrictions being placed on certain areas of the UK, including Gedling.

Until recently the Government's plan has been to deal with spikes in infection by local measures, with the intention of limiting the amount of economic damage, however on 31 October the Prime Minister announced that a second national lockdown would come into effect on Thursday 5 November and would last until 2 December - when the existing three-tier local system would recommence, with Nottinghamshire returning to tier 3, the very high alert level. Some ministers have already suggested that the new national lockdown may have to be extended, but the official line remains that it for 28 days only.

The Chancellor announced late in September that a second, less generous, six month package of support for jobs would be put in place. Changes to this second package were subsequently announced, and whilst still less generous than the first scheme the level of support has been increased. However, in the light of the announcement that a second national lockdown was to be implemented, the Government has also announced that the initial furlough scheme will be extended throughout November. The eventual wind-down of this more generous furlough scheme may cause the Bank of England to review the need for more support to the economy at a later date.

Brexit uncertainty ahead of the end of the transition period on 31 December 2020 is also likely to be a drag on the economy, and overall recovery is expected to be prolonged, after a sharp recovery during June to August - which still left the economy some 11.7% smaller than in February. The last three months of 2020 are expected to show no growth as consumers remain cautious in spending. There are also likely to be some painful longer term adjustments, eg. the use of office space and air travel may not recover to their previous levels for several years – if ever. There is also likely to be some reversal of globalisation, since the crisis has illustrated just how vulnerable long-distance supply chains can be. That said, digital services have already shown huge growth.

A key addition to the Bank's forward guidance was a new phrase in its policy statement 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 sustainability". This has been interpreted by Link Asset Services as effectively saying that even if inflation rises to 2% in two years' time, action from the MPC to raise bank rate should not be expected until they can clearly see that the level of inflation is going to be persistently above target if they do not act.

2.2 Economic update – Rest of the World

US – Data in August was generally stronger than expected, and recovery from a contraction of 10.2% should continue over the coming months. However it is expected that growth will be dampened by continuing virus outbreaks in some states leading to further restrictions. The Federal Reserve (Fed) adjusted its inflation target from 2% to “maintaining an average of 2% over an unspecified period of time”. This aims to provide more stimulus for economic growth and higher employment levels. 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 when compared to more directed central government fiscal policy.

EU - The economy was recovering well towards the end of Q2 after a sharp drop in GDP, (eg. France 18.9%, Italy 17.6%) however the second wave of the pandemic 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 countries, is unlikely to provide significant support, or to be available quickly enough to make an appreciable difference in weaker countries. The European Central Bank (ECB) has struggled 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 in the absence of sufficient fiscal support.

2.3 Interest rate forecast

The Council’s treasury advisers, Link Asset Services (LAS) provided the following forecasts on 11 August 2020:

Link Group Interest Rate View 11.8.20	Sep-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	0.10
3 month average earnings	0.05	0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings	0.10	0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings	0.15	0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate	1.90	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	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate	2.50	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	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

The pandemic has done huge economic damage to the UK, and to economies around the world. After the Bank of England’s emergency action in March to cut Bank Rate, first to 0.25% and then to 0.10%, it remained unchanged at the meetings in August and September - although some forecasters had suggested that a cut into negative territory was possible. The Governor of the Bank has made it clear that he currently considers 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.

HM Treasury has now concluded its consultation on amending PWLB rates but as yet the outcome is unknown. It is possible that rates will be subject to downward revision, however the timing of such a change is also unknown. The table above indicates that 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 by the lockdown. Inflation is also likely to be very low during this period, and could even turn negative in some major western economies during 2020/21.

2.4 Investment strategy

The Treasury Management Strategy Statement (TMSS) for 2020/21, which includes the Annual Investment Strategy, was approved by Council on 5 March 2020, and sets out the Council's investment priorities as:

- Security of capital;
- Liquidity;
- Yield.

Whilst the Council will always seek to obtain the optimum return (yield) on its investments, this will at all times be commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate either to keep investments short term to cover cash flow needs, or to extend the period up to 12 months with highly rated financial institutions, selected by the use of the LAS creditworthiness methodology (see below) which includes consideration of sovereign ratings.

Investment counterparty limits for 2020/21 are generally **£3m** per individual counterparty, however a higher limit of **£4m** per Money Market Fund is considered prudent since such funds are already by definition highly diversified investment vehicles. There is no limit on Investment with the Debt Management Office (DMO) since this represents borrowing from central government. The Chief Financial Officer has delegated authority to vary these limits as appropriate, and to report any change to Cabinet as part of the next quarterly report. The limits with investment counterparties have not been exceeded during the period 1 April to 30 September 2020.

Credit ratings advice is taken from LAS and the Chief Financial Officer has adopted the LAS credit rating methodology for the selection of investment counterparties. This employs a sophisticated modelling approach utilising credit ratings from all three of the main rating agencies to give a suggested maximum duration for investments. Accordingly it does not place undue reliance on any one agency's ratings.

The methodology subsequently applies an “overlay” to take account of positive and negative credit watches and/or credit outlook information, which may increase or decrease the suggested duration of investments. It then applies a second overlay based on the credit default swap spreads for institutions, the monitoring of which has been shown to give an early warning of likely changes in credit ratings. It also incorporates sovereign ratings to ensure selection of counterparties from only the most creditworthy countries. The current Treasury Strategy permits the use of any UK counterparties <u>subject</u> to their individual credit ratings under the LAS methodology. It also permits the use of counterparties from other countries with a minimum sovereign rating of AA. For information, the UK currently has a rating of AA minus.

The LAS modelling approach combines all the various factors in a weighted scoring system and results in a series of colour coded bands which indicate the creditworthiness of counterparties. The colour bandings are as follows:

- Yellow 5 years (UK Government debt or its equivalent)
- Dark pink 5 years for Ultra Short Dated Bond Funds (credit score 1.25)
- Light pink 5 years for Ultra Short Dated Bond Funds (credit score 1.50)
- Purple 2 years
- Blue 1 year (nationalised or semi nationalised UK banks only)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

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 of 2020, banks did make provisions for “expected” credit losses and the rating changes reflected these provisions. During the 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 later in 2020. 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 <u>down</u> their expected credit losses for the banking sector to “somewhat less than £80bn”. They stated that, in their 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%.

All three of the major rating agencies have reviewed banks 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.

Link have conducted some stress testing on their credit methodology-based list of counterparties to test for the results of a 1 notch downgrade to all long-term ratings from all agencies. Under such a scenario, only a very small number of potential counterparties moved from Green (100 days) to No Colour (not to be used). While there were a further 17 drops in other entities' suggested durations, these entities still remained potentially available for use.

Credit ratings are monitored weekly and the Council is also alerted to interim changes by its use of the LAS creditworthiness service, however ratings under the methodology, including sovereign ratings, will not necessarily be the sole determinant of the quality of an institution. Other information sources used will include the financial press, share price and other such information pertaining to the banking sector in order to establish the most robust scrutiny process on the suitability of potential investment counterparties.

The ultimate decision on what is prudent and manageable for the Council will be taken by the Chief Financial Officer under the approved scheme of delegation.

2.5 Treasury Activity during Quarter 2 of 2020/21

The Treasury Activity Report for the quarter ended 30 September 2020 is attached at Appendix 1, in accordance with the Treasury Management Strategy.

Members will note that investment interest of £54,180 was generated from MMF activity, term deposits with banks and building societies, and the property fund, during the period from 1 April to 30 September 2020. This represents an overall equated rate for the Council of 0.49% and outperforms the benchmark 7 day LIBID rate, which averaged negative 0.06% for the same period. In cash terms this represents additional income to the General Fund of around £60,800 and was achieved by positive investment management, and in particular a favourable return on the property fund (see below). Performance in respect of the longer 3 month LIBID rate, which averaged 0.11%, still represents additional income of £42,000.

During the period from 1 April to 30 September 2020, significant use was made of the Council's three Money Market Funds (MMFs). These are AAA rated investment vehicles which allow the pooling of many billions of pounds into highly diversified funds, thus reducing risk. The current rates of return on these funds are between 0.01% and 0.12%, which whilst exceptionally low, remain generally higher than overnight treasury deposit rates, and the rate obtainable from the Debt Management Office (DMO) which for most durations is currently 0.01%, and indeed negative for overnight and very short term deposits.

The Council made an investment of £1m in the CCLA Local Authority Property Fund (LAPF) on 1 December 2017. The LAPF is a local government investment scheme approved by the Treasury under the Trustee Investments Act 1961 (section 11). Dividends are treated as revenue income and have in previous years averaged around 4%. However, in the current economic conditions it is anticipated that returns will be only around 70-75% of that, ie approximately 2.8-3.0%, for at least the first two quarters of 2020/21. This investment allows the Council to introduce a property element into its investment portfolio without the risks associated with the direct purchase of assets. It should be noted however that the capital value is not guaranteed and can fall as well as rise, as was the case in 2019/20 when the certificated value of the investment fell from £971k to £936k. CCLA fully expect this position to recover, however it serves to demonstrate that the investment must be seen as a long term commitment (see 2.9 below).

Interest rates in the market remain exceptionally low, and this is likely to continue in view of the pandemic, as well as the ongoing uncertainty surrounding Brexit and the ending of the transition period. As loans mature every effort is made to replace them at favourable rates, however security and liquidity will <u>always</u> be the overriding factors in the Council's treasury management. LAS currently forecast that Bank Rate is unlikely to rise again until at least mid-2023, however there is much uncertainty and interest rates are then expected to rise only gradually, and not significantly.

It is currently anticipated that the outturn for investment interest will be broadly in line with the current approved estimate of £95,000 for 2020/21. Whilst rates in the market are below those used in the estimates, the level of cash balances for short term investment has remained significantly higher than that estimated, and every effort has been made to maximise use of the most favourable rates available. In particular, two fixed term deposits made in February 2020 at 1.05% are making a significant contribution, along with the property fund.

2.6 <u>New borrowing</u>

At 30 September 2020 no new borrowing had been undertaken. The projected outturn for PWLB interest payable is £341,300, which represents a reduction on the current approved estimate of £393,800 due to an expectation that any new borrowing required will now be undertaken towards the end of the year. The impact of this reduction is included in the quarterly budget monitoring report elsewhere on the agenda.

The Council has approved a commercialisation programme aimed at the generation of funding to replace central government support which has been withdrawn. Significant additional borrowing would be required to support this commercial programme, and this would be supported by individual business case assessments and appropriate budget approvals, to demonstrate that each project generated a return sufficient to cover any borrowing costs. HM Treasury has now concluded its consultation with regard to the use of PWLB for commercial investment (see 2.9 below) however the outcome is not yet known. A full review of the Council's Commercial Property Investment Strategy (CPIS) will be required following the publication of this outcome.

Advice will be taken from LAS with regard to the amount and timing of any additional borrowing, and should conditions become advantageous, some borrowing in advance of need will also be considered by the Chief Financial Officer. The Council's Capital Financing Requirement (CFR) represents its underlying need to borrow to finance capital investment. Due to favourable interest rates, borrowing in advance of need is sometimes desirable, with the result that the CFR can differ to the actual borrowing planned in the year. Investment guidance issued in February 2018 reaffirmed that Councils may not borrow in advance of need purely to profit from the investment of the extra sums borrowed, rather than prudent early borrowing for a demonstrable service objective, which is permitted.

Whilst borrowing rates remain low even after the 1% increase in PWLB rates on 9 October, investment rates are also exceptionally low, and serious consideration must be given to the cost of carrying any additional borrowing during the period prior to it being required for the financing of capital expenditure since this places a further burden on the General Fund.

2.7 Debt rescheduling

When the current day PWLB rate for the same term is higher than that being paid on an existing loan there is the potential for a discount to be receivable if the loan is repaid prematurely.

However, debt rescheduling opportunities are limited in the current economic climate, and due to the structure of PWLB interest rates. Advice in this regard will continue to be taken from LAS. No debt rescheduling has been undertaken during the period from 1 April to 30 September 2020.

2.8 Compliance with Prudential and treasury indicators

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limit. The Council's approved Prudential and Treasury Indicators (affordability limits) are included in the Treasury Management Strategy Statement (TMSS) approved by Full Council on 5 March 2020.

During the financial year to date the Council has at all times operated within the treasury limits and Prudential Indicators set out in the Council's TMSS, and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators as at 30 September 2020 are shown at Appendix 2.

A) Prudential Indicators:

These indicators are based on estimates of expected outcomes, and are key indicators of "affordability". They are monitored on a quarterly basis, and Appendix 2 compares the approved indicators with the projected outturn for 2020/21, and shows variances on the indicators, as described below:

a. Capital Expenditure

The capital programme includes both service related expenditure and commercial property investment.

The latest projected outturn shows that total capital expenditure is expected to be £10,123,400. This differs to the approved indicator of £11,225,600 due to the inclusion of approved carry-forward requests from 2019/20 and variations on the current year's capital programme.

b. Capital Financing Requirement (CFR)

The CFR represents the historic outstanding capital expenditure which has not yet been paid for from capital or revenue resources, and is essentially a measure of the Council's underlying borrowing need. The CFR does not increase indefinitely since the minimum revenue provision (MRP) is a statutory annual revenue charge for the economic consumption of capital assets.

The projected closing CFR for 2020/21 is £15,776,000. This differs to the approved indicator of £17,353,900, due to savings and deferrals on the 2019/20 capital programme, as well as to variations to the current year's capital programme.

c. Gearing ratio

The concept of "gearing" compares the total underlying borrowing need (the CFR) to the Council's total fixed assets and the gearing ratio can provide an early indication where debt levels are rising relative to long term assets held.

The projected gearing ratio at 31 March 2021 is 36%, which is slightly lower than the approved indicator of 37% but remains broadly comparable with the average gearing ratio for councils of a similar size.

d. Ratio of financing costs to net revenue stream – service related and commercial property

These indicators identify the trend in the cost of borrowing net of investment income against the net revenue stream. Financing costs represent the element of the Council's budget to which it is committed even before providing any services.

The projected outturn of 18.46% for service related expenditure differs slightly to the approved indicator of 18.61% due to a reduction in MRP arising from savings and deferrals on the capital programme in 2019/20, and reduced PWLB interest payable in 2020/21 due to the timing of new borrowing.

The projected outturn in respect of commercial property is expected to be Nil. This differs to the approved indicator of 0.72% because no commercial investment activity was undertaken in 2019/20, and hence no MRP falls due in 2020/21, and similarly no PWLB interest is now anticipated to be attributable to commercial activities in 2020/21.

e. Ratio of commercial property income to net revenue stream

This indicator seeks to demonstrate the extent to which the loss of commercial property income would impact on the Council, ie. to measure the "proportionality" of commercial activity.

No commercial property acquisitions had been made at 30 September 2020 and the projected outturn for this indicator is Nil, which differs to the approved indicator of 1.41% because commercial investment opportunities are expected to be severely limited following the forthcoming publication of the outcome of HMT's consultation on the use of PWL borrowing for commercial property purchases (see 2.9 below).

f. Maximum gross debt

The Council must ensure that its gross debt does not, except in the short term, exceed the opening capital financing requirement, plus estimates of any additional CFR for 2020/21 and the following two financial years. This allows flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. The Council's gross debt at 30 September 2020 was £9.812m which was within the approved indicator.

g. Ratio of internal borrowing to CFR

The Council is currently maintaining an "internal borrowing" position, ie. the underlying borrowing need (CFR) has not yet been fully funded with loan debt as cash supporting the Council's reserves and balances is being used as a temporary measure.

The projected outturn for internal borrowing is 19%, which is lower than the approved indicator of 26% due to variations to the capital programme - which in turn reduce the projected outturn for CFR and hence the difference between CFR and projected external borrowing.

B) Treasury Management Indicators:

These indicators are based on limits, beyond which activities should not pass without management action. They include two key indicators of affordability and four key indicators of prudence.

Affordability:

a. Operational boundary for external debt

This is the limit which external debt is not "normally" expected to exceed. In most cases, this would be a similar figure to the CFR, but it may be lower or higher depending on the levels of actual debt, and must allow for unusual cashflow movements.

b. Authorised limit for external debt

This limit represents a control on the "maximum" level of borrowing. It is the statutory limit determined under s3 (1) of the Local Government Act 2003 and represents the limit beyond which external debt is prohibited. The Authorised Limit must be set, and revised if necessary, by Full Council. It reflects a level of external debt which, while not desirable, could be afforded in the short term, but is not sustainable in the longer term. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

Prudence:

c. Upper limits for the maturity structure of borrowing

These are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing.

d. Maximum new principal sums to be invested during 2020/21 for periods in excess of one year (365 days)

All such investments are classified as "non-specified". This indicator is subject to the overall limit for non-specified investments set out in the TMSS, and to the overall limit per counterparty.

e. Interest rate exposure

The latest Treasury Management Code requires a statement in the TMSS explaining how interest rate exposure is managed and monitored by the Council, and this is repeated below:

The Council has a general preference for fixed rate borrowing in order to minimse uncertainty and ensure stability in the charge to revenue, however it is acknowledged that in certain circumstances, some variable rate borrowing may be prudent, for example if interest rates are expected to fall. The Council's investments are generally for cashflow purposes and accordingly a mix of fixed and variable rates will be used to maximise flexibility and liquidity. Interest rate exposure will be managed and monitored on a daily basis by the Chief Financial Officer.

Local indicators for the proportions of fixed and variable rate loans, have been retained by the Council for information purposes.

Appendix 2 shows the actual position as at 30 September 2020, and demonstrates that all activities are contained within the currently approved limits.

2.9 Other Issues

a. PWLB Consultation

PWLB interest rates are linked to gilt yields, and on 9 October 2019 HM Treasury (HMT) imposed an additional margin of 1% over gilts to all PWLB rates across the board with no prior warning. A consultation with local authorities with regard to further amending these margins closed on 31 July 2020. The outcome of the consultation is still awaited.

What is clear from the consultation however is that whilst the PWLB certainty rate may be revised downwards, HMT will no longer allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is primarily to generate an income stream (assets for yield). Indeed, the proposals include preventing an authority from undertaking **any** PWLB borrowing in a year in which it has even one such scheme in its capital programme.

The Council's current Commercial Property Investment Strategy (see 2.6 above) makes clear that investments would be made "primarily for return" and it is anticipated that the Council would also face significant difficulty meeting the definition of regeneration proposed in the consultation for schemes that would remain acceptable. Accordingly, a full review of the CPIS will be required once the results of the consultation are known.

b. Suspension of the LAPF Property Fund

As discussed at 2.5 above, the Council has an investment of £1m in the CCLA Local Authority Property Fund (CCLA LAPF). Notice was received from CCLA in March 2020 that the LAPF property fund would be suspended, and that no subscriptions or redemptions could be made. Such suspension is a normal course of action in exceptional market conditions such as those experienced due to the coronavirus pandemic. Valuers could not be confident that their valuations truly reflected prevailing conditions, and where there is a material risk of disadvantage to either party, all transactions must be suspended until the required level of certainty is re-established.

Notification was recently received from CCLA that dealing would recommence on 30 September, on the basis that conditions in the property market were deemed to have stabilised, and valuation clarity and certainty had improved. A 90 day notice period has also been introduced for redemptions from the property fund. This is in order to align the dealing terms of the fund with the liquidity of the underlying assets, and to ensure resilience during periods of market stress.

The property fund is viewed as a long term investment and the recent suspension should not cause undue concern.

c. Negative investment rates

While the Bank of England has indicated 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 crisis. This has caused some local authorities to have sudden large increases in investment balances searching for an investment counterparty, some of which was only very short-term until those sums were able to be passed on.

Money market fund (MMF) yields have continued to drift lower. Some fund 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, and this has seen a number of market operators, now including the DMO, 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.

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 in accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government.

No other significant treasury management issues have arisen since approval of the TMSS on 5 March 2020 that should be brought to the attention of Members.

3 Alternative Options

An alternative option is to fail to present a quarterly Prudential Code Indicator Monitoring and Treasury Activity Report, however this would contravene the requirement of the Council's Treasury Management Strategy Statement (TMSS).

4 Financial Implications

No specific financial implications are attributable to this report.

5 Legal Implications

There are no legal implications arising from this report.

6 Equalities Implications

There are no equalities implications arising from this report.

7 Carbon Reduction/Environmental Sustainability Implications

There are no carbon reduction/environmental sustainability implications arising from this report.

8 Appendices

1. Treasury Activity Report 2020/21 for Quarter 2 (30 September 2020).
2. Prudential and Treasury Indicator Monitoring 2020/21 for Quarter 2.

9 Background Papers

None identified.

10 Reasons for Recommendation

To comply with the requirements of the Council's Treasury Management Strategy Statement.

Statutory Officer approval:

Approved by: Chief Financial Officer

Date: 4 November 2020

Approved by: Monitoring Officer

Date: 4 November 2020