## Impact of Covid-19 on Future Treasury Management Activities

The following sets out the impact of Covid-19 on the Council's 2020/21 treasury management activities.

### 1. Prospect for Interest Rates

1.1 In light of the economic impact of the Covid-19 pandemic, the Council's treasury management advisor (Link Asset Services) has recently updated their interest rate forecasts (including investment and borrowing rates) up to March 2022. This updated view on interest rates is currently being used by the Council to assess the impact on both its investment and borrowing strategies in 2020/21. The following table gives Link's central forecast:

| Rate (%) | Jun 2020 | Sep 2020 | Dec 2020 | Mar 2021 | Jun 2021 | Sep 2021 | Dec 2021 | Mar 2022 |
|---|---|---|---|---|---|---|---|---|
| Bank Rate | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 |
| 3-Mth LIBID | 0.11 | 0.40 | 0.35 | 0.30 | 0.30 | 0.30 | 0.30 | 0.30 |
| 6-Mth LIBID | 0.26 | 0.55 | 0.50 | 0.45 | 0.40 | 0.40 | 0.40 | 0.40 |
| 12-Mth LIBID | 0.44 | 0.70 | 0.65 | 0.60 | 0.55 | 0.55 | 0.55 | 0.55 |
| 5-Yr PWLB | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.10 | 2.10 |
| 10-Yr PWLB | 2.10 | 2.10 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 |
| 25-Yr PWLB | 2.50 | 2.50 | 2.50 | 2.60 | 2.60 | 2.60 | 2.70 | 2.70 |
| 50-yr PWLB | 2.30 | 2.30 | 2.30 | 2.40 | 2.40 | 2.40 | 2.50 | 2.50 |

### 2. Council's Investment Strategy

2.1 Counterparty creditworthiness: During the period of the Covid-19 pandemic sovereign and organisation credit ratings have been subject to change by all of the three main rating agencies (Fitch, Moody's and S&P); indeed Fitch downgraded the UK's sovereign rating from AA to AA- at the end of March 2020.

2.2 For financial institutions rating changes have been limited to the lowering of "Outlooks" to negative; although in some cases "Negative Watches" (warning of an upcoming rating downgrade) have been assigned.

2.3 In terms of banks approved by the Council as appropriate for investment, Australia banks have been downgraded from AA- to A+; Close Brothers Ltd (UK) has been downgraded from A to A-; and HSBC Bank plc has been downgraded from AA- to A+. Additionally all Australian, Canadian and UK banks have a negative outlook assigned to their ratings (Singapore banks on negative watch). Rating agencies will continue to assess banks.

2.4 **Impact to the Council**: Following rating actions to-date, all banks previously approved continue to meet the approved rating criteria as prescribed in the Council's 2020/21 Annual Investment Strategy and officers continue to monitor developments as they arise. New bank deposits will only be considered on a short-term basis until more certainty on how banks will ultimately be rated becomes known.

2.5 Cash flow: During the period of the pandemic, the Council has monitored the cash flow position to ensure that there are sufficient funds available. To ensure cash is available should it be required, any surplus cash is being held in instant access bank accounts, Money Market Funds or short-term deposits.

2.6 **Impact to the Council**: No cash flow issues have been identified as yet but the position will continue to be closely monitored.

## 3. Council Investments and Returns

3.1 Due to the timing of the pandemic, there was minimal impact on the council's investment return in 2019/20. In terms of current market rates, there has been a steady fall in rates since the start of the new financial year across all types of investments with banks and Money Market Funds. Local-to-local authority lending rates have also significantly reduced following the elevated rates seen in late March and early April, such borrowing activity being driven by prevailing cash flow demands.

3.2 **Impact to the Council**: The Council will continue to aim to place surplus cash in investments with the most beneficial return, bearing in mind the need to maintain liquidity and security. Due to the circumstances outlined above, there is likely to be a significant impact on the Council's investment income budget and early indications suggest there is likely to be a shortfall in the region of £1.2m.

## 4. Externally Managed Pooled Funds

4.1 Market volatility arising from the Covid-19 pandemic has impacted bond markets, equities and commercial property valuations and as a result there has been a significant impact on the externally managed fund valuations which Council has investments in.

4.2 The Pooled Fund position as at May 2020 is set out below:

| Fund | Type | Original Investment | Market Valuation (Mar-20) | Market Valuation (May-20) |
|---|---|---|---|---|
| Fidelity | Multi-Asset Income | £7.5m | £7.0m | £7.5m |
| Ninety-One | Multi-Asset Income | £7.5m | £6.9m | £7.2m |
| CCLA | Property | £10.0m | £9.5m | £9.2m |
| Hermes | Property | £10.0m | £9.3m | £9.1m |
| Lothbury | Property | £5.0m | £4.5m | £4.5m |

4.3 The table above shows the market valuation of the funds at 31 May 2020 and includes a total unrealised loss of £2.5m when compared against the original invested sums. Given statutory regulations in force, this loss is accounted for in the Financial Instruments Revaluation reserve which is held on the balance sheet and has no impact on the Council's General Fund.

4.4 Multi-Asset Income Funds: Volatility in equity assets weighed on overall performance at the end of March 2020. Performance in such funds has started to rebound given both the recent improvement in global equity markets and other asset classes utilised by the fund managers to mitigate some of the equity negativity. These continue to be volatile.

4.5 **Impact to the Council:** The Council continues to view externally managed pooled funds over a long-term (5-year) horizon and over this period expects that capital growth within the individual funds will increase the Council's holding to at least par when compared against the original invested sums. Under the current circumstances, these long-term investments will remain under constant review with no immediate plans to liquidate these investments.

## 5. Borrowing

5.1 The profile for the Council's external borrowing requirement as approved by County Council in February 2020 is shown below:

| Borrowing | 2020/21 £m | 2021/22 £m | 2022/23 £m | 2023/24 £m | 2024/25 £m |
|---|---|---|---|---|---|
| Approved Borrowing Need (Cumulative) | 11.6 | 110.6 | 213.4 | 316.7 | 406.4 |
| External Borrowing: | | | | | |
| Core Programme | 0.0 | 0.0 | 0.0 | 3.7 | 31.6 |
| Income Generating | 0.0 | 0.0 | 102.6 | 82.1 | 38.9 |
| **Total (Cumulative)** | **0.0** | **0.0** | **102.6** | **188.4** | **258.9** |
| Internal Borrowing Forecast (Cumulative) | 32.8 | 123.3 | 119.2 | 121.3 | 123.7 |

5.2 The Council will be required to externally borrow in 2022/23, with internal borrowing continuing to be utilised in the intervening periods. In accordance with the approved Authorised Borrowing Limit, and given the Council's existing PWLB debt is forecast to be £474.8m as at March 2021, external borrowing for capital purposes may be arranged in 2020/21 up to a maximum of £80m (with an additional £40m headroom being maintained for cash flow purposes).

5.3 Due to the current pandemic, it is very likely that there will be implications in terms of the Council's ability to deliver the capital construction projects in the approved capital programme. The approved programme for 2020/21 for both core and income generating initiatives is £103.4m, although under the current circumstances, actual payments are likely to be less than this. This will potentially delay when the Council will be required to externalise its borrowing beyond 2022/23.