2021/22 Mid-Year Treasury Management Report

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 2021/22, 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.

This report has been written in accordance with the requirements of the CIPFA TM Code.

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.

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.

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

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the way the Council will seek to achieve those policies and objectives.
3. 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.

4. 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.
5. 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 Audit and Governance Committee

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 part of the 2021/22.
- 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 as at 30th September 2021.
- A review of the Council's borrowing strategy for 2021/22.
- A review of any debt rescheduling undertaken during 2021/22.
- A review of compliance with Treasury and Prudential Limits for 2021/22.

3. Treasury Management Summary as at 30th September 2021.

Investment Activity

The Council's investments as at 30th September 2021 was £72.4m below.

Investments	Balance at 01.04.2021 £m	Movement £m	Balance at 30.9.2021 £m	Ave Rates/ Return %
Building Societies	11.000	2.000	13.000	0.10
UK Banks		10.000	10.000	0.09
Local Authorities	17.000	(4.000)	13.000	0.06
Call Account	29.929	3.730	33.659	0.10
Money Market Fund	14.344	(11.552)	2.792	0.01
Total Investments	**72.273**	**0.178**	**72.451**	**0.08**

Borrowing Position

The Council's borrowing position as at 30th September 2021 was £347.5m below:

Loans	Balance as at 01.4.2021 £m	Raised £m	Repaid £m	Balance as at 30.9.2021 £m	Rate/Return %
PWLB	189.699		(0.119)	189.580	4.64
Market Loan	55.362	5.400		60.762	0.18
Temp Loans	110.000		(13.000)	97.000	3.51
Salix loan	0.240		(0.008)	0.232	0.00
Total Loans	**355.301**	**5.400**	**(13.127)**	**347.574**	**3.20**

The Council's capital financing requirement (CFR) for 2021/22 is forecasted at £539m. The CFR denotes the Council's underlying need to borrow for capital purposes. The council can borrow up to the CFR from PWLB or Financial Market.

For new borrowing affordability and the "cost of carry" remained important influences on the Authority's borrowing strategy alongside the consideration that, for any borrowing undertaken ahead of need, the proceeds would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing.

As a result, no long-term borrowing has been undertaken in the year to date, but this will be kept under continuous review as capital investment plans are developed and spending is monitored. The authority is looking at alternatives to PWLB.

3.2 Debt Rescheduling

The possibility of debt rescheduling is regularly discussed with our treasury adviser and is a regular agenda item at the quarterly treasury meeting held between the treasury officers, LAS, the Strategic Director of Finance and Governance (S151 officer) and the lead Member for Financial Management. However, opportunities have been almost non-existent in the current economic climate.

Economics update

The Monetary Policy Committee voted unanimously to keep interest rates on hold at 0.1% and the stock of sterling non-financial investment-grade corporate bond purchases at £20bn. However, they voted by a majority of 7-2 to maintain the existing programme of UK government bond purchases at £875bn during their September meeting. The global economy had continued to recover and UK-weighted global GDP growth in 2021 Q2 had been broadly in line with expectations.

Global price pressures have continued to build, reflecting the speed and unevenness of the recovery in activity, and disruptions to supply chains. Overall, Bank staff had revised down their expectations for 2021 Q3 GDP growth from 2.9% at the time of the August Report to 2.1%, in part reflecting the emergence of some supply constraints on output. That would leave the level of Q3 GDP around 2.5% below its pre-Covid level.

This downward revision in part reflects the emergence of some supply constraints on output. These have been evident in surveys showing historically lengthy supplier delivery times and backlogs of work, significant material and labour shortages in a number of sectors, and lower than normal levels of inventories. • GDP expanded by 2.9% in the three months to August, compared with market expectations of 3% and down from 4.2% in the previous period. GDP grew by 6.9% y/y in August compared to 8.8% y/y in July.

Interest rate forecasts

The Council's treasury advisor, Link Asset Services, has provided the following forecast:

UK Interest Rate Forecast

Bank Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**0.10%**	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%
Capital Economics	**0.10%**	0.10%	0.10%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	-

5yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**1.62%**	1.40%	1.40%	1.50%	1.50%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%
Capital Economics	**1.62%**	1.40%	1.50%	1.50%	1.60%	1.70%	1.70%	1.80%	1.90%	1.90%	-

10yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**1.95%**	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%	2.10%	2.10%	2.10%
Capital Economics	**1.95%**	1.80%	1.90%	1.90%	2.00%	2.10%	2.10%	2.20%	2.30%	2.30%	-

25yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**2.24%**	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%
Capital Economics	**2.24%**	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	2.80%	2.90%	-

50yr PWLB Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**1.99%**	2.00%	2.00%	2.10%	2.20%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%
Capital Economics	**1.99%**	2.00%	2.10%	2.10%	2.20%	2.30%	2.40%	2.50%	2.60%	2.70%	-

Please note – The current PWLB rates and forecast shown above have taken into account the 20 basis point certainty rate reduction from the new Standard Loan rate of 100bps over Gilts effective as of the 26th November 2020.

The Bank of England voted to maintain Bank Rate at a record low of 0.1% at its September meeting and maintain the quantitative £875bn.

There are speculations that interest rate will rise early in 2022 and Link are forecasting a rise in June 2022 to 0.25%.

The Treasury and Prudential indicators.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved 2021/22 Treasury and Prudential Indicators (affordability limits) were included and approved by Full Council as part of the TMSS on 25th March 2021.

During the half year, the Council has 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. An update on indicators and limits are reported below.

Interest Rate Exposures:

This indicator is set to control the Council's exposure to interest rate risk on its debt portfolio. The upper limits on fixed and variable rate interest rate exposure, expressed as the proportion of gross principal borrowed as below:

	2020/21 Upper	2021/22 Upper	2022/23 Upper
Limits on fixed interest rates based on net debt	100%	100%	100%
Limits on variable interest rates based on net debt	25%	25%	25%

Fixed rate borrowings are those borrowings where the rate of interest is fixed for the whole financial year. Instruments that mature during the financial year are classed as variable rate.

Maturity Structure of Borrowing

This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

30-Sep-21 %	Actual maturity	Upper Limit %	Lower Limit %
18	Under 12 months	50	0
19	1 to 2 years	30	0
6	3 to 5 years	30	0
10	6 to 10 years	30	0
47	more than 10 years	100	0

Currently the Council is temporary borrowing whilst rates remain substantially below long-term interest rates.

Principal Sums invested for Period Longer than 365 days:

The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

The limits set in the 2021/22 treasury management strategy in comparison to the half year are set below.

	2020/21 Forecast £000s	2021/22 Estimate £000s	2022/23 Estimate £000s	2023/24 Estimate £000s
Upper limit for principal sums invested for more than 365 days	£70m or 50% of the outstanding balances			

Gross Debts and the Capital Financing Requirement (CFR)

2020/21 Actual £000s		2021/22 Forecast £000s	2022/23 Estimates £000s	2023/24 Estimates £000s	2024/25 Estimates £000s	2025/26 Estimates £000s	2026/27 Estimates £000s
	Authorised Limit :						
556,345	Borrowing	645,399	661,299	642,806	657,277	679,112	715,409
	Operational Boundary:						
505,768	Borrowing	586,726	601,181	584,369	597,524	617,375	650,372

2020/21 Actual £000s		2021/22 Forecast £000s	2022/23 Estimates £000s	2023/24 Estimates £000s	2024/25 Estimates £000s	2025/26 Estimates £000s	2026/27 Estimates £000s
400,738	Gross Projected Debt	502,889	583,258	562,803	581,529	594,521	614,960
505,768	Capital Financing Requireme	586,726	601,181	584,369	597,524	617,375	650,372
105,030	Under/(Over) borrowing	83,837	17,923	21,566	15,995	22,854	35,412

2020/21 Actual £000s		2021/22 Forecast £000s	2022/23 Estimate £000s	2023/24 Estimate £000s	2024/25 Estimate £000s	2025/26 Estimate £000s	2026/27 Estimate £000s
	CFR as at 31 March						
305,138	General Fund	354,961	350,989	338,833	319,636	299,216	287,222
200,631	HRA	231,765	250,193	245,536	277,889	318,159	363,150
505,768		586,726	601,181	584,369	597,524	617,375	650,372

The prudential indicator ensures 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 of CFR in the preceding year plus the estimates of any additional CFR for 2021/22 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.

The Strategic Director of Finance and Governance (S151 Officer) reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

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.

Investment Portfolio 2021/22 Appendix C

In accordance with the 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. It is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.10% Bank Rate.

Investment Counterparty criteria
The primary principle governing the Council's investment criteria is the security of its investments, although the yield or return on the investment is also a key consideration.

SPECIFIED INVESTMENTS: All such investments will be sterling denominated, with **maturities up to maximum of 1 year**, meeting the minimum 'high' quality criteria where applicable.

	Minimum credit criteria / colour band	Max % of total investments/ £ limit per institution	Max. maturity period
Specified Investments			
DMADF – UK Government	N/A	**100%**	6 months*
Money market funds: CNAV and VNVAV	AAA	100%	Daily Liquidity
Local authorities	N/A	100%	3 years
Barclays Bank plc (the Council's bankers)		£20m £5m	Overnight deposits ** Up to 12 months
Term deposits with banks and rated building societies	Yellow Purple Blue Orange Red Green		Up to 3 years Up to 3 years Up to 3 years Up to l year Up to 6 Months Up to 3 months
Current and Ex - Government Supported banks	Green	50%	Up to 1 year

DMO – is the maximum period offered by the Debt Management Office of H.M.Treasury
** Over £20 million with the explicit agreement of the Strategic Director of Finance and Governance (S151 Officer).

NON-SPECIFIED INVESTMENTS: These are any investments that do not meet the specified investment criteria.
A variety of investment instruments will be used, subject to the credit quality of the institution, and depending on the type of investment made, it will fall into one of the above categories.

The criteria, time limits and monetary limits applying to institutions or investment vehicles are:

	Minimum credit criteria / colour band	Max % of total investments/ £ limit per institution	Max. maturity period
Non-specified investments			
Term deposits with unrated Building Societies	Assets over £1.0bn	25%	12mths
UK Government supported banks and Ex- Government supported banks	n/a	£70m or 50% of total investments	3 yrs.
Pooled Vehicles: Enhanced Money Market Funds: UK Government and Government Guaranteed securities Pooled Property Funds Short – Term Investment – grade sterling denominated instruments	N/A	£10m	4yrs
UK Treasury Bills, Certificate of Deposits and T-bills	Yellow Purple Blue Orange Red Green No Colour		Up to 3 years Up to 2 years Up to l year Up to 6 Months Up to 6 Months Up to 3 months Not for use
Corporate Bonds including Floating Rate Notes (FRNs)	Minimum Credit Rating: BBB		3yrs

Approved Countries for Investments

Lowest available rating	Approved Country
AAA	Australia Denmark Germany Luxembourg Netherlands Norway Singapore Sweden Switzerland
AA+	Canada Finland U.S.A.
AA	Abu Dhabi (UAE) France
AA-	Belgium Hong Kong Qatar United Kingdom

Regulatory changes **Appendix D**

On the 21st September 2021 released CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes Consultation – Stage 2.

The key changes impact on Treasury Management Practices and Treasury Indicators:

- TMP1 Risk Management
- TMP2 Performance Management
- TMP6 Reporting Requirements and Management Information Arrangements
- TMP8 Cash and Cash Flow Management
- TMP10 Training and Qualifications

CIPFA The Prudential Code for Capital Finance in Local Authorities – Consultation – Stage 2
On the 21st September 2021 CIPFA released the above consultation setting out their proposed changes to the current version of the Prudential Code (previously updated in 2017). CIPFA have set out their views on the use of S1 of the Local Government Act 2003 to support commercial investment.

The key changes are as follows:

Draft Prudential Code 2021

- Early Guidance on Investment Categories
- Early Guidance on why authorities should not borrow to invest
- Local Authority Investment classes mapped to the Main Regulatory Requirements (excludes Scottish, Welsh and Northern Ireland statutory framework!)
- Consultation document and questions.

Glossary of Terms **Appendix E**

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail**-in is the opposite of a **bail**-out, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Principal is the total amount being borrowed or lent.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.
Monetary Policy Committee (**MPC**) is a committee of the Bank of England, which meets for three and a half days, eight times a year, to decide the official interest rate in the United Kingdom (the Bank of England Base Rate).

CPIH (Consumer Prices Index including owner occupiers' housing costs) The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH).

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.

Borrowing Requirements The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

Capital Financing Requirement (CFR) Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

Counterparties Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

Credit Default Swap (CDS) A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

Credit Watch A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

Interest Rate Exposures A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

Market Loans Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

Money Market Fund (MMF) A 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

Minimum Revenue Provision (MRP) This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.

Sterling Overnight Interbank Average Rates (SONIA) –
is based on the actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.