

REPORT TO EXECUTIVE

Date of Meeting: 30 November 2021

REPORT TO COUNCIL

Date of Meeting: 14 December 2021

Report of: Director Finance

Title: Treasury Management 2021/22 Half Year Update

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To report on the current Treasury Management performance for the 2021/22 financial year and the position regarding investments and borrowings at 30 September 2021. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

2.1 That the Executive and Council note the Treasury Management report in respect of the first six months of the 2021/22 financial year.

3. Reasons for the recommendation:

3.1 It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

4. What are the resource implications including non financial resources?

4.1 The report is an update on the overall performance in respect of Treasury Management for the first six months of the 2021/22 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

5.1 Although our advisers are suggesting a cautious approach to interest rate rises, the impact of inflation is causing the Bank of England to review its position and indeed there was a split vote in favour of maintaining the rate at 0.10% this month. The Governor has indicated that the first rise may come as soon as December although it is still expected that the approach to increases will be cautious.

6. What are the legal aspects?

6.1 In February 2012 the Council adopted the updated CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to report on its performance at the end of each financial year. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

7. Monitoring Officer's comments:

This report raises no issues for the Monitoring Officer.

8. Report details:

8.1 Economic Context and Interest Rate Prospects

Interest rate forecasts, provided by our Advisors, are set out below.

Link Group Interest Rate View	29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts could require revising within a relatively short time frame as they are dependent on several changeable factors.

It is now impossible to earn the level of interest rates commonly seen in previous decades as all short-term money market investment rates have only risen weakly since Bank Rate was cut to 0.10% in March 2020. Given this environment and the fact that Bank Rate may only rise marginally, or not at all, before mid-2023, investment returns are expected to remain low.

8.2 Treasury Management Strategy Statement

The Council approved the 2021/22 Treasury Management Strategy Statement at its meeting on 23 February 2021. The Council's stated investment strategy was to continue to hold small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short dated deposits which would be placed with Local Authorities, Banks or Building Societies in-line with the Council's counterparty list.

The Council's stated borrowing strategy was to defer borrowing until later years, where possible, and to reduce the size of the Council's investment balance instead, however some targeted long term borrowing may be undertaken, where the costs will be offset against future income streams.

The Council is currently maintaining an under-borrowed position; so the actual borrowings of the Council are below the Council's borrowing requirement, as it has taken advantage of internal borrowings. This means that the Council's borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and to mitigate exposure to counterparty risk.

8.3 Net Interest Position

The General Fund shows an improvement against the estimate for net interest payable, the position is:

	Estimate	Actual to 30 September 2021	Estimated Outturn	Variation
	£	£	£	£
Interest paid	1,557,000	545,160	1,090,320	(466,680)
Interest earned				
Temporary investment interest	(332,700)	(16,377)	(49,131)	283,569
ECL Loan	(1,205,000)	(229,367)	(458,733)	746,267
Other interest earned	(9,300)	(4,743)	(9,485)	(185)
Science Park Loan	(25,780)	(12,890)	(25,780)	0
CVS Loan	(4,220)	0	(4,561)	(341)
Less				
Interest to HRA	250,000	100,489	200,978	(49,022)
Interest to S106 agreements	95,000	16,626	33,253	(61,747)
Interest to deposits held	0	441	883	883
Interest to Trust Funds	4,900	1,989	3,977	(923)
Lord Mayors Charity	100	40	79	(21)
GF interest (received) / paid out	(1,227,000)	(143,792)	(308,520)	918,480
Net Interest	330,000	401,368	781,800	451,800
CCLA – LAPF Dividend	(180,000)	(108,230)	(216,460)	(36,460)
Investment Loss – General Fund	0	0	0	0
Net Interest after dividends	150,000	293,138	565,340	415,340

9. Investments

9.1 The Council can utilise the Government's Debt Management Office (DMO) account and a reserve account with Barclays, these accounts have not been utilised during the period.

Appendix A sets out the institutions that the Council can use for deposits, this is known as our Counterparty list.

9.2 The Council had access to four Money Market Funds during the period. The money market funds allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

9.3 The Council made investments in the CCLA's LAMIT Property Fund in 2016. It should be noted that investments in property funds are a long term commitment which means that there can be fluctuations on the return from the investment.

9.4 The Council's investments held at 30 September 2021 were:

Money Market Funds

Amount	Investment	Interest rate*
£10,000,000	Federated Investors	0.01%
£10,000,000	CCLA - The Public Sector Deposit Fund	0.03%
£10,000,000	Black Rock Asset Management	0.01%
£2,000,000	Aberdeen Standard Investments	0.01%

* Interest rate is variable (therefore rates quoted were as at 30 September 2021)

Fixed Term Deposits - Current

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
£5,000,000	Thurrock Council	0.17%	17/05/21	17/02/22	276
£3,000,000	Standard Chartered – Sustainable deposit	0.12%	15/04/21	15/10/21	183
£2,000,000	Surrey Heath Borough Council	0.07%	23/04/21	22/10/21	182
£3,000,000	Surrey Heath Borough Council	0.05%	14/06/21	14/12/21	183
£3,000,000	Goldman Sachs	0.145%	15/06/21	15/12/21	183
£5,000,000	Plymouth City Council	0.10%	28/06/21	28/06/22	365
£3,000,000	Barclays Green 95 day notice account	0.10%	02/12/20	95 days from notice date	Min: 95
£5,000,000	London Borough of Croydon	0.10%	18/11/21	18/05/22	181
£5,000,000	Slough Borough Council	0.08%	12/11/21	12/05/22	181

The Standard Chartered Sustainable deposit guarantees that investment is referenced against sustainable assets aligned to the United Nations' Sustainable Development Goals (SDGs).

The Barclays Green account is linked to projects in pursuit of the transition to a lower carbon economy and as such counts towards the Council's Green agenda and can be included in a sustainability clause in the audited accounts.

Property Funds

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	3.91%

10. Borrowings

10.1 The Council's long term borrowing is currently £124.217 million (£51.973 million General Fund and £72.244 HRA) and there is no short-term borrowings. Details of loans are set out below.

10.2 The current General Fund capital programme as at Quarter 2 indicates total borrowing requirement of £70.630 million over the next 3 years.

The current HRA capital programme as at Quarter 2 indicates further borrowing requirement of £6.90 million over the next 3 years.

10.3 The ongoing borrowing requirement will be monitored and a decision of whether to take further borrowing will be made in light of need and current and forecast interest rates. If additional borrowing is required advice will be sought from the treasury management advisors in order that the most cost effective form of borrowing can be secured.

10.4 Existing loans

Principal Amount outstanding as at 30 September 2021	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB (HRA)	3.48%	Maturity	28/03/2062
£2,033,000	PWLB	2.34%	Annuity	11/01/2044
£2,015,915	PWLB	2.08%	Annuity	04/04/2044
£4,404,697	PWLB	1.61%	Annuity	26/09/2049
£8,425,853	PWLB	1.71%	Annuity	26/09/2054
£35,093,894	PWLB	1.80%	Annuity	26/09/2069
£15,360,000	PWLB (HRA)	1.31%	Maturity	14/04/2070

11. Compliance with Treasury and Prudential Limits

During the half year ended 30th September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. No difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices

12. Future Position

12.1 The short-term cash surplus will be invested in line with the Council's Treasury Management Strategy and will ensure that funds are available to meet demands, whilst also maximising returns.

12.2 The Council's Money Market Funds which are AAA rated, currently offer rates between 0.01% and 0.03%, the rates are liable to fluctuation in the year. The short term investments that are made through the money market funds ensure cash can be accessed immediately. This has an impact on returns but ensures the liquidity of funds.

12.3 The Council will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks, building societies and the Debt Management Office. The rates received currently average around 0.10%.

12.4 Officers have regular meetings with the Treasury Management advisors in order to seek advice on how to maximise investment returns and to minimise the need to borrow whilst taking into account investment risk.

12.5 Officers continually explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, they will be included in the Treasury Management strategy which is presented to committee for approval in February 2022.

12.6 Investment opportunities that provide attractive interest rates are somewhat limited in the current economic climate, following the impact of COVID 19.

12.7 This will be closely reviewed and advice will be sought from our financial advisors to ensure our counterparty list is adequate and robust enough. Any adjustments to the list and the impact of this will be presented to committee for approval in the Treasury Management strategy 2022/23.

13. How does the decision contribute to the Council's Corporate Plan?

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

14. What risks are there and how can they be reduced?

The council uses Treasury Management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's Treasury Management strategy.

The volatility of the world economy is being closely monitored and daily updates are provided by our financial advisors and investment brokers. This has somewhat eased in the past month and economic forecasts now show an improved position.

15. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;

- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because the report is for information only.

16. Carbon Footprint (Environmental) Implications:

We are working towards the Council's commitment to carbon neutral by 2030. The environmental impact of each decision is considered prior to approval

17. Are there any other options?

None.

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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