POLICY & RESOURCES SCRUTINY COMMITTEE
DATE: 20TH OCTOBER 2021

QUARTERLY TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1st April 2021 – 30th June 2021

A QUARTERLY TREASURY MANAGEMENT REPORT

1. Introduction

The Treasury Management Policy and Strategy for 2021-2022 was approved by Council on 3rd March 2021. Section B 1.1(2) stated that Treasury Management activity reports would be made during the year. This report outlines the Treasury Management activities in the period 1st April 2021 to 30th June 2021 and satisfies the reporting requirement stated above.

2. Economic Update

The 24th June 2021 Monetary Policy Committee meeting voted unanimously to keep Bank Rate unchanged at 0.10%. They voted by a majority of 8-1 to continue unchanged the existing programme of UK government bond purchases of £875bn which is due to end later this year.

Money markets are currently expecting the Bank Rate to start rising in mid-2022 but they are probably being too heavily influenced by looking across the Atlantic where inflationary pressures are much stronger than in the UK and building up further under a major boost from huge Federal government stimulus packages. Overall, there could be only a minimal increase in Bank Rate in 2023 or possibly no increases before 2024.

The annual inflation rate in the United Kingdom rose to 2.1% y/y in May from 1.5% y/y in April: this is the first time that the measure has been above the Bank of England's 2% target since July 2019.

Forward looking monthly business surveys are running at exceptionally high levels indicating that we are heading into a strong economic recovery. Capital Economics do not think that the UK economy will suffer major scarring from the lockdowns. The one month delay to the final easing of restrictions in July is unlikely to have much effect on the progress of recovery with GDP getting back to pre-Covid levels during August.

3. Investments

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily on the London Money Markets. The security of the investments is the main priority. Appropriate liquidity should be maintained and return on investments the final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

The total investments at 1st April 2021 to 30th June 2021 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.21				30.06.21			
	Call and notice £m	Fixed Term £m	Total £m	%	Call and notice £m	Fixed Term £m	Total £m	%
Banks	34.50	7.53	42.03	36	40.50	0.52	41.02	28
Building Societies	0.00	0.00	0.00	0	0.00	7.00	7.00	5
Money Market Funds	25.00	0.00	25.00	22	25.00	0.00	25.00	17
DMADF (DMO)	0.00	36.50	36.50	31	0.00	73.50	73.50	49
Local Authorities	0.00	13.00	13.00	11	0.00	2.00	2.00	1
TOTAL	**59.50**	**57.03**	**116.53**	**100**	**65.50**	**83.02**	**148.52**	**100**

Investments on call are available immediately on demand.
Fixed term investments are fixed to a maturity date.

The DMADF (DMO) limit was increased in April 2021 to £100m from £70m by the Director of Corporate Services under Emergency powers.

The £148.52m includes £0.52m (13.10% of original claim) invested in Kaupthing Singer and Friedlander which has been reduced from the original £4.0m by distributions.

During the period the total investments made by the Council and repaid to the Council (the turnover) amounted to £363.01m. This averaged approximately £27.92m per week or £3.99m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2021	116.53
Investments made during the quarter	197.50
Sub Total	314.03
Investments Repaid during the quarter	(165.51)
Total Investments at 30 June 2021	**148.52**

The main aims of the Treasury Management Strategy is to appropriately manage the cash flows of the Council, the required short term and longer term market transactions and the risks associated with this activity. Lending on the money market secures an optimum rate of return and also allows for diversification of investments and hence reduction of risk, which is of paramount importance in today's financial markets.

The benchmark return for the London money market is the "7 day LIBID rate". For 2021-2022 the Council has compared its performance against this "7 day LIBID rate". For the period under review the average "7 day LIBID rate" was -0.08% whereas the actual rate the Council earned was 0.05%, an out performance of 0.13%.

This outperformance can be quantified to £51k additional interest earned compared to the "7 day LIBID rate".

The gross interest earned on investments for the period amounted to £19k.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

4. Update on the investments with Kaupthing Singer & Friedlander (KSF)

As at 30th June 2021 the sum of £3.48m principal and £213k interest had been received from the Administrators, which equates to 86.90% of the claim submitted. The Administrators estimate total dividends payable to non-preferential creditors at 87.00%.

A further update will be provided in future reports.

5. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2021-2022, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions.

Attached in Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings (excluding the £0.52m in KSF) as at 30th June 2021.

6. Borrowing

One of the methods used to fund capital expenditure is long term borrowing. The principal lender for Local Authorities is the Public Works Loan Board (PWLB).

Under the Treasury Management Strategy it was agreed to borrow when interest rates are at their most advantageous.

The total loans at 1st April 2021 and 30th June 2021 are shown in the following table:

Loans	**Balance at 01.04.21 £m**	**Balance at 30.06.21 £m**	**Net Increase/ (Net Decrease) £m**
Public Works Loan Board (PWLB)	403.38	403.38	0.00
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	7.46	7.82	0.36
TOTAL	**413.84**	**414.20**	**0.36**

The Salix interest free loans have been provided by an independent publicly funded company dedicated to providing the public sector with loans for energy efficiency projects.

This interest free Invest-2-Save funding is to assist in the conversion of traditional street lighting to LED, which will help deliver a legacy of reduced energy costs and associated carbon taxes.

The Home Improvement Loan Scheme (HILS) repayable funding is provided by the Welsh Government to help individual home owners, small portfolio landlords, developers and charities to improve homes and increase housing supply.

The Town Centre Loan (TCL) repayable funding is provided by the Welsh Government to provide loans to reduce the number of vacant, underutilised and redundant sites and premises in town centres and to support the diversification of the town centres by encouraging more sustainable uses for empty sites and premises, such as residential, leisure and for key services.

6.1 New Borrowing

The following loan was borrowed during the period:

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
Salix	0.36	0.00%	16th April 2021	8yrs	01/04/2029
Total	**0.36**				

6.2 Interest Paid

Interest paid on loans in the period was:

PWLB Interest Paid £m	Market Loan Interest Paid £m	Total Interest Paid £m
0.85	0.07	0.92

7. Rescheduling and Premature Loan Repayments

No rescheduling opportunities arose during the period and there were no premature repayments of debt.

8. Leasing

No leases were negotiated in the period ended 30th June 2021.

9. Conclusion

The Treasury Management function for the period ended 30th June 2021 has been carried out within the policy and guidelines set in the Treasury Management Policy and Strategy 2021-2022.

B. QUARTERLY PRUDENTIAL INDICATOR REPORT

1. Introduction

As part of the 2021-2022 Budget and the Treasury Management Policy and Strategy 2021-2022, Council adopted a number of Prudential Indicators. These Indicators are designed to ensure that any borrowing or other long-term liabilities entered into for capital purposes were affordable, sustainable and prudent.

The Indicators are required by the Local Government Act 2003 and the Revised Prudential Code of Practice in order to control Capital Finance. The Prudential Code also required that those Prudential Indicators that were forward looking should be monitored and reported. Some of the indicators are monitored by officers monthly, and are only reported if they are likely to be breached, others are to be monitored quarterly by the Executive Board.

2. The Monitored Prudential Indicators

2.1 Affordability Prudential Indicator

2.1.1 Ratio of Financing Costs to Net Revenue Stream

The indicator set for 2021-2022 in the Budget was:

	2021-2022 %
Non –HRA	4.50
HRA	32.71

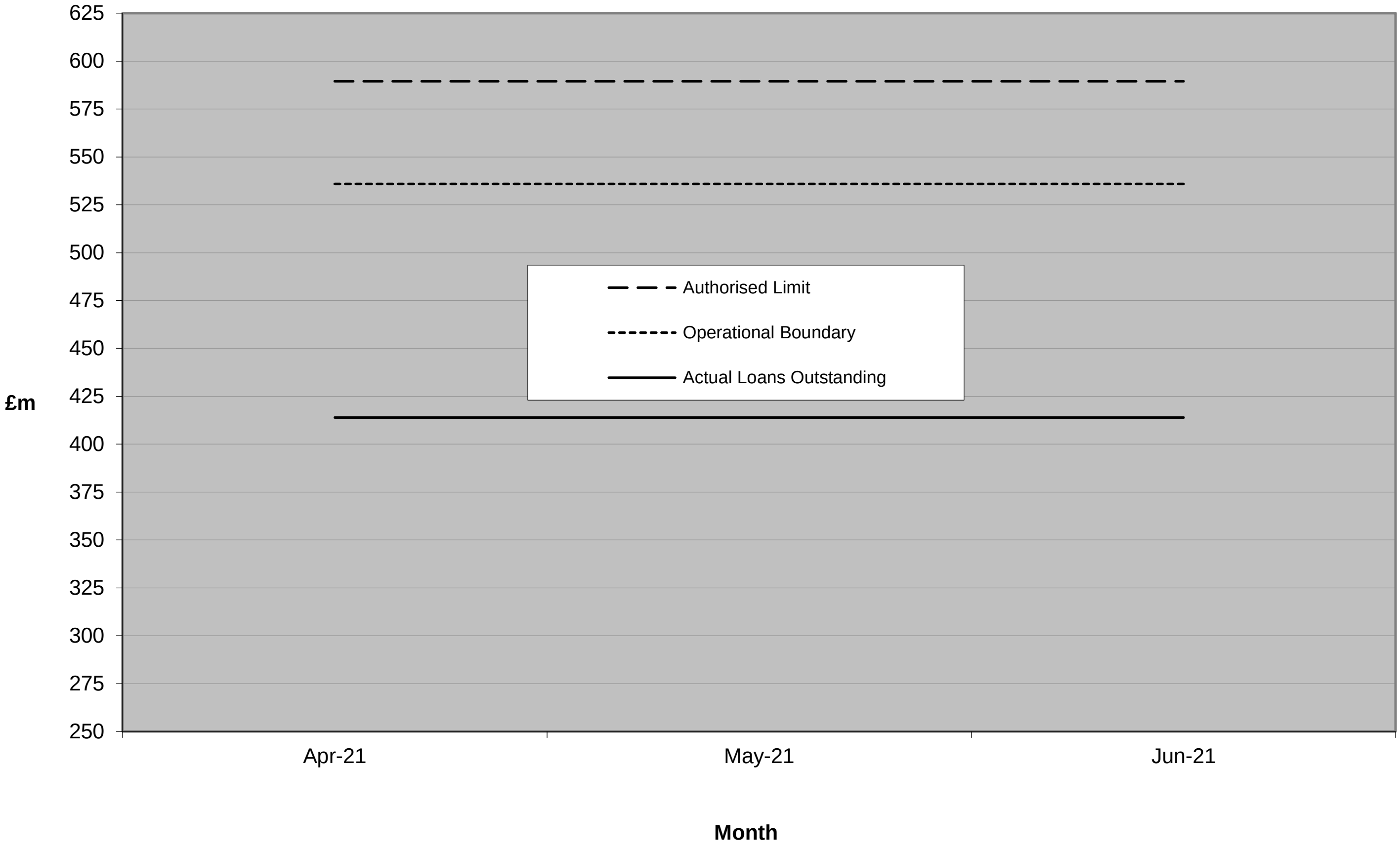
An examination of the assumptions made in calculating this indicator concluded that there have been no changes in the period.

2.2 Prudence Prudential Indicators

2.2.1 The Gross Borrowing and Capital Finance Requirement (CFR) indicator

The indicator set by the Budget for Gross Borrowing and CFR was that the Section 151 Officer envisaged no difficulty in meeting the requirement of the Gross Borrowing being less than the accumulated CFR for 2021-2022. An examination of assumptions made when calculating the Prudential Indicator show that there have been no material changes.

2.2.2 Authorised Limit and Operational Boundary



The actual value of loans outstanding must not exceed the Authorised Limit. In normal activity actual loans outstanding should be close but less than the Operational Boundary. The Operational Boundary can be breached in the short term due to adverse cash flows.

	Apr-21 £m	May-21 £m	Jun-21 £m
Authorised Limit	589.5	589.5	589.5
Operational Boundary	535.9	535.9	535.9
Loans Outstanding	414	414	414

Neither the Authorised Limit nor the Operational Boundary have been breached.

2.3 Treasury Management Prudential Indicators

2.3.1 Interest Rate Exposure

Position as at 30th June 2021:

	Fixed Interest Rate £m	Variable Interest Rate £m	TOTAL £m
Borrowed	411.19	3.00	414.19
Invested	(83.02)	(65.50)	(148.52)
Net	**328.17**	**(62.50)**	**265.67**
Limit	516.00	52.00	
Proportion of Net Borrowing Actual	**123.53%**	**(23.53)%**	**100.00%**
Limit	125.00%	5.00%	

The authority is within limits set by the 2021-2022 indicators.

2.3.2 Maturity Structure Of Borrowing

	Structure at 30.06.21 %	Upper Limit %	Lower Limit %
Under 12 months	3.84	15	0
12 months to 2 years	2.71	15	0
2 years to 5 years	6.57	50	0
5 years to 10 years	9.36	50	0
10 years to 20 years	19.60	50	0
20 years to 30 years	20.15	50	0
30 years to 40 years	23.03	50	0
40 years and above	14.74	50	0

The authority is within the limits set by the 2021-2022 indicators.

2.3.3 Maximum principal sums invested longer than 365 days

	2021-2022 £m
Limit	10
Actual as at 30th June 2021	NIL

3. Conclusion

For the period 1st April 2021 to 30th June 2021 the actual Prudential Indicators to be monitored by the Executive Board are within the limits set by the Budget 2021-2022 and the Treasury Management Policy and Strategy 2021-2022. This is also true for the indicators being monitored by officers.

4. Recommendations

It is recommended that this report be received by the Policy and Resources Scrutiny Committee.