

# **POLICY & RESOURCES SCRUTINY COMMITTEE**

**DATE: 10<sup>TH</sup> DECEMBER 2021**

## **MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT**

**1<sup>ST</sup> April 2021 – 30<sup>TH</sup> September 2021**

### **A. TREASURY MANAGEMENT REPORT**

#### **1. Introduction**

The Treasury Management Policy and Strategy for 2021-2022 was approved by Council on 3<sup>rd</sup> 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 1<sup>st</sup> April 2021 to 30<sup>th</sup> September 2021 and satisfies the reporting requirement stated above.

There are no policy changes to the Treasury Management Policy and Strategy for this period and this report updates the position in light of the updated economic position and budgetary changes already approved.

#### **2. Economic update**

The Bank of England's Monetary Policy Committee (MPC) kept Bank Rate unchanged at 0.10% on 24<sup>th</sup> September 2021. It also made no changes to its programme of quantitative easing, which is due to finish by the end of the year at £895bn.

The MPC indicated that there was a concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are likely to lead to faster and higher inflation expectations and underlying wage growth. This will in turn increase the risk that price pressures would prove more persistent next year than previously expected. To emphasise its concern about inflationary pressures the MPC reaffirmed its commitment to the 2% inflation target in its statement.

Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September.

#### **3. Prospects for Interest Rates**

Based on the average projection from a number of sources we can expect the trend in base rates over the year to be as follows:

	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022
Base Rate %	0.10	0.10	0.25	0.25	0.25

(Source: LINK Asset Services)

Link Asset Services undertook its last review of interest rate forecasts on 29<sup>th</sup> September 2021 after the Quarterly Inflation Report of the Bank of England and Monetary Policy Committee (MPC) meeting 24<sup>th</sup> September 2021, where the decision was made to keep the Bank Rate unchanged at 0.10%.

The revised projection based on this review:

	2021-22	2022-23	2023-24
	%	%	%
Revised Average Bank Rate	0.10	0.25	0.56
Original Average Bank Rate (TM Strategy 2021-22)	0.10	0.10	0.10

#### **4. 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 returns on the investments a 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 and 30th September 2021 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.21				30.09.21			
	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	34.50	7.52	42.02	32
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	20
DMADF (DMO)	0.00	36.50	36.50	31	0.00	50.00	50.00	38
Local Authorities	0.00	13.00	13.00	11	0.00	7.00	7.00	5
<b>TOTAL</b>	<b>59.50</b>	<b>57.03</b>	<b>116.53</b>	<b>100</b>	<b>59.50</b>	<b>71.52</b>	<b>131.02</b>	<b>100</b>

Investments on call are available immediately on demand. Fixed term investments are fixed to a maturity date. The current longest investment is maturing on 26<sup>th</sup> August 2022.

The £131.02m includes £0.52m (12.97% 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 (turnover) amounted to £706.51m. This averaged approximately £27.02m per week or £3.86m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2021	116.53
Investments made during the period	360.50
<b>Sub Total</b>	<b>477.03</b>
Investments Repaid during the period	(346.01)
<b>Total Investments 30th September 2021</b>	<b>131.02</b>

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 £104k additional interest earned compared to the “7-day LIBID rate”.

The gross interest earned on investments for the period amounted to £38k.

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

## **5. Update on the investments with Kaupthing Singer & Friedlander (KSF)**

As at 30th September 2021 the sum of £3.48m principal and £213k interest had been received from the Administrators, which equates to 87.03% of the claim submitted.

The Administrators have confirmed that the twenty third dividend received on 19<sup>th</sup> August 2021 will be the final dividend paid.

## **6. 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 at Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings (excluding the £0.52m in KSF) as at 30<sup>th</sup> September 2021.

## 7. 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 1<sup>st</sup> April 2021 and 30<sup>th</sup> September 2021 are shown in the following table:

<b>Loans</b>	<b>Balance at 01.04.21 £m</b>	<b>Balance at 30.09.21 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	403.38	397.61	(5.77)
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	7.46	7.82	0.36
<b>TOTAL</b>	<b>413.84</b>	<b>408.43</b>	<b>(5.41)</b>

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.

The 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 homeowners, 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.

### 7.1 New Borrowing

The following loan was borrowed during the period:

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

## **7.2 Interest Paid**

Interest paid on loans during the period was:

<b>PWLB Interest Paid £m</b>	<b>Market Loan Interest Paid £m</b>	<b>Total Interest Paid £m</b>
8.39	0.07	8.46

## **8. Rescheduling and Premature Loan Repayments**

The current economic climate and the consequent structure of interest rates meant that no rescheduling opportunities arose during the period and there were no premature loan repayments.

## **9. Leasing**

No leases were negotiated during the period 1<sup>st</sup> April 2021 to 30<sup>th</sup> September 2021.

## **B. PRUDENTIAL INDICATOR REPORT**

### **1. Prudential Indicators**

As part of the 2021-2022 Budget and the Treasury Management Policy and Strategy 2021-2022, the 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.

#### **1.1 Affordability Prudential Indicator**

##### **1.1.1 Ratio of Financing Costs to Net Revenue Stream**

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

	<b>2021-2022 %</b>
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 this period.

#### **1.2 Prudence Prudential Indicators**

##### **1.2.1 Capital Financing Requirement (CFR)**

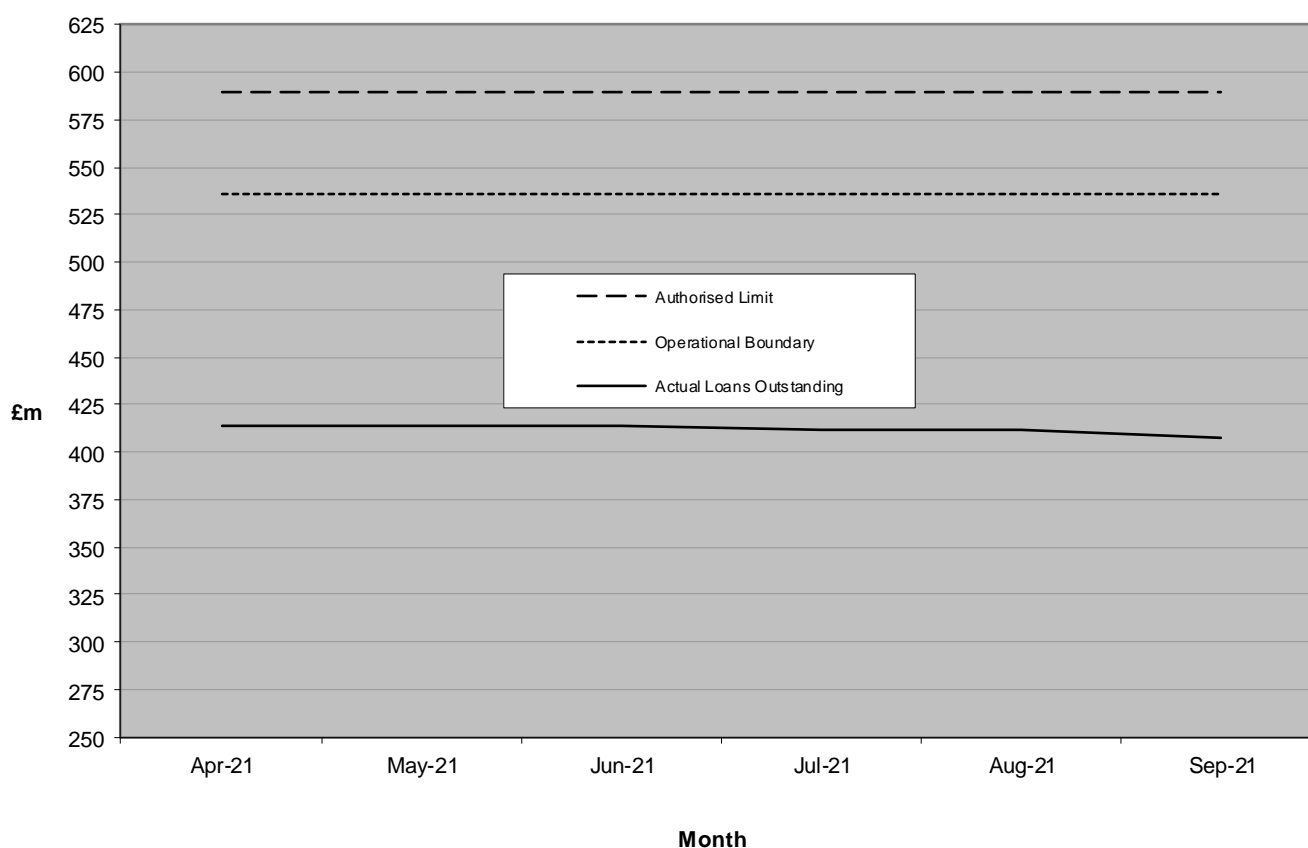
The Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	<b>2021-2022 Estimate £m</b>	<b>As at 30.09.21 £m</b>	<b>2021-2022 Forecast £m</b>
<b>Capital Financing Requirement</b>			
CFR – non housing	284	279	279
CFR – housing	182	178	178
CFR - housing subsidy buy-out	70	70	70
<b>Total CFR</b>	<b>536</b>	<b>527</b>	<b>527</b>

## 1.2.2. 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.

	Authorised Limit for External Debt		Operational Boundary for External Debt	
	2021-22 Estimate £m	2021-22 Forecast £m	2021-22 Estimate £m	2021-22 Forecast £m
Borrowing	589	589	535.8	535.8
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
<b>Total</b>	<b>589.5</b>	<b>589.5</b>	<b>535.9</b>	<b>535.9</b>



	Apr-21 £m	May-21 £m	Jun-21 £m	Jul-21 £m	Aug-21 £m	Sep-21 £m
Authorised Limit	589	589	589	589	589	589
Operational Boundary	536	536	536	536	536	536
Loans Outstanding	414	414	414	412	412	408

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



## **2.1 Treasury Management Prudential Indicators**

### **2.1.1 Interest Rate Exposure**

Position as at 30<sup>th</sup> September 2021:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL £m</b>
Borrowed	405.42	3.00	408.42
Invested	(71.52)	(59.50)	(131.02)
<b>Net</b>	<b>333.90</b>	<b>(56.50)</b>	<b>277.40</b>
Limit	516.00	52.00	
<b>Proportion of Net Borrowing Actual</b>	<b>120.37%</b>	<b>(20.37)%</b>	<b>100.00%</b>
Limit	125.00%	5.00%	

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

### **2.1.2 Maturity Structure of Borrowing**

	<b>Structure at 30.09.21 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	2.70	15	0
12 months to 2 years	3.00	15	0
2 years to 5 years	7.28	50	0
5 years to 10 years	10.36	50	0
10 years to 20 years	21.60	50	0
20 years to 30 years	22.21	50	0
30 years to 40 years	25.38	50	0
40 years and above	7.46	50	0

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

### **2.1.3 Maximum Principal Sums Invested Longer than 365 Days**

	<b>2020-2021 £m</b>
Limit	10
Actual as at 30 <sup>th</sup> September 2021	NIL

## **RECOMMENDATION**

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