2021/22 Quarter 1 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2021 – 30/06/2021 against the Council's Treasury Management Strategy, which was approved by Council on 23rd February 2021.

The Councils Treasury Management operation ensures cash flows are 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, this is the element of the capital programme that is not financed from external grants, capital receipts or other contributions. Which when added to the Council's Capital Financing Requirement (CFR) shows the underlying borrowing need of the Council. This underlying borrowing need is managed by the treasury team through short and long term borrowing arrangements and the use of longer term cash flow surpluses.

Borrowing

No new borrowing has been undertaken in the year to date, therefore the Council has maintained external borrowing at £12.8 million. As a result, gross and net borrowing are below the capital financing requirement (CFR). This is a key indicator as it shows that the Council is not borrowing to fund revenue activities or borrowing to lend-on.

Table 1: Borrowing Limits

	£m
Actual borrowing	12.800
Authorised limit	34.515
Operational boundary	27.700
Capital Financing Requirement (CFR)	27.685

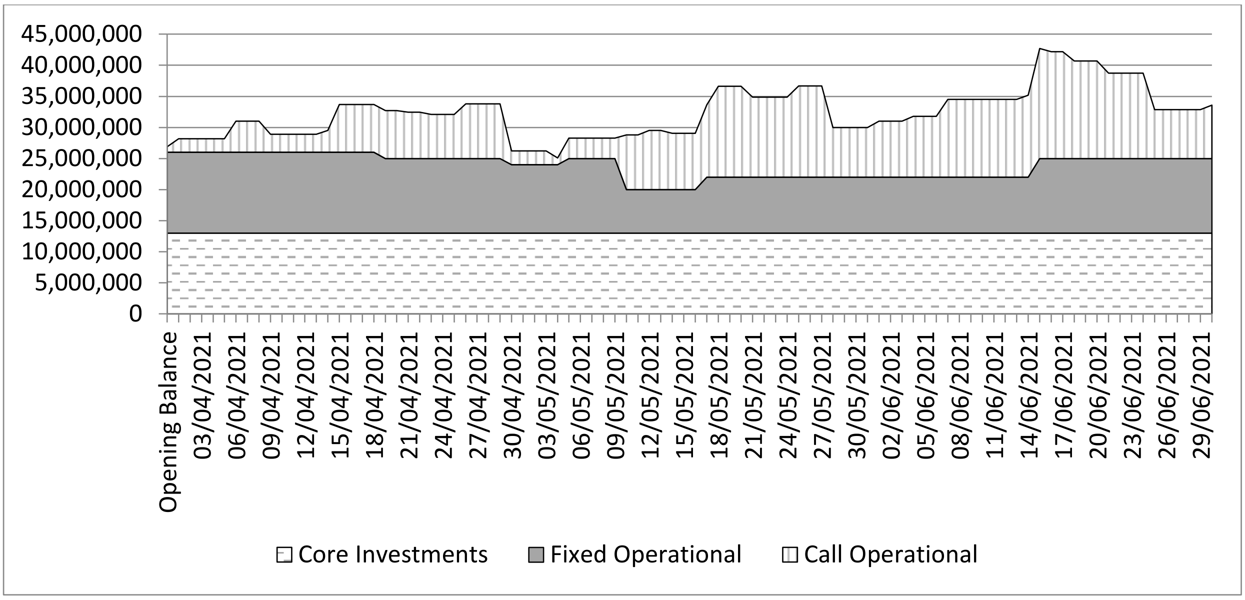
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Councils borrowing is circa 102% (i.e. £1.02m per £1m repaid), which would take around 25 years to repay. This is not low enough to consider making an early repayment, however we will keep this under review.

Our current internal borrowing position, is estimated to be £14.885 million or 46.8% of useable reserves adjusted for exceptional balances, this is nearing our 50% internal borrowing indicator. This indicator was set to trigger a review, to ensure that the internal borrowing position is prudent, affordable and sustainable and whether it is time to externalise some of that borrowing. This is considered along with many other factors such as the market rates for borrowing and future projections for capital spend. The budget for interest payable has been set at a level that enables the Council to borrow during the year if required.

Investments

Graph 1 below shows the movement on the Councils investment portfolio between 01/04/21 and 30/06/2021



The Council held £33.6m of investments as at 30 June 2021. Table 2 shows the outstanding investments by type.

Table 2 Investment Summary

Counterparty		**Value (£m)**
Call Operational		
	Federated	8.600
Fixed Operational		
	Coventry Building Society	3.000
	Nationwide Building Society	2.000
	Principality Building Society	2.000
	Warrington Borough Council	5.000
Fixed Core		
	Aberdeen City Council	2.000
	Leeds Building Society	3.000
	Newcastle Building Society	2.000
	Surrey Heath BC	5.000
	West Bromwich Building Society	1.000
		33.600

Graph 2 below shows the maturity profile of the Councils investment portfolio split between operational and core investment types

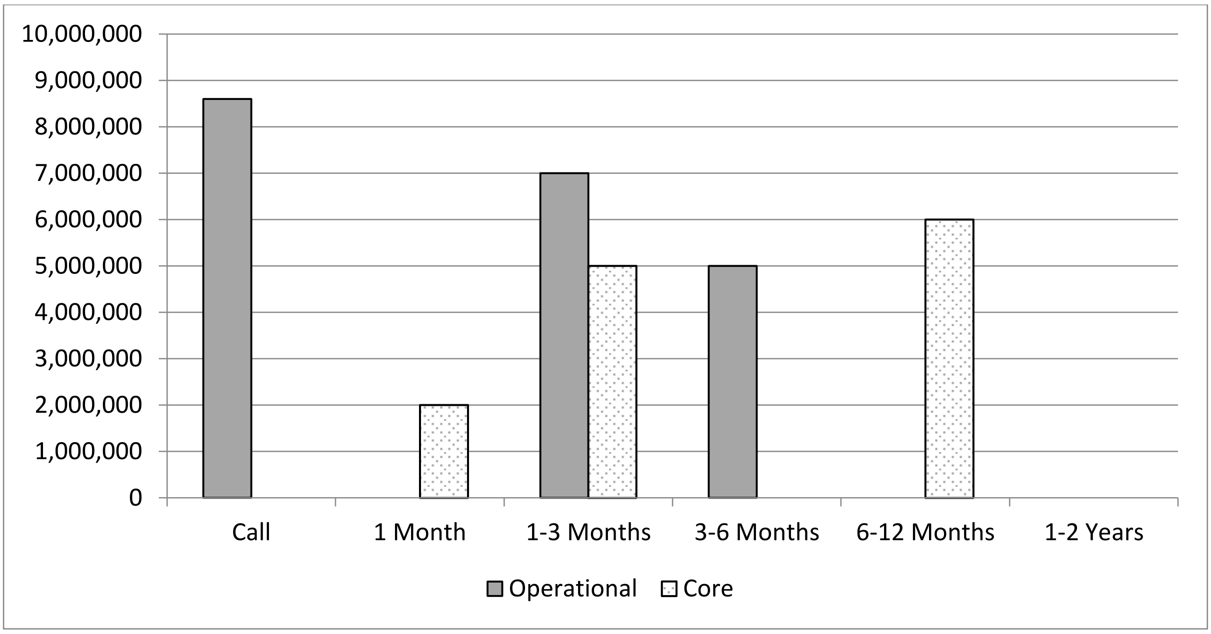


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the bench mark.

Table 3 Performance

	Average Return	Benchmark Rate	Variance
Call Operational	0.0098%	-0.0840%	0.0939%
Fixed Operational	0.0590%	-0.0417%	0.1007%
Fixed Core (Long Term)	0.0980%	-0.0174%	0.1154%
Overall Average	**0.0656%**		

All of the councils investments are performed in excess of their benchmarks, with the overall average outperforming the 6-month benchmark rate used for the Fixed Core (long term) investments.

Economic Forecast

At the June Monetary Policy Committee (MPC) meeting the members voted unanimously to keep the Bank Rate at 0.10%. In the minutes the MPC noted that there was developing upside risk to UK inflation and that it is likely to exceed the 3% this year. This is expected to be short lived and the MPC appears to be willing to ride out the inevitable spike in inflation and will focus on the medium term prospects when making its decisions.

As a result the current market view from our treasury advisor Link group is that the bank rate is not expected to rise before September 2023 as shown below.

Link Group Interest Rate View	10.5.21											
	Jun-21	Sep-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	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

At the start of 2021, all gilt yields from 1 to 8 years were negative, however, since then all gilt yields have become positive and have risen sharply, especially in the medium to longer term periods. The main driver of this has been due to investor concern about rising inflation. As PWLB rates are linked to gilt yields this has resulted yields beginning to increase.

In the Quarter to April 2021 the UK economy grew by 1.5% the first expansion since the three months to December 2020. The Bank of England expects UK GDP to reach pre Covid levels in August 2021.

Unemployment is 4.8% at end of June 2021.

Update to Treasury Management Strategy

Following a review of the treasury investments it was noted that while the investment limit for individual Money Market Funds (MMF) has increased to £10m the associated Interest Exposure Limit for Variable Rate Investments has remained at £20m, resulting in officers being unable to fully utilise these counterparties which are of the highest security.

A need to be able to access these fully has been identified as a result of the timing difference on NNDR Section 31 Relief repayments. In 2020/21 the Ministry of Housing Communities and Local Government (MHCLG) deliberately paid 100% of the Section 31 Business Rate reliefs to district authorities, to help them with their cash flows, however they didn’t change the reconciliation payment deadlines from February/March 2022. Therefore this means the Council is holding around £13m more funds than normal and we are struggling to find suitable counterparties to place this money with while adhering to the current limit.

These reliefs fall outside the executive decision for Covid-19 grant monies, which permits us to leave monies in a rung-fenced bank account over the normal limit for the Council’s Bankers, as this relates directly to business rate reliefs awarded through the collection fund and not to the separate grant schemes.

It is therefore recommended that the Interest Exposure Limit for Variable Rate Investments is increased from £20m to £30m to enable officers to access secure, liquid variable rate investments. This will stay in place for the remainder of 2021/22 and will be reviewed in the Treasury Management Strategy for 2022/23 which comes before Council in February 2022.

Conclusion

The Councils external borrowing remains at £12.8m with internal borrowing being used instead. However the levels of internal borrowing are approaching the indicator level and with gilt rates and therefore PWLB rates rising, officers will be undertaking a review of the Council’s borrowing position in the next quarter to ensure prudence affordability and sustainability. As part of this review we will consider the impact on the proposed new unitary authority.

Council Investments continue to perform will against benchmarks although investment returns remain at an all-time low.