2021/22 Quarter 2 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2021 – 30/09/2021 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

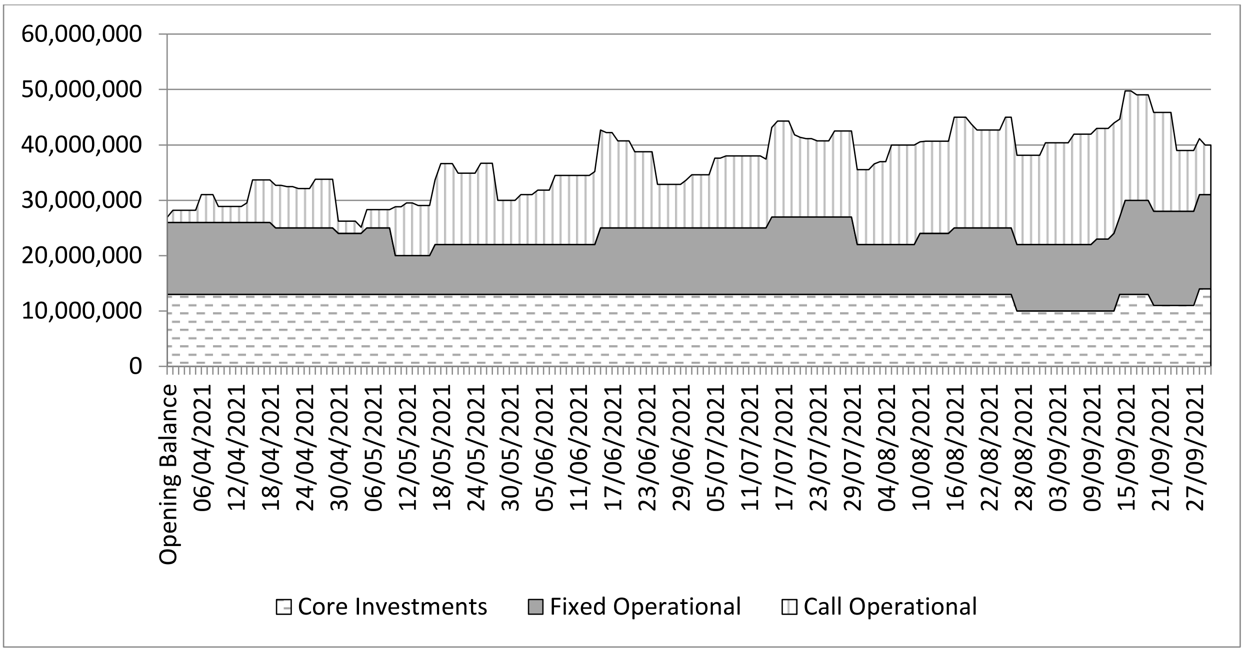
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Councils borrowing is circa 86% (i.e. £0.86m per £1m repaid), which would take over 19 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 30/09/2021



The Council held £40m of investments as at 30 September 2021. Table 2 shows the outstanding investments by type.

Table 2 Investment Summary

Counterparty		**Value (£m)**
Call Operational		
	Federated	4.000
	CCLA	5.000
Fixed Operational		
	Coventry Building Society	3.000
	Nationwide Building Society	3.000
	Principality Building Society	2.000
	Skipton Building Society	2.000
	Sumitomo Mitsui Banking Corporation	3.000
	Standard Chartered	3.000
	West Bromwich Building Society	1.000
Fixed Core		
	Blackpool Borough Council	3.000
	Darlington Borough Council	3.000
	Newcastle Building Society	2.000
	Surrey Heath BC	5.000
	West Bromwich Building Society	1.000
		40.000

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

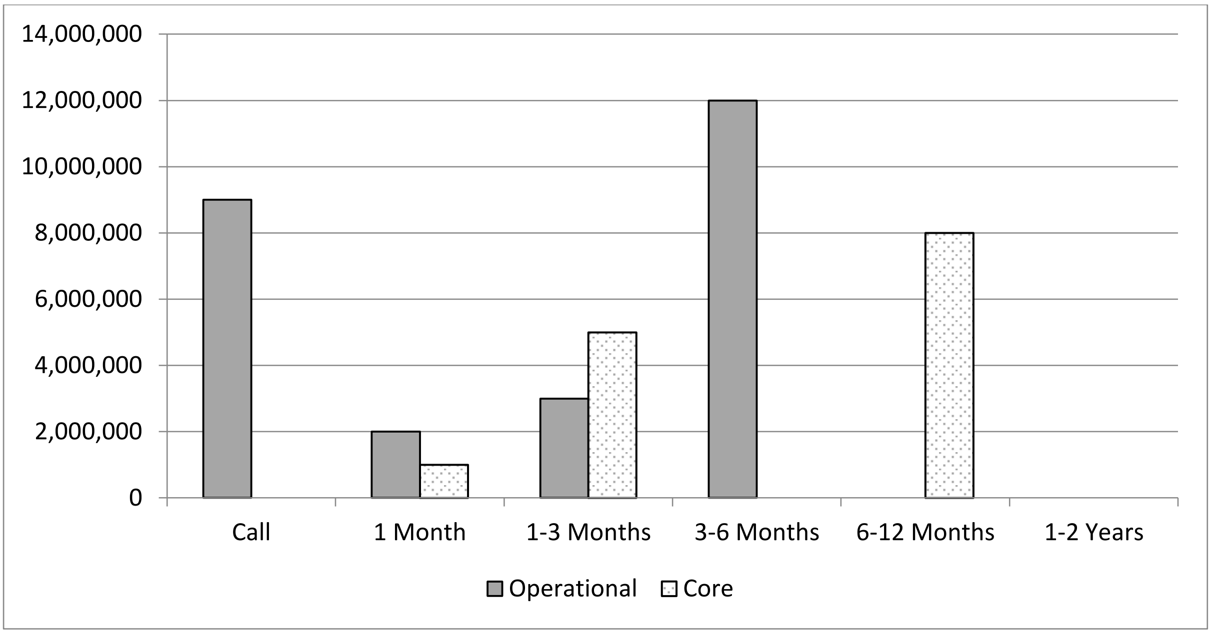


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the bench mark.

Table 3 Performance

	Average Return	**Benchmark Rate**	**Variance**
Call Operational	0.011%	-0.084%	0.095%
Fixed Operational	0.062%	-0.045%	0.107%
Fixed Core (Long Term)	0.094%	-0.009%	0.103%
Overall Average	**0.059%**		

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 September Monetary Policy Committee (MPC) meeting the members voted unanimously to keep the Bank Rate at 0.10%. The minutes indicate that there is increasing concern that recent price increases are likely to lead to faster and higher inflation and underlying wage growth, which is likely to be stay around longer.

As a result financial markets are now pricing in a first increase in bank rate from 0.10% to 0.25% in February 2022. However in its revised interest rate forecast on 29th September 2021 (below) our advisors, Link Asset Services are not expecting rates to rise until quarter 2 2022. They do however acknowledge that with a high level of uncertainty on several different fronts, it is likely that forecasts will need to be revised again soon.

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

It is important to note that the rate cut to 0.10% was an emergency measure to deal with the Covid-19 crisis and that the MPC can decide to reverse this at any time on the grounds of it no longer warranted. In addition, any bank rate under 1% is both highly unusual and highly supportive of economic growth.

Since the start of 2021, there has been a lot of volatility in Gilt yields and this is expected to continue as concerns over inflation. As PWLB rates are linked to gilt yields this has resulted yields beginning to increase.

In the year to August 2021 UK inflation was at 3.2% up from 2.5% in June as prices increased and supply shortages kicked in.

Unemployment is now 4.5%, but there are concerns this could rise higher since the end of furlough on 1st October.

The UK economy grew 0.4% in August 2021 and remains 0.8% below its pre-covid-19 level

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.