

## 2021/22 Quarter 3 Treasury Management Update

This appendix reviews treasury performance for the period 01/04/2021 – 31/12/2021 against the Council's Treasury Management Strategy, which was approved by Council on 23rd February 2021.

The Council's 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

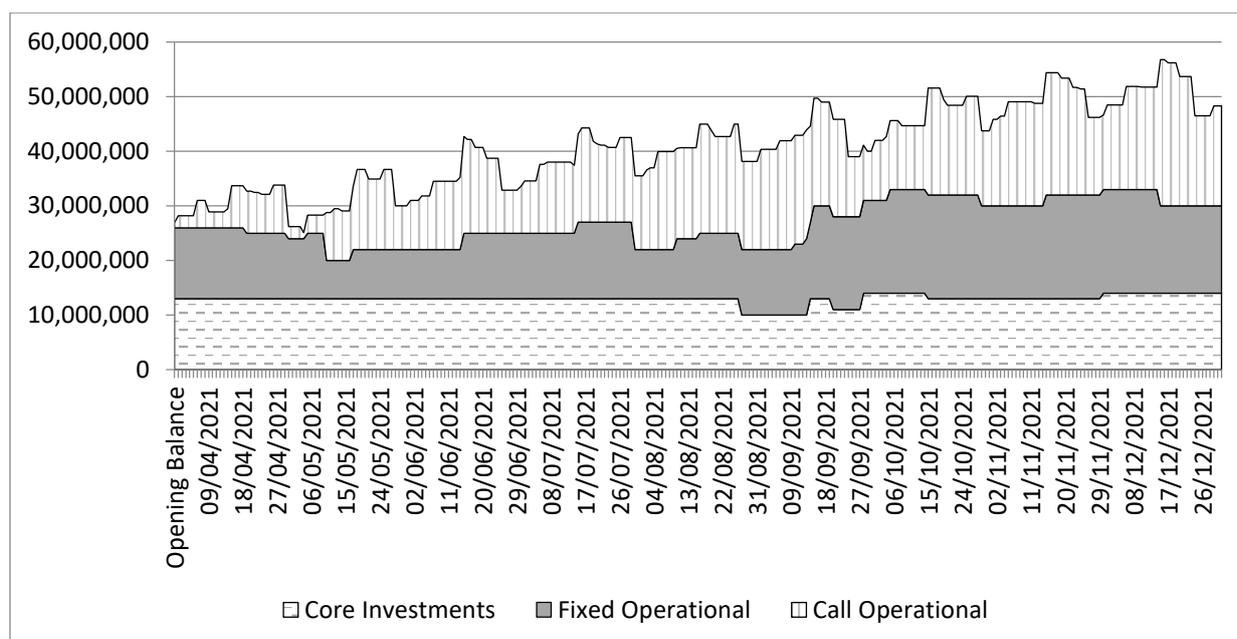
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Council's borrowing is circa 94% (i.e. £0.94m per £1m repaid), which would take over 21.5 years to repay. This is not low enough to consider making an early repayment, however we will keep this under review.

Following a review of the deliverability of the capital programme our current internal borrowing position has fallen from an estimated £14.885 million or 46.8%, to £11.318 million or 35.58% of useable reserves adjusted for exceptional balances. Resulting in reduced pressure to reverse the internal borrowing position in 2021/22. This is only one factor in the decision whether to borrow or not, there are many other factors such as the market rates for borrowing and future projections for capital spend to also be considered and in a rising interest rate environment Public Works Loan Board interest rates may well be key given the documented internal borrowing position. 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 Council's investment portfolio between 01/04/21 and 31/12/2021



The Council held £48.3m of investments as at 31 December 2021. Table 2 shows the outstanding investments by type.

**Table 2 Investment Summary**

<b>Counterparty</b>		<b>Value (£m)</b>
<b>Call Operational</b>		
	Federated	8.300
	CCLA	10.000
<b>Fixed Operational</b>		
	Coventry Building Society	2.000
	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
<b>Fixed Core</b>		
	Blackpool Borough Council	3.000
	Blaenau Gwent Council	1.000
	Darlington Borough Council	3.000
	Newcastle Building Society	2.000
	Surrey Heath BC	5.000
		<b>48.300</b>

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

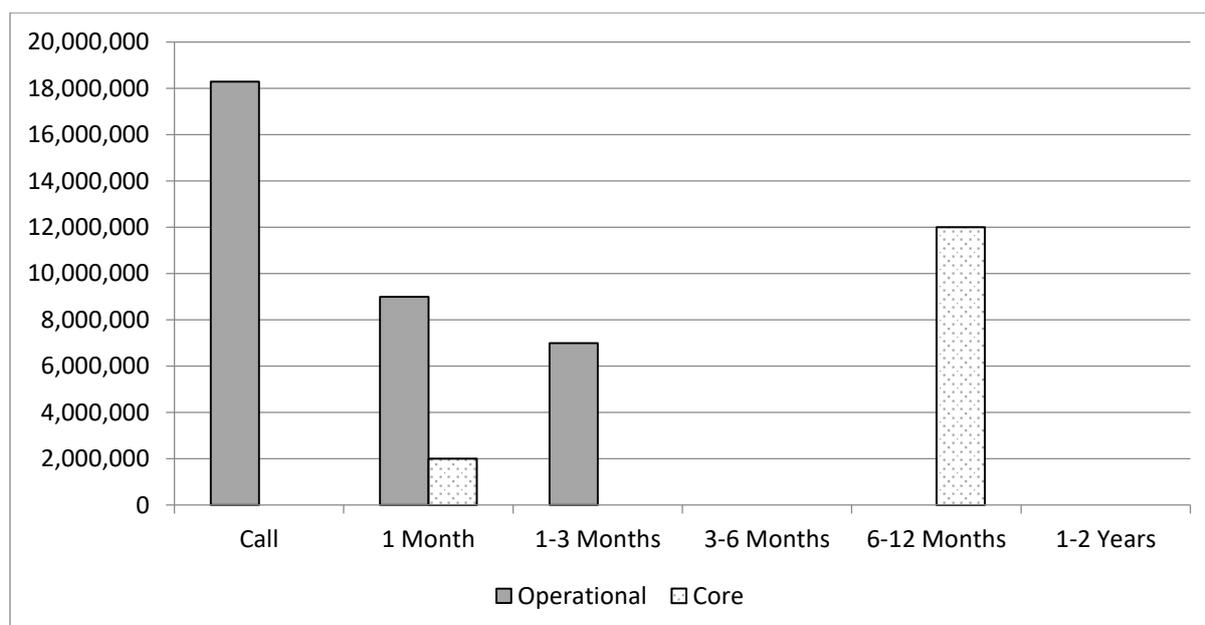


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the benchmark.

**Table 3 Performance**

	Average Return	Benchmark Rate	Variance
Call Operational	0.0175%	-0.0720%	0.0895%
Fixed Operational	0.0686%	-0.0215%	0.0901%
Fixed Core (Long Term)	0.0946%	0.0594%	0.0352%
<b>Overall Average</b>	<b>0.0587%</b>		

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

### Economic Forecast

It had been anticipated that at its November meeting the Monetary Policy Committee (MPC) would increase the bank rate but the MPC voted to maintain the rate at 0.1 and decided it wanted further assurance that the impact of the end of furlough on 30<sup>th</sup> September would not increase unemployment sharply and therefore waited until the statistics for unemployment was ready

On 10<sup>th</sup> December the month on month rise in GDP came out at only 0.1% for October and there was concern that any further Covid-19 restrictions could cause the economy to contract in December.

On 14<sup>th</sup> December the labour market statistics were released and the monthly unemployment rate rose to 4.2% in October from 3.9% in September. However weekly data suggested this didn't last long as unemployment was falling again by the end of October.

On 15<sup>th</sup> December the November CPI inflation came in at 5.1% up from 4.2% in October confirming again that inflation pressures are building sharply across the board in producer and consumer prices and in wage rates.

It is against this adverse set of factors that the MPC voted 8-1 at its December meeting to increase the Bank Rate by 0.15% from 0.10% to 0.25%. The comments made at the same time as the increase indicated that the MPC is not concerned that inflation is building and action to counter this by the MPC is required. This has led to markets predicting an increase to 1% by the end of 2022, with some predicting the next rate rise could be as early as February 2022.

### **Conclusion**

The Council's external borrowing remains at £12.8m with internal borrowing being used instead. Following a review of the capital programme internal borrowing as a percentage of reserves has fallen to 35.58% from 46.8% reducing pressure on whether we need to reverse the position by borrowing.

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