

Audit Committee	Agenda Item:
Meeting Date	24 November 2021
Report Title	Treasury Management Half Year Report 2021/22
Cabinet Member	Cllr Roger Truelove, Leader and Cabinet Member for Finance
SMT Lead	Lisa Fillery, Director of Resources
Head of Service	Phil Wilson, Head of Finance and Procurement
Lead Officer	Phil Wilson, Head of Finance and Procurement & Olga Cole, Management Accountant
Key Decision	No
Classification	Open
Recommendations	<ol style="list-style-type: none"> 1. To note the performance information in this report. 2. To approve the prudential and treasury management indicators within the report.

1. Purpose of Report and Executive Summary

- 1.1 The purpose of this report is to review the mid-year outturn position on treasury management transactions for 2021/22, including compliance with treasury limits and Prudential and Treasury Performance Indicators. This report will be going to Council on 12 January 2022.
- 1.2 The Treasury Management Strategy is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services, which requires the Council to approve treasury management half-year and annual reports.
- 1.3 The Council's treasury management strategy for 2021/22 was approved at a meeting on 24 February 2021. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Council's treasury management strategy.

2. Background

Market Environment

- 2.1 Economic background: The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year
- 2.2 The Bank of England (BoE) held Bank Rate at 0.1% throughout the period. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were

concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation.

- 2.3 An increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.
- 2.4 Government initiatives continued to support the economy over the quarter but came to an end on 30 September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.

Borrowing

- 2.5 On 1 April 2021, the Council had three loans from other local authorities, totalling £15m. During the first half of the financial year, the Council repaid one loan. On 30 September 2021, the Council's external borrowing stood at £10 million. Further details of can be found in Appendix I.

Investments

- 2.6 The counterparties agreed by Cabinet and Council earlier this year, when the 2021/22 Treasury Strategy was approved are:

Counterparty	Cash Limits
The UK Government (Debt Management Account Deposit Facility) and Treasury Bills	Unlimited
Local Authorities and other government entities	£3m
Major UK banks / building societies. (Barclays, HSBC, Lloyds Banking Group, RBS Group, Santander UK, Nationwide, Standard Chartered) unsecured deposits	£3m
Svenska Handelsbanken unsecured deposits	£3m
Leeds Building Society unsecured deposits	£1.5m
Close Brothers unsecured deposits	£1.5m
Money Market Funds	£3m each
Strategic Pooled Funds e.g. Absolute return, Equity income, Corporate Bond Funds	£3m each
CCLA Property Fund	£3m
Supranational Bonds	£3m in aggregate

Counterparty	Cash Limits
Corporate Bonds	£3m in aggregate
Covered Bonds	£3m in aggregate with £1m limit per bank
Non treasury investments	To be agreed on a case by case basis

- 2.7 The Council holds significant investment funds, representing income received in advance of expenditure plus balance and reserves held. During the six months to 30 September 2021 the Council held average daily cash balance of £33.8 million.
- 2.8 The Council's budgeted investment income for the six months to 30 September 2021 was £84,385 and the actual income received was £78,747.54, of which £56,061.95 was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.
- 2.9 The results for the six months to 30 September 2021 show that the Council achieved 0.48% average return above the average 7 day London Interbank Bid Rate (LIBID) and 0.3% average return rate above the average Bank of England Base Rate.
- 2.10 The Council has £3m invested in an externally managed property fund which is the CCLA property fund which generated an average total return of 3.72%, comprising a £56,061.95 income return. Since this fund has no defined maturity date, but is available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's investment objectives are regularly reviewed. In light of its performance and the Council's latest cash flow forecasts, investment in this fund has been maintained.

Compliance with Prudential Indicators

- 2.11 The Council can confirm that it has complied with its Prudential Indicators for 2021/22 which were set in February 2021 as part of the Council's Treasury Management Strategy Statement. The Council is required to report on the highly technical Prudential Indicators. There are no issues of concern to highlight with members. The indicators are based on approved commitments and the current budget.
- 2.12 Prudential and Treasury Management Indicators are set out in Appendix II.

3. Proposals

- 3.1 No changes are proposed at this stage.

4. Alternative Options

- 4.1 The Director of Resources will consider changes to the counterparty criteria with reference to the Council's agreed policy with regard to risk.

5. Consultation Undertaken

- 5.1 Consultation has been undertaken with Arlingclose.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report.
Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance
Crime and Disorder	Following CIPFA's Treasury Management Code of Practice is important to avoid involvement in potential fraud or money laundering.
Environment and Climate/ Ecological Emergency	The Council does not own any shares or corporate bonds so there are no ethical investment consideration to be met.
Health and Wellbeing	Not relevant to this report
Safeguarding of Children, Young People and Vulnerable Adults	Not relevant to this report
Risk Management and Health and Safety	Risk is controlled through adherence to specific guidance included in CIPFA's Treasury Management Code of Practice. The principle of security of funds over-rides investment performance.
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

- 7.1 The following documents are to be published with this report and form part of the report.

- Appendix I: Investments and Borrowing as at 30 September 2021
- Appendix II: Prudential and Treasury Management Indicators

8. Background Papers

None

Investments and Borrowings as at 30 September 2021

Counterparty	Long-Term Rating	Balance Invested & Borrowed at 30 September 2021 £'000
<u>Fixed Term Deposits</u>		
Debt Management Office	AA-	6,800
<u>Money Market Funds</u>		
Invesco Money Market Fund	AAmmf	3,000
Deutsche Money Market Fund	AAmmf	3,000
Goldman Sachs Money Market Fund	AAmmf	3,000
Aberdeen Money Market Fund	AAmmf	3,000
Black Rock Money Market Fund	AAmmf	3,000
JP Morgan Money Market Fund	AAmmf	3,000
Morgan Stanley Money Market Fund	AAmmf	3,000
SSGA Money Market Fund	AAmmf	3,000
CCLA Property Fund		3,000
Total Fixed Term Deposits, Money Market and Property Funds		33,800
TOTAL INVESTMENTS	Maturity Date	£'000
Derbyshire County Council	07/04/2022	-5,000
London Borough of Islington	28/02/2022	-5,000
TOTAL BORROWING		-10,000

The Ratings above are from Fitch credit rating agency. The Long-Term Rating is the benchmark measure of probability of default. These ratings are shown for illustrative purposes only, as the Council uses the lowest rating across three agencies on which to base its decisions.

AAmmf: Fund has very strong ability to meet the dual objective of providing liquidity and preserving capital

AA-: High quality, low default risk

Investments and Borrowings as at 30 September 2021

Investment Activity in 2021/22

Investments	Balance on 01/04/2021	Investments Made	Investments Repaid	Balance on 30/09/2021	Average Rate
	£'000	£'000	£'000	£'000	%
Short Term Investments and Cash and Cash Equivalents	20,115	112,672	(101,987)	30,800	0.13
Long Term Investments	3,000	0	0	3,000	3.74
TOTAL INVESTMENTS	23,115	112,672	(101,987)	33,800	

Borrowing Activity in 2021/22

Borrowing	Balance on 01/04/2021	Borrowing Made	Borrowing Repaid	Balance on 30/09/2021	Average Rate
	£'000	£'000	£'000	£'000	%
External Borrowing	15,000	0	(5,000)	10,000	0.43
Total Borrowing	15,000	0	(5,000)	10,000	

Non-Treasury Investments

The definition of investments covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. The Council holds £3.599m of a long-standing portfolio of 13 investment properties within the borough. These investments are expected to generate £0.2m of investment income for the Council after taking account of direct costs, representing a rate of return of 4.5%.

Prudential and Treasury Management Indicators

1. Background

There is a requirement under the Local Government Act 2003 for local authorities to have regard to CIPFA's Prudential Code for Capital Finance in local authorities (the "CIPFA Prudential Code") when setting and reviewing their Prudential Indicators.

2. Gross Debt and the Capital Financing Requirement (CFR)

This is a key indicator of prudence. In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional increases to the capital financing requirement for the current and next two financial years.

Capital Financing Requirement	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
	£'000	£'000	£'000	£'000
Capital Financing Requirements	48,373	61,789	71,969	70,418
External Borrowing	(15,000)	(35,000)	(50,000)	(50,000)
Cumulative External Borrowing Requirements	33,373	26,789	21,969	20,418

External Borrowing: as at 30 September 2021 the Council had £10 million of external borrowing – please see Appendix I for further details.

3. Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on Council Tax.

Capital Expenditure and Financing	2020/21 Actual	2021/22 Revised Estimate	2022/23 Original Estimate	2023/24 Original Estimate
	£'000	£'000	£'000	£'000
Total Expenditure	9,603	27,023	13,613	2,113
Revenue contributions	875	2,873	50	50
Capital receipts	24	1,634	0	0
Grants and other contributions	2,292	6,750	2,063	2,063
Internal/ External borrowing	6,412	15,766	11,500	0
Total Financing	9,603	27,023	13,613	2,113

Prudential and Treasury Management Indicators

4. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability, highlighting the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. The definition of financing costs is set out in the Prudential Code. The ratio is based on costs net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2020/21 Actual %	2021/22 Estimate %	2022/23 Estimate %	2023/24 Estimate %
Total	3.17	5.11	5.32	5.43

5. Actual External Debt

This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities. This Indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

Actual External Debt as at 30/09/2021	£'000
Borrowing	10,000
Other Long-term Liabilities	0
Total	10,000

6. Authorised Limit and Operational Boundary for External Debt

The Authorised Limit sets the maximum level of external borrowing on a gross basis (i.e. not net of investments) for the Council. It is measured on a daily basis against all external borrowing items on the Balance Sheet (i.e. long- and short-term borrowing, overdrawn bank balances and long-term liabilities). This Prudential Indicator separately identifies borrowing from other long-term liabilities such as finance leases. It is consistent with the Council's existing commitments, its proposals for capital expenditure and financing, and its approved treasury management strategy and practices.

The Authorised Limit has been set on the estimate of the most likely, prudent but not worst case scenario with sufficient headroom over and above this to allow for unusual cash movements.

The Authorised Limit is the statutory limit determined under Section 3(1) of the Local Government Act 2003 (referred to in the legislation as the Affordable Limit).

Prudential and Treasury Management Indicators

Authorised Limit for External Debt	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	70,000	70,000	70,000
Other Long-term Liabilities	2,000	2,000	2,000
Total	72,000	72,000	72,000

The Operational Boundary links directly to the Council's estimates of the CFR and estimates of other cash flow requirements. This indicator is based on the same estimates as the Authorised Limit reflecting the most likely, prudent but not worst-case scenario but without the additional headroom included within the Authorised Limit.

Operational Boundary	2021/22 Estimate £'000	2022/23 Estimate £'000	2023/24 Estimate £'000
Borrowing	55,000	55,000	55,000
Other Long-term Liabilities	500	500	500
Total Debt	55,500	55,500	55,500

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The Head of Finance and Procurement confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the period to 30 September 2021.

Prudential and Treasury Management Indicators

7. Interest Rate Exposure

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

Upper Limit for Interest Rate Exposure	Actual level at 30/09/21	2021/22 Approved Limit	Complied?
Interest on fixed rate borrowing	100%	100%	✓
Interest on fixed rate investments	-20%	-100%	✓
Interest on variable rate borrowing	0%	100%	✓
Interest on variable rate investments	-80%	-100%	✓

8. Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were.

Maturity structure of borrowing	Existing level at 30/09/21 %	Lower Limit for 2021/22 %	Upper Limit for 2021/22 %	Complied
Under 12 months	100	0	100	✓
12 months and within 24 months	0	0	100	✓
24 months and within 5 years	0	0	100	✓
5 years and within 10 years	0	0	100	✓
10 years and above	0	0	100	✓

9. Credit Risk

The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk.

Prudential and Treasury Management Indicators

The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- published credit ratings of the financial institution (minimum A- or equivalent) and its sovereign (minimum AA+ or equivalent for non-UK sovereigns);
- sovereign support mechanisms;
- credit default swaps (where quoted);
- share prices (where available);
- economic fundamentals, such as a country's net debt as a percentage of its GDP;
- corporate developments, news, articles, markets sentiment and momentum; and
- subjective overlay.

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

The Head of Finance and Procurement confirms that there were no breaches to counterparty limits or credit ratings at the time of placing investments.

10. Principal Sums Invested for Periods Longer than over 364 days

The purpose of this limit is to contain exposure to the possibility of loss that may arise as a result of the Council having to seek early repayment of the sums invested.

Total Principal Sums Invested Over 364 Days	2021/22 £'000
Upper Limit Estimate	10,000
Actual	3,000
Complied?	✓

Prudential and Treasury Management Indicators

11. Investment Benchmarking for the six months to 30 September 2021

Average Actual Return on Investments	Original Estimate Return on Investments	Average Bank Base Rate	Average 7 day LIBID Rate
0.40%	0.30%	0.10%	(0.08%)