2021/22 MID YEAR TREASURY MANAGEMENT REVIEW

1 SUMMARY

1.1 The purpose of the report is to provide an update of the Council's treasury management activity for the period 1 April 2021 to 30 September 2021 in accordance with the Council's Treasury Management Policy and good practice in treasury management.

1.2 It is recommended that the Review Committee notes the Council's treasury activities for the period ending 30 September 2021 and provides comments on the information in this report, before it is presented to Full Council on 7 December 2021.

2 INTRODUCTION

2.1 The Council has adopted CIPFA's Code of Practice on Treasury Management and a requirement of this is to produce a mid-year review looking at the Authority's performance in line with the strategy considered by this Committee on 2 February 2021.

2.2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

2.3 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, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending liabilities.

2.4 Accordingly, treasury management is defined as:

"*The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks*."

2.5 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the 2021/22 financial year to 30 September 2021 (provided by our treasury advisers, Link Asset Services Ltd);
- A review of the Treasury Management and Capital Strategy Statement and Annual Investment Strategy including:
    - The Council's capital expenditure (and associated prudential indicators)
    - A review of the Council's investment portfolio for 2021/22.
    - A review of the Council's borrowing strategy for 2021/22.

- A review of compliance with Treasury and Prudential Limits for 2021/22.

3 ECONOMIC UPDATE

3.1 The Monetary Policy Committee (MPC) voted unanimously on 24 September 2021 to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year. There was a major shift in the tone of the MPC, with an indication there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices, are likely to lead to faster and higher inflation expectations and underlying wage growth. The MPC reaffirmed its commitment to its 2% inflation target in its statement; suggesting that its primary concern is about underlying price pressures in the economy. Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this may not occur until May when the MPC would have further employment data up until February and a clearer understanding of the likely peak of inflation.

3.2 In the UK, COVID-19 vaccines boosted confidence in the economy during the summer of 2021 after a third wave in the spring. With household savings exceptionally high since the first lockdown in March 2020, there was plenty of pent-up demand for services in hard hit sectors like restaurants, travel and hotels. In the EU the slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 had strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the European Central Bank is likely to see these as being only transitory so is unlikely to raise rates for a considerable time.

3.3 Across the rest of the world growth was in recession in 2020 but recovered during 2021 before starting to lose momentum again more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period of decreased globalisation which is likely to reduce world growth rates from those in prior decades. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains and many western countries are experiencing difficulties in filling job vacancies. It is expected that these issues will be gradually resolved, but they are currently contributing to an upwards spike in inflation and shortages of materials and goods on shelves.

3.4 The latest Link Asset Service's forecast of Bank of England Base Rate and PWLB rates are shown in the tables below

Link Group Interest Rate View	Now	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Bank Rate	0.10%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
3 month ave. earnings	-	0.30%	0.40%	0.50%	0.50%	0.50%	0.60%	0.80%	0.90%	1.00%	1.00%	1.00%
6 month ave. earnings	-	0.40%	0.50%	0.60%	0.60%	0.70%	0.80%	0.90%	1.00%	1.10%	1.10%	1.10%
12 month ave. earnings	-	0.50%	0.60%	0.70%	0.70%	0.80%	0.90%	1.00%	1.10%	1.20%	1.20%	1.20%

Bank Rate	NOW	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	**0.10%**	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%
Capital Economics	**0.10%**	0.25%	0.50%	0.50%	0.50%	0.50%	0.75%	0.75%	1.00%	1.00%	-
5yr PWLB Rate	**NOW**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**
Link Group	**1.46%**	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%
Capital Economics	**1.46%**	1.60%	1.70%	1.80%	1.90%	2.10%	2.10%	2.10%	2.10%	2.10%	-
10yr PWLB Rate	**NOW**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**
Link Group	**1.71%**	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%
Capital Economics	**1.71%**	1.80%	2.00%	2.10%	2.20%	2.30%	2.30%	2.30%	2.30%	2.30%	-
25yr PWLB Rate	**NOW**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**
Link Group	**1.91%**	2.10%	2.20%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%
Capital Economics	**1.91%**	2.10%	2.30%	2.40%	2.60%	2.70%	2.80%	2.80%	2.80%	2.90%	-
50yr PWLB Rate	**NOW**	**Dec-21**	**Mar-22**	**Jun-22**	**Sep-22**	**Dec-22**	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**
Link Group	**1.63%**	1.90%	2.00%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%
Capital Economics	**1.63%**	1.90%	2.10%	2.30%	2.40%	2.60%	2.60%	2.70%	2.70%	2.70%	-

3.5 As shown in the table above, LINK Group now forecast one increase in Bank Rate from 0.10% to 0.25% in quarter 3 of 2021/22, a second increase to 0.50% in quarter 1 of 2022/23, a third increase to 0.75% in quarter 4 of 2022/23 and a fourth increase in quarter 4 in 2023/24.

3.6 **Significant risks to the forecasts**

- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early or too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks

4 KEY MOVEMENT / CHANGES TO THE CAPITAL AND TREASURY STRATEGIES

4.1 The Treasury Management and Capital Strategy Statement (TMCSS) for 2021/22 was approved by Full Council on 16 February 2021 as part of the Medium Term Financial Strategy.

4.2 There are no policy changes to the TMCSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 PRUDENTIAL INDICATOR FOR CAPITAL INVESTMENT

5.1 The table below shows the forecast outturn for capital expenditure at 30 September 2021 compared to the original budget agreed on 16 February 2021.

Capital Expenditure	2021/22 Original Estimate £'000s	2021/22 End of Year Forecast £'000s
Total	**3,604**	**1,459**
Financed by:		
S106 income	25	27
Disabled Facilities Grant via Better Care Fund	475	356
Capital Finance Reserve	1,263	854
New Homes Bonus	300	77
Air Quality Grant Income		70
Transformation Reserve	50	50
Hard/Soft Infrastructure Reserve	1,491	0
Match Funding		25
Total Financing	**3,604**	**1,459**

Changes to the Prudential Indicators for the Capital Financing requirement and the Operational Boundary

5.2 The Council currently has no external borrowing.

5.3 Net external borrowing should not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years.

£000s	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
CFR	777	777	777	777
Movement in CFR	-	-	-*	-*

** No movement is projected in the current estimates.*

5.4 The 2008 Capital Finance and Accounting Regulations include a requirement to make prudent annual provision for repayment of debt arising from capital expenditure (known as a Minimum Revenue Provision or MRP). This is to ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits. If the Council does decide to borrow externally in future an MRP policy will need to be agreed and implemented. This would be set out in the relevant Treasury Management Strategy Statement for the year.

5.5 There are no changes to the Authorised and Operational limits (upper limit beyond which external debt is prohibited) which is outlined in the Treasury Management Strategy and can only be revised by Full Council. As there has been no borrowing, there has not been any breach of these limits.

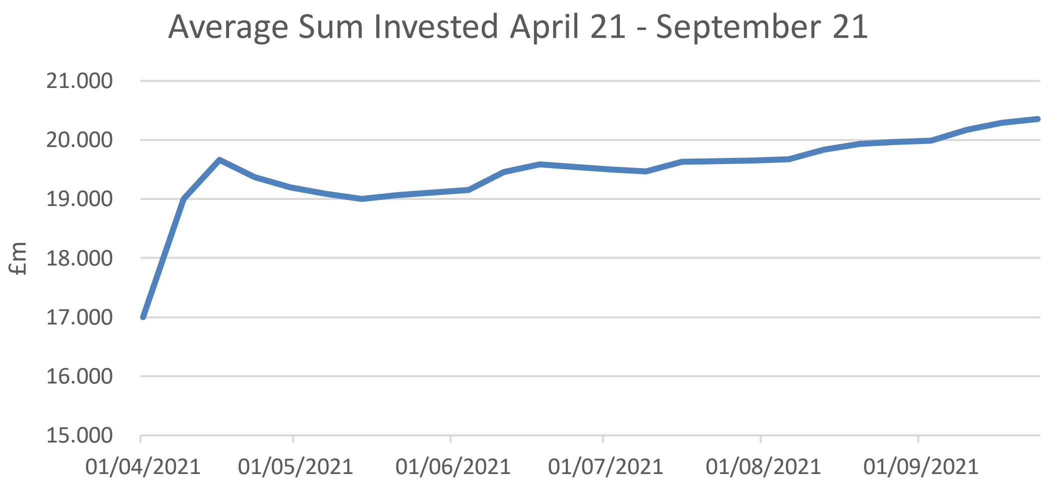
6 INVESTMENT PORTFOLIO 2021/22

6.1 In accordance with the Prudential Code, it is the Council's priority to ensure security of capital, then liquidity, then obtaining an appropriate level of return which is consistent with the Council's risk appetite. Given the Council's current low risk appetite, investment returns are also likely to remain low.

6.2 The Council started the year with £17m of investments and £4.48m in its main current account. The balance of investments held on 30 September 2021 was £22.0m, plus £1.59m in the main current account. The table below summarises the investment transactions that have taken place.

	Investments £000's	**Current Account £000's**	**No. of Investments**
Balance on Investments 1 April 2021	17,000	4,485	10
Investments placed 01/04/21 – 30/09/21	40,100		
Investments realised 01/04/21 – 30/09/21	35,100		
Balance on Investments 30 Sept 2021	22,000	1,598	10

6.3 The graph below shows the average investments held by the authority over the first six months of the year. There was an increase at the beginning of the year due to receiving £3m in Covid-19 Business Restart Grants, after which the level of investments remained fairly steady.



6.4 The balance of £22m held at end of September was comprised of the following investments.

Counterparty	Investments £000	Interest rate (as at 30/09/2021)	% of total Investments held
Santander 95 day account	6,000	0.2%	27
Lloyds 95 day account	3,000	0.05%	14
Money Market Prime (Instant)	2,000	0.01%	9
Money Market Deutsche (Instant)	5,000	0.01%	23
Handelsbanken (Instant)	6,000	0.02%	27

6.5 Interest earned to end of September totalled £12,065. Forecast investment return for 2021/22 is £25,116. No interest was originally budgeted due to the historically low rates; however, investments have given some return over the Bank of England interest rate. The income the Council has received relates to larger balances held from additional grants and reliefs when interest rates were slightly higher. The table below shows the returns the Council are receiving compared to financial benchmarks.

Investment Performance at 30 September 2021

Benchmark	Benchmark Return %	Council Performance %	Investment Interest Earned £
7 day	-0.08	0.00	-
1 month	-0.07	0.01	10

3 month	-0.05	0.20	6,507
6 month	-0.02	0.02	5,548
12 month	0.07	0.0	-

6.6 The Assistant Director, Resources confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2021/22. A review of the Council's investment strategy will be undertaken in the New Year and reported in the 2022/23 Treasury Management and Capital Strategy.

Investment Counterparty Criteria

6.7 The current investment counterparty criteria selection approved in the TMS is meeting the requirement of the treasury management function.

6.8 The financial institutions with which the Authority is investing are monitored on a regular basis in line with the risk document issued by Link, the treasury advisors.

7 RISK IMPLICATIONS

7.1 There are no new risk management implications arising from the contents of this report. However, Members will be aware of the uncertainty in the financial markets and the economy as a whole and the potential risks that this may have in general. The Council's TMS outlines the risks involved in the investments made by the Council and there have been no changes to the assessment of risk.

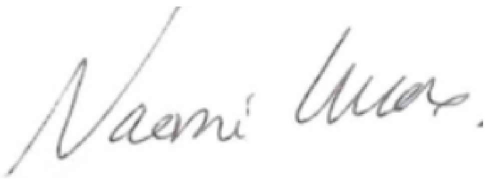
8 EQUALITY & DIVERSITY IMPLICATIONS

8.1 There are none.

9 RECOMMENDATION

It is proposed that the Review Committee

RECOMMENDS TO COUNCIL the contents of this Treasury Management Mid Year Report.



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Background Papers:-

None.

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