Report for:	**Cabinet**
Date of meeting:	
Part:	**I**
If Part II, reason:	

Title of report:	**Treasury Management 2021/22 Mid-Year Performance Report**
Contact:	Cllr Graeme Elliot – Portfolio Holder for Finance & Resources Nigel Howcutt, Chief Finance Officer Fiona Jump, Group Manager (Financial Services)
Purpose of report:	To provide Members with mid-year information on Treasury Management performance for 2021/22.
Recommendations:	That Cabinet recommends to Council acceptance of this report on mid-year treasury management performance and prudential indicators for 2021/22.
Corporate objectives:	Ensuring efficient, effective and modern service delivery.
Financial Implications:	Financial A summary of performance against the Council's budgeted investment income is included in Section 5 of the report. Value for Money The Council is required to invest surplus funds to ensure it maximises the benefit of cash flows.
Risk Implications:	A prudent approach to investment is required to minimise the risk to the Council of investment losses. The approach is outlined in the Council's Treasury Management Strategy 2021/22. The report provides an update on the delivery of that strategy.

Community Impact Assessment	The content of this report relates to the Council's treasury management performance and does not require a Community Impact Assessment to be undertaken.
Health And Safety Implications:	There are no Health and Safety implications arising from this report.
Monitoring Officer / S151 Officer Comments:	**Monitoring Officer:** No comments to add to the report. **Deputy S.151 Officer** This is a Deputy Section 151 Officer Report.
Consultees:	Link Asset Services
Background papers:	Treasury Management Strategy 2021/22 (Budget Report Appendix K) - Cabinet 9 February 2021
Glossary of acronyms and any other abbreviations used in this report:	Chartered Institute of Public Finance and Accountancy (CIPFA) Capital Financing Requirement (CFR) Monetary Policy Committee (MPC) Treasury Management Strategy Statement (TMSS) Debt Management Office (DMO) Public Works Loan Board (PWLB) Housing Revenue Account (HRA)

1. Background

1.1 The purpose of this report is to update Cabinet on the performance of this Council's treasury management function during the first half of 2021/22, to the period 30 September 2021.

1.2 Treasury management is defined as:

"The management of the local authority's borrowing, 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."

1.3 The Council's Treasury Management team manages the Council's cash-flows in order to strike the optimal balance between the following three elements:

- The liquidity requirements for the Council's day-to-day business;
- Funding the Council's capital programme;
- Investing surplus monies in line with the Treasury Management Strategy.

2. Governance

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management in the Public Services (The Code).

2.2 The Code requires:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of treasury management practices setting out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and execution and administration of treasury management decisions;
- This organisation nominates Cabinet to be responsible for ensuring effective scrutiny of the Treasury Management Strategy, policies and monitoring before recommendation to Full Council.

3. Economic update

3.1 In September 2021, the Monetary Policy Committee (MPC) voted unanimously to leave the Bank interest Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases. Covid-19 has caused significant economic damage to the UK and economies around the world.

3.2 The MPC has since indicated a marked increase in concern that more recent increases in prices, particularly gas and electricity in October and due again next April, are likely to lead to faster and higher inflation expectations and underlying wage growth. This increases the risk that price pressures would prove more persistent next year than previously expected. The MPC reaffirmed its commitment to the 2% inflation target. Previous MPC meetings had indicated a willingness to exceed this inflation target for limited periods.

3.3 In December 2021, the MPC increased the Bank Rate to 0.25%. At the end of September 2021, the Council's treasury management advisor, Link Asset Services, forecasted further increases in quarter 2 of 2023/24 to 0.50% and to 0.75% in quarter 4 of 2023/24.

3.4 Significant levels of downgrades to short and long term investment counterparty credit ratings have not materialised since the start of the Covid-19 pandemic. There has been some change in rating outlooks (the expected change in rating movements in the near to medium term). However, as economies have reopened, there have been some instances of previous lowering of rating outlooks being reversed.

4. Treasury Management Strategy Statement and Annual Investment Strategy update

4.1 The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 9 February 2021.

4.2 The Council's Annual Investment Strategy, which is incorporated within the TMSS, outlines the Council's investment priorities as:

- Security of capital;
- Liquidity;
- Return on investment.

4.3 The Council aims to achieve the optimum return on investments within the context of the first two priorities. A breakdown of the Council's investment portfolio, as at 30 September 2021, is shown in Appendix 1.

4.4 Link Asset Services' full counterparty credit list as at 30 September 2021 identifies those organisations the Council is able to place funds and is shown in Appendix 2.

4.5 All the Council's investments during the first six months of the year have been placed in accordance with the approved strategy.

5. Investment Performance 2021/22

5.1 It is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out best value available in periods up to 12 months with high credit rated financial institutions.

5.2 As shown by the interest rate forecasts in section 3.3, interest rates are currently well below those commonly seen in previous decades. All short-term money market investment rates have only risen by very small amounts since the Bank Rate was cut to 0.10% in March 2020. Given this environment and that the Bank Rate may only rise marginally before mid-2023, investment returns are expected to remain low.

5.3 Inter-local authority lending and borrowing rates have also declined due to an increase in the levels of cash available for those wishing to borrow on a short term basis. This is a direct result of large Covid- 19 related payments made to local authorities by central government. Accurately forecasting when disbursements of funds received will occur or when further large receipts will be received from the Government has been challenging.

5.4 The Council held £140.553m of investments as at 30 September 2021 (£112.467m at 31 March 2021). The average investment return for the first six months of the year was 0.07%. In comparison, the Council achieved 0.40% in the first 6 months of 2020/21.

5.5 The Council's investment return for the first half of 2021/22 displays a £265k unfavourable variance against half-yearly budgeted figure of £308k. This reflects the much lower rate of returns available as described in section 5.2.

6. Borrowing

The Capital Financing Requirement

6.1 The Council's Capital Financing Requirement (CFR) is the Council's underlying need to borrow for capital purposes. The CFR is forecasted to be £345.027m as at 31/03/2022. This includes the fixed interest rate borrowing from the Public Works Loan Board (PWLB) following the introduction of HRA Self Financing and for General Fund capital expenditure requirements.

Current Borrowing Arrangements

6.2 As a Local Authority, the Council is able to borrow from PWLB, which operates within the Debt Management Office (DMO), an Executive Agency of HM Treasury.

6.3 The PWLB charges interest on the loans it issues to local authorities. Any borrowing undertaken by the Council will be carried out in line with its approved Treasury Management Strategy. If required, the Council is able to utilise existing cash balances to fund some of its future capital programme instead of undertaking new external borrowing.

Debt rescheduling

6.4 Debt rescheduling opportunities have been very limited in the current economic climate. No debt rescheduling has therefore been undertaken to date in the current financial year.

6.5 <u>Compliance with Treasury and Prudential Limits</u>

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2021, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2021/22. The Chief Finance Officer envisages no difficulties for the current or future years in complying with these indicators.

7. The Council's Capital Expenditure (Prudential Indicators)

7.1 Prudential indicators are set yearly as part of the Council's Treasury Management Strategy. They set the annual limits on borrowing, and provide a basis for assessing the affordability of financing costs, external debt and capital expenditure.

<u>Prudential Indicators for Capital Expenditure</u>

7.2 The table below shows the revised estimates for capital expenditure and financing with the changes since the capital programme was agreed in February 2021, as at the end of September 2021

Capital Expenditure by Service	**2021/22 Original Budget £M**	**2021/22 Revised Forecast as at September 2021 £M**
General Fund	9.490	9.772
HRA	41.360	26.716
Total	**50.850**	**36.487**
Financed by:		
Capital grants & S106	3.756	4.331
Capital receipts & reserves	39.373	27.240
Revenue	7.721	4.917
Borrowing	0.00	0
Total financing	**50.850**	**36.487**

7.3 The table below shows the CFR and the expected debt position over the period; termed the 'Operational Boundary'. The changes to the forecast CFR are due to revision of the Capital Programme, and incorporation of the actual outturn position from 2020/21 and programme slippage and underspends in 2021/22. In year slippage has arisen due to the Covid-19 pandemic.

	2021/22	**2021/22**
	Original Estimate £M	**Revised Forecast £M**
Prudential Indicator – Capital Financing Requirement		
CFR – General Fund	18.571	12.580
CFR – HRA	332.448	332.448
Total CFR	351.019	345.027

Net movement in CFR from 31/03/21	**2.146**	**(3.846)**
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	349.680	349.680
Other long term liabilities (leases)	0.188	0.188
Total debt 31 March 2022	**349.868**	**349.868**

Prudential Indicator for Borrowing Activity

7.4 The key control over treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year, plus the estimates of any additional CFR for 2021/22 and the next two financial years.

7.5 The table highlights that the Council's gross borrowing is forecast to be below its CFR.

	2021/22	**2021/22**
	Original Estimate £M	**Revised Estimate £M**
Gross borrowing	**349.680**	**349.680**
Plus other long term liabilities (leases)	0.188	0.188
Less investments	(76.041)	(74.600)
Net borrowing	273.827	275.267
CFR (year-end position)	**351.019**	**345.027**

7.6 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised annually by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. As at 30 September 2021, the Council had borrowing and other long term liabilities of £353.690m, which is £56.31m under the authorised limit.

Authorised limit for external debt	**2021/22 Original Indicator £M**	**Current Position £M**
Borrowing	400.000	353.502
Other long term liabilities	10.000	0.188
Total	**410.000**	**353.690**