



Audit & Governance Committee

Report Subject	Treasury Management Monitoring report for the period April to September 2021
Meeting date	28 October 2021
Status	Public
Executive summary	<p>This report sets out the monitoring of the Council's Treasury Management function for the period 1 April 2021 to 30 September 2021. A surplus of £626k will be achieved through lower borrowing costs due to historically low interest rates and higher cash balances held by the authority.</p> <p>The report also provides a brief update to the changing regulatory environment on Treasury Management.</p>
Recommendations	<p>It is recommended that Audit & Governance Committee:</p> <ol style="list-style-type: none">1) note the reported activity of the Treasury Management function for April to September 20212) note the update on the Treasury Management regulatory environment
Reasons for recommendations	<p>It is a requirement under the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice that regular monitoring of the Treasury Management function is reported to Members.</p>
Portfolio Holder	Councillor Drew Mellor, Leader, Finance & Transformation
Corporate Director	Graham Farrant, Chief Executive
Service Director	Adam Richens - Chief Financial Officer
Classification	For information and recommendation
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Background Detail

1. Treasury Management is defined as the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.
2. The Treasury Management function operates in accordance with The Chartered Institute of Public Finance and Accountancy (CIPFA) 'Treasury Management in the Public Services' Code of Practice (2011).
3. The Treasury Management function manages the Council's cash flow by exercising effective cash management and ensuring that the bank balance is as close to nil as possible. The objective is to ensure that bank charges are kept to a minimum whilst maximising interest earned. A sound understanding of the Council's business and cash flow cycles enables funds to be managed efficiently.
4. This report considers the treasury management activities in relation to the Treasury Management Strategy. Also included is a summary of the current economic climate, an overview of the estimated performance of the treasury function, an update on the borrowing strategy, investments, and compliance with prudential indicators.

Economic Background

5. The 23 September Monetary Policy Committee (MPC) meeting voted unanimously to keep the 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 at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.
6. There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate.
7. Inflation remains the biggest concern, with more recent increases in prices, particularly the increases in gas and electricity prices in October 2021 and due again in April 2022, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected.
8. The UK latest inflation rate hit 3.2% in the year to August, the biggest jump since records began in 1997 as the economy continued to reopen. The Consumer Prices Index measure of inflation rose from 2% in July. The Office for National Statistics (ONS) urged caution in reading too much into August's price increases, which it described as "temporary". Eating and drinking out cost more last month in comparison with August last year, when the Eat Out to Help Out Scheme was running, and diners got a state-backed 50% discount on meals up to £10 each on Mondays, Tuesdays, and Wednesdays. At the same time, business owners in the hospitality and tourism sectors received a VAT discount, designed to help some of the industry's worst hit by the pandemic.

9. The rate is higher than the Bank of England's 2% inflation target for a third month. This is fuelling the debate about whether interest rates need to go up sooner, with economists predicting inflation could reach nearly 4% this year.

Interest Rates

10. Table 1 below which is produced by the authority's treasury consultants Link Asset Services illustrates that there is an expectation that the bank rate will start to increase as soon as June 2022. The last update presented to the committee showed a forecasted increase as late as September 2023. As highlighted in paragraph 6 this is down to the growing inflationary pressures impacting on the UK economy.
11. Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September.

Table 1: Interest rate projection (Link Asset Services)

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

Treasury Management Performance 2021/22

12. Table 2 overleaf shows the overall treasury management position for 2021/22. The current forecast is an underspend of £626k which will be mostly achieved from savings on the interest payable budget. Despite the Council taking out new PWLB borrowing of £25m in August 2021, this was at a historically low rate, far lower than assumed in the budget.
13. Investment income is also forecasted to provide additional £60k interest received beyond the budget. This is due to higher cash balances than assumed coming into this financial year. The Government provided funding to the Council in relation to the Covid-19 pandemic such as financial support to businesses which the Council has distributed during 2020/21. Most of these schemes have now finished and there are some unspent monies that need to be returned to the Government later in the year.

Table 2: Treasury Management performance 2021/22

	Forecast 2021/22 £'000	Budget 2021/22 £'000	Variance 2021/22 £'000
<u>Expenditure</u>			
Interest Paid on Borrowings	2,615	3,181	(566)
<u>Income</u>			
Investment Interest Received	(105)	(45)	(60)
Total	2,510	3,136	(626)

Borrowing

14. Table 3 below shows the closing level of borrowing for the Council's two loans pool.

Table 3: Council Borrowings as at 30 September 2021

Initial Loan Value £'000	Interest Rate	Balance as at 30 Sept 2021 £'000	Maturity Date	General Fund Pool £'000	HRA Pool £'000	Source
Short Term Borrowing						
2,000	8.00%	2,000	25-Nov-2021	-	2,000	PWLB
2,000	8.00% <i>Average Rate</i>	2,000		-	2,000	
Long Term Borrowing						
2,000	8.00%	2,000	25-Nov-2022	-	2,000	PWLB
5,000	2.66%	833	22-Aug-2023	-	833	PWLB
5,000	4.45%	5,000	24-Sep-2030	-	5,000	PWLB
5,000	4.45%	5,000	24-Nov-2031	5,000	-	PWLB
5,000	4.75%	5,000	24-Sep-2032	-	5,000	PWLB
5,000	4.45%	5,000	24-Nov-2032	5,000	-	PWLB
5,000	4.75%	5,000	24-Sep-2033	-	5,000	PWLB
5,000	4.60%	5,000	23-Feb-2035	-	5,000	PWLB
5,000	4.72%	5,000	22-Aug-2036	-	5,000	PWLB
5,000	2.80%	5,000	20-Jun-2041	5,000	-	PWLB
5,000	2.80%	5,000	20-Jun-2041	5,000	-	PWLB
10,000	1.83%	10,000	22-Jul-2046	-	10,000	PWLB
2,500	6.75%	2,500	06-Mar-2056	-	2,500	PWLB
1,500	6.75%	1,500	13-Mar-2057	-	1,500	PWLB
1,500	5.88%	1,500	07-Mar-2058	-	1,500	PWLB
42,488	3.48%	42,488	28-Mar-2062	-	42,488	PWLB
43,908	3.48%	43,908	28-Mar-2062	-	43,908	PWLB
12,500	1.56%	12,500	16-Aug-2068	12,500	-	PWLB
12,500	1.55%	12,500	16-Aug-2069	12,500	-	PWLB
178,896		174,729		45,000	129,729	
49,000	2.83%	49,000	24-May-2068	49,000	-	Phoenix Life Limited
22,625	2.26% + RPI Annually	16,669	17-Oct-2039	16,669	-	Prudential Assurance Co
3,673	0.00%	381	01-Apr-2023	381	-	Salix
256,194		242,779		111,050	131,729	

Investments

15. A full list of investments held by the authority as at 30 September 2021 is shown in Table 4 below.

Table 4: Investment Summary as at 30 September 2021

Investments	Maturity Date	Principal Amount £	Interest %
<u>Fixed Term Deposits</u>			
Landesbank Hessen Thuringen	04-Oct-2021	12,400,000	0.08%
Landesbank Hessen Thuringen	29-Oct-2021	18,100,000	0.08%
Goldman Sachs International Bank	05-Nov-2021	15,000,000	0.25%
Close Brothers	24-Nov-2021	12,800,000	0.25%
Goldman Sachs International Bank	31-Dec-2021	12,400,000	0.17%
Goldman Sachs International Bank	16-Feb-2022	7,850,000	0.17%
Close Brothers	29-Mar-2022	10,000,000	0.25%
Sub Total		88,550,000	
<u>Call Account</u>			
Santander UK	120 day notice	22,825,000	0.25%
Handelsbanken	instant access	27,090,000	0.01%
Aberdeen Standard Liquidity Fund	instant access	13,010,000	0.01%
Total		151,475,000	

Prudential Indicators

16. The Treasury Management Prudential Code Indicators were set as part of the 2021/22 Treasury Management Strategy. It can be confirmed that all indicators have been complied with during the period 1 April 2021 to 30 September 2021.

Compliance with Policy

17. The Treasury Management activities of the Council are regularly audited both internally and externally to ensure compliance with the Council's Financial Regulations. The recent internal audit in September 2020 rated the Treasury Management function as "Substantial" assurance which means that there is a sound control framework which is designed to achieve the service objectives, with key controls being consistently applied.
18. The Treasury Management Strategy requires that surplus funds are placed with major financial institutions but that no more than 25% (AA- Rated Institutions) or 20% (A to A- Rated) of the investment holding is placed with any one major financial institution at the time the investment takes place. It can be confirmed

that the Treasury Management Strategy has been complied with during the period 1 April 2021 to 30 September 2021.

Treasury Management Regulatory Landscape

19. The Committee should note the changing regulatory landscape that the Council will have to abide to when making decisions on capital investments and borrowing. Most recently the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital financing, which governs the system of LA capital financing is introducing the overarching rule that an authority must not borrow to invest primarily for financial return. This rule amongst several other changes is currently out for consultation but will likely be implemented in time for setting the Council Treasury Management Strategy for 2022/23.
20. In addition the UK government's rules for access to Public Works Loans Board (PWLb) lending require statutory Chief Finance Officers to certify that their Local Authority's capital spending plans do not include the acquisition of assets primarily for yield, reflecting a view that Local Authority borrowing powers are granted to finance direct investment in local service delivery (including housing, regeneration and local infrastructure) and for cash flow management, rather than to add leverage to return-seeking investment activity.
21. The government are also consulting on changes to the Local Authority Capital Finance Framework which will see further regulation of Councils' capital and borrowing plans and the potential introduction of debt caps if authorities continue to operate outside of the regulations. The Department for Levelling Up, Housing and Communities also plan to better constrain the risks associated with complex capital transactions. This includes credit arrangements, such as PFI deals or income strips, and financial derivatives.

Summary of Financial/Resource Implications

22. Financial implications are as outlined within the report.

Summary of Legal Implications

23. There are no known legal implications.

Summary of Equalities and Diversity Impact

24. The Treasury Management activity does not directly impact on any of the services provided by the Council or how those services are structured. The success of the function will have an impact on the extent to which sufficient financial resources are available to fund services to all members of the community.

Summary of Risk Assessment

25. The Treasury Management Policy seeks to consider and minimise various risks encountered when investing surplus cash through the money markets. The aim in accordance with the CIPFA Code of Practice for Treasury Management is to place a greater emphasis on the security and liquidity of funds rather than the return gained on investments. The main perceived risks associated with treasury management are discussed below.

Credit Risks

26. Risk that a counterparty will default, fully or partially, on an investment placed with them. There were no counterparty defaults during the year to date, the Council's position is that it will invest the majority of its cash in the main UK Banks which are considered to be relatively risk adverse and have been heavily protected by the UK Government over the last few years. The strategy is being constantly monitored and may change if UK Bank Long Term ratings fall below acceptable levels.

Liquidity Risks

27. Aims to ensure that the Council has sufficient cash available when it is needed. This was actively managed throughout the year and there are no liquidity issues to report.

Re-financing Risks

28. Managing the exposure to replacing financial instruments (borrowings) as and when they mature. The Council continues to monitor premiums and discounts in relation to redeeming debt early. Only if interest rates result in a discount that will benefit the Council would early redemption be considered.

Interest Rate Risks

29. Exposure to interest rate movements on its borrowings and investments. The Council is protected from rate movements once a loan or investment is agreed as the vast majority of transactions are secured at a fixed rate.

Price Risk

30. Relates to changes in the value of an investment due to variation in price. The Council does not invest in Gilts or any other investments that would lead to a reduction in the principal value repaid on maturity.

Background papers

31. Treasury Management report to Full Council on 23 February 2021
<https://democracy.bcpccouncil.gov.uk/documents/g4287/Public%20reports%20pack%2023rd-Feb-2021%2019.00%20Council.pdf?T=10>