
Report To:	Policy & Resources Committee	Date:	16 November 2021
Report By:	Interim Director, Finance & Corporate Governance	Report No:	FIN/68/21/AP/KJ
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Subject:	Treasury Management – Mid-Year Report 2021/22		

1.0 PURPOSE

- 1.1 The purpose of this report is to advise members of the operation of the treasury function and its activities for the first six months of 2021/22 as required under the terms of Treasury Management Practice 6 ("TMP6") on "Reporting Requirements and Management Information Arrangements".

2.0 SUMMARY

- 2.1 The COVID-19 emergency continues to impact on the Council's treasury management position with additional cash flows in and additional costs from COVID-19 but with less volatility than before. There remains continued economic uncertainty with the UK Bank Rate unchanged at the historically low 0.10% and many investment rates at levels close to zero. There had been the possibility of further cuts in the Bank Rate and negative interest rates but this is looking less likely and instead there is the possibility of rate increases.
- 2.2 As at 30 September 2021 the Council had gross external debt (including PPP) of £256,989,788 and investments (cash balances managed in house) of £54,569,163. This compares to gross external debt (including PPP) of £257,757,141 and investments of £39,905,732 at 31 March 2021.
- 2.3 The Council is projected to be underborrowed by £42,087,000 compared to its Capital Financing Requirement as at 31 March 2022. This is an increase of £11,644,000 from the estimate of £30,443,000 for 2021/22 in the Treasury Management Strategy due to a projected increase in capital expenditure in year and borrowing projected to be lower than estimated. The under borrowing position means that the Council is using funds it currently has (such as reserves) to cash flow capital expenditure rather than bringing in new funds from borrowing.
- 2.4 The Council has not undertaken any new borrowing this year. The Treasury Management Strategy includes £7,500,000 of replacement borrowing for 2021/22 but the current projection for the remainder of the year does not anticipate additional borrowing. Borrowing may, however, be undertaken if funds are required and if it is prudent to borrow.
- 2.5 The average rate of return achieved on investments during the first six months of 2021/22 was 0.17% which exceeds the benchmark return rate for the period of -0.05% by 0.22% and resulted in £49,600 of additional interest on investments for the Council.
- 2.6 The Council has not undertaken any debt restructuring this year and operated within the required treasury limits and Prudential Indicators for the year set out in the Council's Treasury Policy Statement, annual Treasury Strategy Statement, and Treasury Management Practices.

3.0 RECOMMENDATIONS

- 3.1 It is recommended that the Committee notes the contents of the Mid-Year Report on Treasury Management for 2021/22 and the ongoing work to ensure the delivery of financial benefits for the Council.
- 3.2 It is recommended that the Mid-Year Report be remitted to the Full Council for approval.

Alan Puckrin
Interim Director, Finance & Corporate Governance

4.0 BACKGROUND

- 4.1 The Council is required by the revised CIPFA Code of Practice on Treasury Management 2017 and the CIPFA Prudential Code for Capital Finance in Local Authorities to produce a mid-year treasury management review of activities and prudential and treasury indicators for 2021/22.
- 4.2 Treasury Management in this context 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.”

5.0 MID-YEAR REVIEW

- 5.1 The treasury management issues arising during the first six months of 2021/22 were:
 - a. The Council’s debt (including PPP) has reduced during the period by £767,353 due largely to the regular monthly repayments on the PPP contract.
 - b. The Council’s investments have increased by £14,663,431 due to additional net cash flows into the Council.
 - c. As at 31 March 2021 the Council had under borrowed against its capital financing requirement by £35,240,000. The latest projection is for the under borrowing to increase to £42,087,000 as at 31 March 2022. Under borrowing means that the Council is using funds it currently has to cash flow capital expenditure rather than bringing in funds from borrowing. The projected level of under borrowing is considered manageable but the position is kept under review in light of Council capital financing and other funding requirements.
 - d. Whilst COVID-19 and other issues continue to cause financial market volatility and economic uncertainty in the UK and around the world, the view and expectation on interest rates appears to be settling down. In 2020 with the UK Bank Rate cut to a historic low of 0.10%, there was a possibility of further cuts and negative interest rates in the UK but this is looking less likely and instead there is the possibility of rate increases.
 - e. The latest forecast from the Council’s treasury advisers (produced in September) is for the Bank Rate to increase from 0.10% to 0.25% in the second quarter of 2022 followed by increases to 0.50% in the second quarter of 2023 and to 0.75% in the first quarter of 2024.
 - f. During the period PWLB rates for new borrowing had been expected to remain largely unchanged. Rates increased by around 0.25% for shorter periods but remained largely unchanged for periods beyond around 25 years. The volatility during the 6-month period resulted in spreads between the high and low rates for some loan periods of up to 0.57% (e.g. borrowing rates for 47 years of 2.00% at the end of September had been at 2.09% in May and at 1.52% in August).
 - g. The Council’s treasury advisers expect PWLB rates to remain at around current levels over the remainder of the financial year but the extent and speed of any changes to rates will depend on the economic and other factors affecting the UK and global markets.
 - h. The Council has not undertaken any new borrowing during the period. The Treasury Management Strategy includes £7,500,000 of replacement borrowing in 2021/22 (to part fund the repayment of £10,000,000 of PWLB borrowing maturing in November) but the current projection for the remainder of the year does not anticipate additional borrowing. Borrowing may, however, be undertaken if funds are required and if it is prudent to borrow. Any borrowing undertaken will be reported to Committee.
 - i. The Council did not undertake any debt restructuring during the first six months of 2021/22 and remained within its Prudential Indicator and Treasury Management limits.
 - j. With the Bank Rate at 0.10%, investment rates and returns have been low with many rates close to zero, including for fixed term deposits. Rates for periods beyond around 6-9 months are starting to increase due to the expectation of increases in the Bank Rate.

- k. The Council's investments earned a rate of return of 0.17% during the period and outperformed the benchmark return of -0.05% resulting in additional income to the Council of £49,600.
- l. All investments were in accordance with the Council's investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the period.
- m. The Council's investment performance is due to undertaking fixed term investments and placing funds into notice accounts at interest rates that were above the benchmark with counterparties that have high creditworthiness (the Bank of Scotland, Santander UK, and Nationwide Building Society) and in accordance with the Council's investment strategy.

5.2 The Council's debt position was as follows:

	At 31 March 2021	At 30 September 2021
	£	£
Total Excluding PPP	198,761,141	198,804,788
PPP Debt	58,996,000	58,185,000
Total Including PPP	257,757,141	256,989,788

Further detail is given in the following table:

	At 31 March 2021		At 30 September 2021		Movement In Period
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	99,065		99,065		0
- Market *	56,000		56,000		See * Below
	155,065	3.67%	155,065	3.67%	0
Variable Rate Funding:					
- PWLB	0		0		0
- Market *	43,400		43,400		See * Below
- Temporary #	296		340		44
	43,696	4.91%	43,740	4.91%	44
Total Debt (Excl PPP)	198,761	3.94%	198,805	3.94%	44
PPP Debt	58,996		58,185		(811)
Total Debt (Incl PPP)	257,757		256,990		(767)

* - Market Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of Market Loans has not changed between financial years, just the split between fixed and variable.

- Temporary Loans are funds held by the Council on behalf of the Common Good and Trust Funds that are treated as borrowing for Treasury Management purposes.

5.3 The Council's investment position was as follows:

	At 31 March 2021		At 30 September 2021		Movement In Period
	Principal	Return	Principal	Return	Principal
	£000		£000		£000
Investments:					
- Fixed Term Deposits	10,000	0.25%	15,000	0.06%	5,000
- Notice Accounts	14,534	0.40%	14,564	0.40%	30
- Deposit Accounts	15,372	0.01%	25,005	0.01%	9,633
Totals	39,906	0.21%	54,569	0.13%	14,663

Maximum level of investments in Period: £60,355,118 on 17 August 2021

Minimum level of investments in Period: £32,318,469 on 29 April 2021

Daily average for the period: £45,114,324

An analysis of the above investments is shown in Appendix 1.

In addition to the above cash balances managed in-house, the Council has other transactions/balances required to be treated as investments under Investment Regulation 31. Appendix 2 includes these transactions/balances along with estimates for 2021/22.

5.4 2021/22 Latest Projection Compared to Estimates in 2021/22 Strategy

The latest 2021/22 projection compared to the estimates in the 2021/22 strategy:

	2021/22 Estimate	2021/22 Latest Projection
<u>Borrowing Requirement</u>	£000	£000
New borrowing	0	0
Alternative financing requirements	0	0
Replacement borrowing	7,500	0
TOTAL	7,500	0
<u>Prudential/Treasury Management Indicators</u>		
Capital financing requirement (As at 31 March 2022)	£000 285,800	£000 288,231
Gross external debt including PPP (As at 31 March 2022)	255,357	246,144
(Under)/over borrowing against CFR	(30,443)	(42,087)
Gross Capital Expenditure	£000 18,072	£000 21,122
Ratio of financing costs (including PPP) to net revenue stream	11.27%	11.13%
Ratio of net debt (debt and PPP less investments) to net revenue stream	111.5%	103.9%

5.5 2021/22 Mid-Year Position Compared to Limits in 2021/22 Strategy

The 2021/22 mid-year position compared to limits in the 2021/22 strategy:

	2021/22 Limits		2021/22 Mid-Year Actual Position	
<u>Prudential/Treasury Management Indicators</u>				
Authorised limit for external debt				
	£000		£000	
• Borrowing	232,000		198,805	
• Other long term liabilities	61,000		58,185	
	293,000		256,990	
Operational boundary for external debt				
	£000		£000	
• Borrowing	214,000		198,805	
• Other long term liabilities	61,000		58,185	
	275,000		256,990	
Upper limit on sums invested for periods longer than 365 days (Actual is maximum in period)				
	£000		£000	
	10,000		0	
Upper limits on Fixed/Variable borrowing maturing in each period (LOBOs included based on call dates and not maturity dates) at 31 March 2022				
	Fixed	Var.	Fixed	Var.
• Under 12 months	45%	35%	5.1%	22.0%
• 12 months and within 24 months	45%	35%	11.9%	-
• 24 months and within 5 years	45%	35%	3.8%	-
• 5 years and within 10 years	45%	35%	5.7%	-
• 10 years and within 30 years	45%	35%	8.8%	-
• 30 years and within 50 years	45%	35%	22.6%	-
• 50 years and within 70 years	45%	35%	20.1%	-
<u>Council Policy Limits</u>				
Maximum Percentage of Debt Repayable In Year	25%		20.1%	
Maximum Proportion of Debt At Variable Rates	45%		22.0%	
Maximum Percentage of Debt Restructured In Year	30%		0.0%	

5.6 The forecasts from the Treasury Advisors for the Bank Rate as at 31 March each year are:

	Forecast Per 2021/22 Strategy (February 2021)	Latest Forecast (September 2021)
2021/22	0.10%	0.10%
2022/23	0.10%	0.25%
2023/24	0.10%	0.75%

5.7 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was included in the annual investment strategy approved by the Council. This policy sets out the approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps, bank share prices etc.

5.8 All investments were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full during the period.

The result of the investment strategy undertaken by the Council in the first six months of 2021/22 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3 month LIBID un-compounded)
£45,114,324	0.17%	-0.05%

The Council have outperformed the benchmark by 0.22% resulting in additional income to the Council of £49,600. (Note: The benchmark rate has been negative since 3/7/2020).

6.0 IMPLICATIONS

6.1 Finance

Through the achievement of exceeding the investment benchmark return rate, the Council has benefited from additional returns of £49,600. The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

6.2 Legal

None. Any borrowing or lending is done under the Council's legal powers.

6.3 Human Resources

None.

6.4 Equalities

Equalities

(a) Has an Equality Impact Assessment been carried out?

	YES (see attached appendix)
X	NO – This report does not introduce a new policy, function or strategy or recommend a substantive change to an existing policy, function or strategy. Therefore, no Equality Impact Assessment is required

(b) Fairer Scotland Duty

If this report affects or proposes any major strategic decision:-

Has there been active consideration of how this report's recommendations reduce inequalities of outcome?

	YES – A written statement showing how this report's recommendations reduce inequalities of outcome caused by socio-economic disadvantage has been completed.
X	NO

(c) Data Protection

Has a Data Protection Impact Assessment been carried out?

	YES – This report involves data processing which may result in a high risk to the rights and freedoms of individuals.
X	NO

6.5 Repopulation

None.

7.0 CONSULTATIONS

7.1 This report has been produced based on advice from the Council's treasury advisers (Link Treasury Services Limited).

8.0 LIST OF BACKGROUND PAPERS

8.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2017 Edition
Inverclyde Council – Capital Strategy 2021/31 and Treasury Management Strategy Statement and Annual Investment Strategy 2021/22-2024/25.

**CASH BALANCES MANAGED IN-HOUSE
ACTUAL AS AT 31 MARCH 2021 AND 30 SEPTEMBER 2021**

The following is an analysis of cash balances managed in-house as at 31 March 2021 and at 30 September 2021:

	As At 31 March 2021	As At 30 September 2021
	£	£
<u>Fixed Term Deposits</u>		
Bank of Scotland	10,000,000	0
Santander UK	0	0
Nationwide Building Society	0	15,000,000
	10,000,000	15,000,000
Average Interest Rate	0.25%	0.06%
<u>Notice Accounts</u>		
Bank of Scotland	0	0
Santander UK	14,534,326	14,563,658
	14,534,326	14,563,658
Average Interest Rate	0.40%	0.40%
<u>Deposit Accounts</u>		
Bank of Scotland	15,370,900	25,005,000
Santander UK	505	505
	15,371,405	25,005,505
Average Interest Rate	0.01%	0.01%
TOTAL	39,905,731	54,569,163
Average Interest Rate	0.21%	0.13%

**FORECAST OF INVESTMENT BALANCES
ESTIMATE FOR 2021/22 AND ACTUAL AT 30 SEPTEMBER 2021**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2021/22 and the actual as at 30 September 2021 are:

	2021/22	2021/22
	Estimate For Year	Actual For 1 April 2021 To 30 September 2021
	£000	£000
Cash balances managed in-house		
- At Start of Year	40,000	39,906
- At End of Year/Period	31,337	54,569
- Change in Year/Period	(8,663)	14,663
- Average daily cash balances	35,669	45,114
Holdings of shares, bonds, units (includes local authority owned company)		
- At Start of Year	2	2
- Purchases	0	0
- Sales	0	0
- At End of Year/Period	2	2
Loans to local authority company or other entity to deliver services		
- At Start of Year	442	398
- Advances	0	0
- Repayments	43	21
- At End of Year/Period	399	377
Loans made to third parties (2021/22 is largely remaining BPRA) #		
- At Start of Year	1,402	1,410
- Advances	0	5
- Repayments ##	1,290	7
- At End of Year/Period	112	1,408
Total of all investments		
- At Start of Year	41,846	41,716
- At End of Year/Period	31,850	56,356
- Change in Year/Period	(9,996)	14,640

- This includes the £50,000 investment made with the Shared Interest Society Limited in August 2017.

- The main part of the repayments are for the BPRA and are due in January 2022.