

## **Treasury Management Strategy Statement and Annual Investment Strategy Update 2021/22**

The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by Council on 3rd March 2021.

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

### **The Council's Capital Position (Prudential Indicators)**

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

### **Prudential Indicator for Capital Expenditure**

The following table shows the revised estimates and financing of capital expenditure and the changes since the capital programme was agreed at the Budget. It also highlights the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure.

<b>Capital Expenditure</b>	<b>2021-22 Original Programme £'000</b>	<b>2021-22 Latest Approved £'000</b>	<b>Actual As At 30-09-21 £'000</b>	<b>2021-22 Forecast Outturn £'000</b>
Housing Revenue Account (HRA)	11,923	13,337	1,211	9,996
General Fund	6,851	7,720	1,834	6,366
<b>Total spend</b>	<b>18,774</b>	<b>21,057</b>	<b>3,045</b>	<b>16,362</b>
Financed by:				
Capital receipts	744	744	(86)	744
HRA Capital receipts – Land Sales	0	0	0	0
Capital grants and Contributions	1,338	1,595	410	1,572
Major Repairs Reserve	5,794	7,195	1,306	7,195
Direct Revenue Funding	4,229	4,825	200	2,408
1-4-1 receipts	1,091	1,092	(8)	486
Shared Ownership Sale Proceeds	891	1,044	0	605
<b>Total financing</b>	<b>14,087</b>	<b>16,495</b>	<b>1,821</b>	<b>13,010</b>
<b>Borrowing need</b>	<b>4,687</b>	<b>4,562</b>	<b>1,224</b>	<b>3,352</b>

\*Commercial activities/non-financial investments relate to areas such as capital expenditure on investment properties, loans to third parties etc.

The borrowing need shown in the above table is the Council's purchase of an additional equity stake in Welland Homes and the loans made to Welland Homes. This capital expenditure has not been financed and therefore creates a borrowing requirement. Rather

than take out external borrowing, the Council is utilising its cash balances and internally borrowing to finance the capital expenditure.

**Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary.**

The following table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period. This is termed the Operational Boundary.

	<b>2021-22 Original Estimate For Year End £'000</b>	<b>2021-22 Latest Approved For Year End £'000</b>	<b>Position As At 30-09-21 £'000</b>	<b>2021-22 Forecast Outturn For Year End £'000</b>
<b>Prudential Indicator – CFR</b>				
CFR – housing	68,427	68,427	68,427	68,427
CFR – non housing	12,512	12,387	11,288	9,160
<b>Total CFR</b>	<b>80,939</b>	<b>80,814</b>	<b>79,715</b>	<b>77,587</b>
<b>Net movement in CFR</b>	<b>4,687</b>	<b>4,562</b>	<b>1,224</b>	<b>3,352</b>
<b>Prudential Indicator – External Debt / Operational Boundary</b>				
Borrowing	67,456	67,456	67,456	67,456
Other long term liabilities	0	0	0	0
<b>Total debt 31 March</b>	<b>67,456</b>	<b>67,456</b>	<b>67,456</b>	<b>67,456</b>
<b>Approved Operational Boundary</b>	<b>87,000</b>	<b>87,000</b>	<b>87,000</b>	<b>87,000</b>

**Limits to Borrowing Activity**

The first key control over the 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 next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	<b>2021-22 Original Estimate For Year End £'000</b>	<b>2021-22 Revised Estimate For Year End £'000</b>	<b>Position As At 30/09/21 £'000</b>	<b>2021-22 Forecast Outturn For Year End £'000</b>
Gross borrowing	67,456	67,456	67,456	67,456
Less investments	(38,794)	(42,987)	(48,033)	(44,842)
<b>Net borrowing</b>	<b>28,662</b>	<b>24,468</b>	<b>19,423</b>	<b>22,614</b>
<b>CFR (year-end position)</b>	<b>80,939</b>	<b>80,814</b>	<b>79,715</b>	<b>77,587</b>

The Deputy Chief Executive – Corporate Development (Section 151 Officer) reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

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 by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

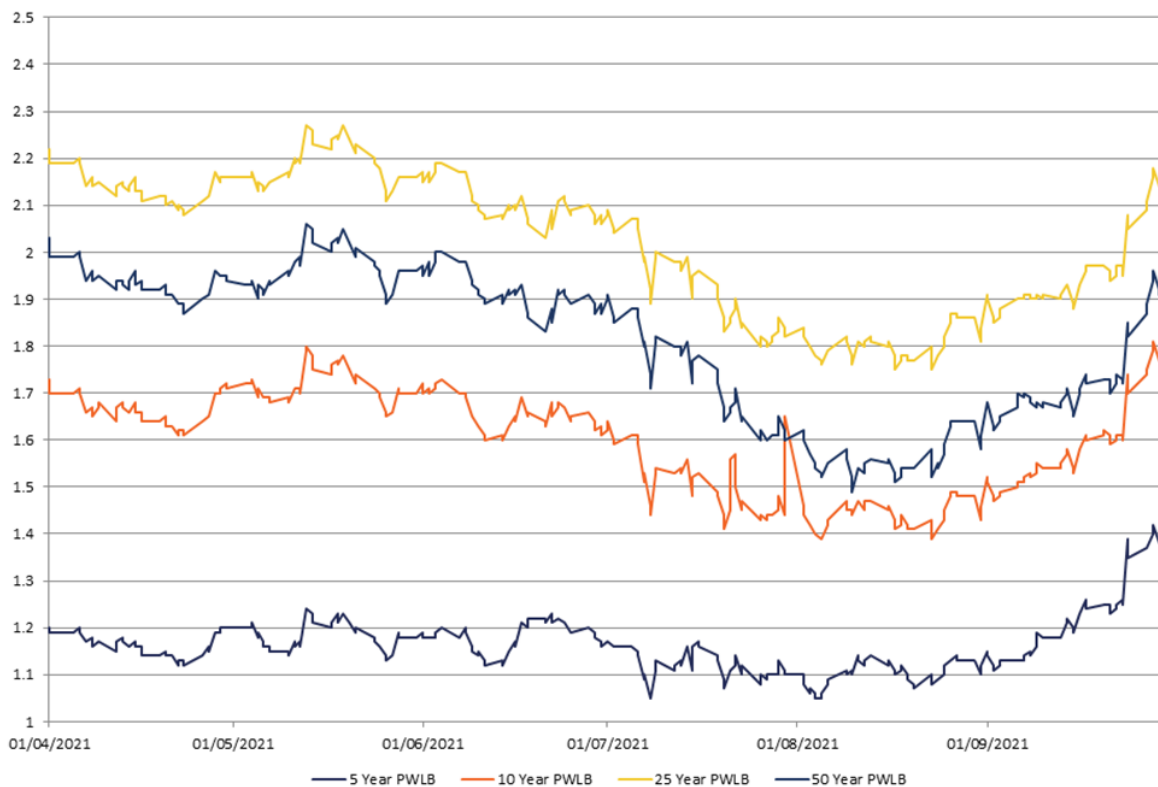
<b>Authorised limit for external debt</b>	<b>2021-22 Original Estimate For Year End £'000</b>	<b>Position As At 30/09/21 £'000</b>	<b>2021-22 Revised Estimate For Year End £'000</b>
Borrowing	90,000	90,000	90,000
Other long term liabilities	1,000	1,000	1,000
<b>Total</b>	<b>91,000</b>	<b>91,000</b>	<b>91,000</b>

The limit of £1m for long term liabilities shown above provides headroom for the Council to take out finance leases for capital assets rather than outright purchase. Prior to taking out a finance lease, a full option appraisal would be carried out to ensure it is the most cost effective way of financing the capital expenditure.

### **Borrowing**

The Council's projected capital financing requirement (CFR) for the end of 2021/22 is £77.59m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council has borrowings of £67.456m in respect of the Housing Revenue Account self-financing settlement and it is anticipated that further borrowing will not be undertaken during this financial year but this will be kept under review.

The following graph shows the movement in PWLB rates for the first six months of the year to 30th September 2021.



The 50-year PWLB target rate for new long-term borrowing was back to Quarter 1 levels at 1.98%, after two months of lower rates over summer.

### **Debt Rescheduling**

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

### **Compliance with Treasury and Prudential Limits**

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. The Deputy Chief Executive – Corporate Development (Section 151 Officer) reports that no difficulties are envisaged for the current or future years in complying with these indicators.

### **Annual Investment Strategy**

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 3<sup>rd</sup> March 2021. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and 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 value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap overlay information.

As shown by the interest rate forecasts in **Appendix B**, it is now impossible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%. There is however increasing likelihood that the Bank Rate will begin to rise during the second half of the financial year. Although this would improve investment returns available to the council, Link Asset Services forecast the Bank Rate to rise slowly to 0.75% by March 2024.

### **Investment Portfolio 2021/22**

The Council held £48.034m of investments and £3.710m of loans to Welland Homes as at 30 September 2021. The investment portfolio yield for the first six months of the year is 0.3519% against a benchmark of -0.054% (average 3 month LIBID). Deposits held excluding accrued interest were as follows:

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Institution	Investment Type	Start Date	Maturity Date	Rate/Return %	As at 31-03-21 £'000	As at 30-09-21 £'000
Welland Homes	Long Term Debtor	n/a	n/a	n/a	3,710	3,710
Lloyds Bank Current Account	Instant Access	n/a	n/a	0.00	0	1,395
Handelsbanken	Instant Access	n/a	n/a	0.00	4,993	4,993
CCLA Money Market Fund	Instant Access	n/a	n/a	0.024	3,500	4,650
Lloyds Bank	95 Day Notice	n/a	n/a	0.05	4,994	4,995
Doncaster Metropolitan Borough Council	Time Deposit	13/05/20	12/05/21	1.00	3,000	0
Standard Chartered	Time Deposit	02/12/20	02/06/21	0.04	3,000	0
Nationwide Building Society	Time Deposit	02/12/20	02/06/21	0.06	2,000	0
Goldman Sachs Investment Bank	Time Deposit	13/01/21	13/07/21	0.11	5,000	0
Australia & New Zealand Bank	Time Deposit	08/02/21	07/02/22	0.11	2,500	2,500
Australia & New Zealand Bank	Time Deposit	15/02/21	16/08/21	0.10	2,500	0
Thurrock Borough Council	Time Deposit	12/03/21	11/03/22	0.30	2,000	2,000
Standard Chartered	Time Deposit	16/03/21	16/09/21	0.11	2,000	0
National Westminster Bank (CD)	Certificate of Deposit	17/03/21	17/03/22	0.16	5,000	5,000
Close Brothers	Time Deposit	26/03/21	24/09/21	0.25	2,500	0
Bayerische Landesbank London	Time Deposit	07/04/21	07/10/21	0.10	0	3,000
Nationwide Building Society	Time Deposit	18/05/21	18/11/21	0.07	0	2,000
Close Brothers	Time Deposit	24/05/21	24/11/21	0.25	0	2,500
Standard Chartered	Time Deposit	02/06/21	02/12/21	0.12	0	3,000
Goldman Sachs Investment Bank	Time Deposit	13/07/21	31/12/21	0.17	0	5,000
Australia & New Zealand Bank	Time Deposit	16/08/21	15/08/22	0.18	0	2,500
Standard Chartered	Time Deposit	16/09/21	16/03/22	0.08	0	2,000
Close Brothers	Time Deposit	24/09/21	24/03/22	0.25	0	2,500
<b>TOTAL</b>					<b>46,697</b>	<b>51,743</b>

In addition to the investments listed, the Council has issued four loans to Welland Homes totalling £3.710m at a rate of 3.5% which are classified as Long Term Debtors.

The Deputy Chief Executive – Corporate Development (Section 151 Officer) confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2021/22.

The Council's budgeted investment return for 2021/22 is £194,100 (GF £181,600, HRA £12,500) and performance for the year to date is £94,092 which is £2,958 below the profiled budget. The outturn is currently projected to be £183,900 which is £10,200 below the estimate. This budget shortfall can be attributed to the current level of exceptionally low interest rates available.

The Council monitors risk of its investment portfolio against the Link Asset Services counterparty risk matrix. This matrix gives recommended maximum investment durations for each financial institution based on the ratings allocated by the major credit rating agencies and also takes into account credit default swap prices.

## **OTHER**

### **Changes in risk policy**

The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk policy e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk policy should be brought to members' attention in treasury management update reports.

There has been no change in risk policy to report, however a CIPFA consultation is underway and changes to the Prudential Code could follow from April 2022.