

Appendix C Treasury Management Interim Report (30 September 2021)

This report ensures the council demonstrates best practice in accordance with CIPFA's recommendations in their Code of Practice for Treasury Management, by keeping members informed of treasury management activity.

1. The UK Economy

- The dominating factor continues to be the Covid-19 pandemic. Whilst the number of people fully vaccinated has continued to increase, there has been a marked increase in the number of school age children contracting it. As life slowly reverts to nearer pre-pandemic times, we are seeing the start of other illnesses such as colds and flu which are more virulent due to the isolation/limited contact we had all been under.
- Whilst the economy is opening up more, other issues are arising. September has seen households deal with fuel shortages, the end of the furlough scheme and record high wholesale gas and electricity prices. Some smaller utility companies have already gone out of business and a new higher energy price cap has also taken effect.
- UK inflation hit 3.2% in August driven by higher food costs; it was the biggest increase since records began in 1997 and shows that households will be finding their incomes squeezed further.
- The Bank of England Monetary Policy Committee (MPC) made two emergency rate reductions in March 2020 in direct response to the Covid pandemic, from 0.75% to 0.25% on 11th and a further cut to 0.10% on 19th. At their meeting of 23rd September 2021 they voted 7-2 to maintain the bank rate at 0.10% and the Quantitative Easing programme at £895bln.

2. The Council's Investments

2.1 At 30 September 2021 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount £m
<u>Instant access bank accounts:</u>				
NatWest	N/A	N/A	0.01%	1.04
Handelsbanken	N/A	N/A	0.02%	5.00
<u>Instant Access Money Market Funds:</u>				
Federated	N/A	N/A	0.01%	10.00
Aberdeen Standard	N/A	N/A	0.01%	10.00
Deutsche	N/A	N/A	0.00%	4.23
Blackrock	N/A	N/A	0.01%	9.47
Morgan Stanley	N/A	N/A	0.03%	10.00
Invesco	N/A	N/A	0.01%	5.00

CCLA	N/A	N/A	0.02%	5.00
<u>95 Day Notice Bank Accounts:</u>				
Santander	N/A	N/A	0.40%	5.00
NatWest	N/A	N.A	0.05%	3.00
Barclays	N/A	N/A	0.15%	5.00
<u>Fixed Term Deposits:</u>				
Standard Chartered	94 days	04/10/21	0.10%	5.00
Coventry Building Society	122 days	15/10/21	0.04%	5.00
Flintshire County Council	122 days	28/01/22	0.02%	5.00
Goldman Sachs	184 days	11/02/22	0.16%	5.00
Total and average interest rate			0.06%	92.74

2.2 The council continues to select counterparties suitable for investment based on the credit worthiness service provided by their treasury advisors, Link Asset Services. The service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Capita Asset Services allocate a series of colour coded bands with suggested maximum durations for investments as shown below;

- Yellow 5 years
- Purple 2 years
- Blue 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange 1 year
- Red 6 months
- Green 100 days
- No colour not to be used

2.3 The council has earned interest on its investments as follows:

Month	Average amount invested		Average rate of interest earned		Amount of interest earned / Forecast £000	Budget £000	(Surplus) /Deficit £'000
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-21	69.0	40	0.11	0.01	6	-	(6)
May-21	76.4	40	0.09	0.01	6	-	(6)
Jun-21	83.3	40	0.08	0.01	5	-	(5)
Jul-21	90.6	40	0.07	0.01	5	-	(5)
Aug-21	93.2	40	0.06	0.01	5	-	(5)
Sep-21	94.1	40	0.05	0.01	4	-	(4)
Oct-21	40.0	40	0.01	0.01	-	-	-
Nov-21	40.0	40	0.01	0.01	-	-	-
Dec-21	40.0	40	0.01	0.01	-	-	-
Jan-22	40.0	40	0.01	0.01	-	-	-
Feb-22	40.0	40	0.01	0.01	-	-	-
Mar-22	40.0	40	0.01	0.01	-	-	-
Total					31	-	(31)

- 2.4 Interest income earned has been higher than budgeted due to the receipt of COVID-19 grants before incurring spend increasing the value of cash balances held and the interest rate received exceeding the expected interest rate.
- 2.5 In addition to investment income the council earns interest on the provision of loan finance to the waste disposal PFI provider, this is expected to generate loan interest payable to us of £2.1m in 2021/22, this will be recharged through the waste disposal PFI arrangement.

3. The Council's Borrowing

Short-term borrowing

- 3.1 The council has a policy of using short-term borrowing (if required) from other local authorities for short-term liquidity needs. Short-term interest rates are significantly below levels available from other sources avoiding a large cost of carry when comparing fixed interest debt to current (variable) investment rates.
- 3.2 The council can only borrow up to its Capital Financing Requirement, which represents the need to borrow for capital spend, and cannot borrow beyond this to finance the revenue budget. This is approved as part of the budget setting process in the Treasury Management Policy.
- 3.3 At the end of September 2021 there were no short-term loans outstanding.

Long-term borrowing

- 3.4 At 30 September 2021 the council held long-term borrowing of £125.7m, no new long-term borrowing has been secured since June 2016. Rates are monitored and discussed with our treasury advisors to determine the optimum timing of securing any new long-term borrowing.
- 3.5 The current capital financing budget position is summarised below:

Summary of Borrowing Budget	Budget	Forecast	(Surplus) /Deficit
	£m	£m	£m
Minimum revenue provision	8.5	8.1	(0.4)
Interest payable on all loans	5.4	5.4	(0)
Total	13.9	13.5	(0.4)

4. Summary of forecast outturn

- 4.1 The current net treasury forecast outturn is expected to be a surplus (underspend) of £0.4m, the main reason being the delayed need to borrow, following lower capital investment in 2020/21 compared to the projected spend in 2020/21.