

## Appendix C Treasury Management Interim Report (31 December 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

- Covid-19 continues to be the dominating factor. The emergence of a new variant named 'Omicron' in late November which is more transmissible has resulted in restrictions being issued in Scotland, Wales and Northern Ireland. England has activated its 'Plan B' involving the reintroduction of face coverings being required by law in most indoor settings, working from home where you can and the requirement for proof of vaccination, a negative test or an exemption for certain venues and events.
- The economy is continuing to open up. The fuel shortages from September have passed but record high wholesale gas and electricity prices have resulted in more utility companies going out of business.
- UK inflation was 5.1% in November driven by global supply chain problems, staff shortages and a continuing high demand for oil and gas, showing that prices were rising at their fastest pace for 10 years. In the short term there is an expectation that inflation may reach 6%.
- The Bank of England Monetary Policy Committee (MPC) raised the base rate for the first time in three years on 16 December. The rate increased to 0.25% from 0.10% in a move to tackle the strong inflationary pressures.

### 2. The Council's Investments

2.1 At 31 December 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%	0.37
Handelsbanken	N/A	N/A	0.02%	5.00
<u>Instant Access Money Market Funds:</u>				
Federated	N/A	N/A	0.03%	10.00
Aberdeen Standard	N/A	N/A	0.05%	10.00
Deutsche	N/A	N/A	0.00%	5.00
Blackrock	N/A	N/A	0.00%	6.15
Morgan Stanley	N/A	N/A	0.05%	10.00
Invesco	N/A	N/A	0.02%	5.00
CCLA	N/A	N/A	0.13%	5.00

<b><u>35 Day Notice Bank Accounts:</u></b>				
NatWest	N/A	N/A	0.05%	3.00
<b><u>95 Day Notice Bank Accounts:</u></b>				
Santander	N/A	N/A	0.40%	5.00
Barclays	N/A	N/A	0.15%	5.00
<b><u>Fixed Term Deposits:</u></b>				
Cornwall Council	94 days	10/01/22	0.03%	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
Standard Chartered Sustainable Deposit	182 days	04/04/22	0.19%	5.00
Coventry Building Society	181 days	14/04/22	0.14%	5.00
Surrey Heath Borough Council	185 days	06/06/22	0.10%	5.00
<b>Total and average interest rate</b>			<b>0.08%</b>	<b>99.52</b>

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	96.1	40	0.06	0.01	5	-	(5)
Nov-21	104.2	40	0.06	0.01	5	-	(5)
Dec-21	97.4	40	0.08	0.01	6	-	(6)

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	-	-	-
<b>Total</b>					<b>47</b>	<b>-</b>	<b>(47)</b>

- 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 31 December 2021 the council held long-term borrowing of £130.5m, having secured new long-term borrowing of £5m in November. Rates are monitored and discussed with our treasury advisors to determine the optimum timing of securing any new long-term borrowing.

Amount Borrowed	From	To	Period	Type of loan	Interest Rate
£5m	05/11/21	05/11/36	15 years	EIP	1.72%

- 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)
<b>Total</b>	<b>13.9</b>	<b>13.5</b>	<b>(0.4)</b>

#### **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.