Part A

Report to:	**Audit Committee**
Date of meeting:	**Thursday, 25 November 2021**
Report author:	**Head of Finance**
Title:	**Treasury Management Mid-Year Report 2021/22**

1.0 SUMMARY

1.1 This report gives details of the 2021/22 mid-year review of the Treasury Management function.

2.0 RISKS

2.1 There are no risks associated with the decisions members are being asked to make.

3.0 RECOMMENDATIONS

3.1 That the Committee notes the contents of the 2021/22 mid-year review of the Treasury Management function.

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4.0 **DETAILS**

4.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management 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”.

4.2 The Council’s 2021/22 Treasury Management Policy as approved by Council on 18 January 2021 and has the primary objectives of safeguarding the repayment of the principal and interest of its investments on time, and then ensuring adequate liquidity, with the investment return being the final objective.

4.3 This report updates the Committee with the progress on whether the Council is meeting the TMS and its policies for the first six months of 2021/22.

4.4 The Council has appointed treasury advisors to assist with our treasury management, Link Asset Services. The advisors forecast that the Bank of England Base rate of interest may be increased to 0.25% during the year, with further rises possible in 2022/23 and beyond.

4.5 **The Council’s Capital Position (Prudential Indicators)**

The Council’s capital expenditure plans are one of the key drivers of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members’ overview and confirm capital expenditure plans.

4.6 **Capital Financing Requirement (CFR), External Debt and Operational Boundary**

The CFR and Operational Boundary estimates are shown below:

Prudential Indicator	2021/22 Original Estimate	Current Borrowing Position	2021/22 Revised Estimate
Capital Financing Requirement*	£146.0m	£30.0m	£108.3m
External Debt / the Operational Boundary			
Borrowing	£135.0m	£30.0m	£85.0m

*This is the Loans CFR, and does not included the CFR related to the lease of Croxley Business Park.

4.7 **Limits to Borrowing Activity**

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. As set out in the table above, estimated borrowing is expected to be well below the CFR at year end.

4.8 **The Authorised Limit**

This PI, which is required to be set and revised by Members, controls the overall level of borrowing and represents the limit beyond which borrowing is prohibited. 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.

Authorised Limit For External Debt	2021/22 Original Indicator	Current Borrowing Position	2021/22 Revised Estimate
Borrowing	£150.0m	£30.0m	£85.0m

4.9 **Investment Portfolio 2021/22**

In accordance with the CIPFA Treasury Management Code of Practice, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

The economic impact of the COVID-19 crisis has resulted in a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades. The Bank of England Base Rate has been reduced to 0.10%, and returns on deposits with the UK Government's Debt Management Office (DMO) were as low as 0.0% during the period. Given the risk environment, investment returns are likely to remain low.

The nature of the Council's cash flows gives rise to very short-term cash surpluses. This exposes the Council to the achieving a negative return on deposits with the DMO. Officers will seek to minimise deposits at negative rates, but this is likely to be unavoidable at times during the second half of the year.

As part of the acquisition of Croxley Park, the Council received £24M in respect of a rent guarantee and £68M in respect of future planned programme maintenance.

The Council's treasury advisers, Link, has provided advice to the Council on the investment of this sum in order to best match the drawdown profile under the financial model and to balance the inflation and property risks inherent in the underlying investment. Following a tender process, this cash has been invested in a range of Money Market Funds managed by Royal London Asset Management.

The Croxley Park cash is ring-fenced from the Council's day-to-day treasury activities, and the performance of the investments is excluded from this report. Performance reports will be made to the Property Investment Board.

4.10 **Security**

The Council uses benchmarks as simple guides to maximum risk, and these may be breached from time to time, depending on movements in interest rates and counterparty criteria. Any breach of the benchmarks will be reported, with supporting reasons, in this report.

There have been no breaches of the Council's counterparty limit with Lloyds bank during the period. The Council has made use of the DMO to deposit cash in excess of the counterparty limit for short periods during the period, as this offers the best possible security.

Members are invited to note that the definition of the security of an investment is defined as receiving contractually agreed amounts at the contractually agreed date.

When a negative return is applicable on an investment the amount repaid on maturity will be lower than originally invested but not less than contractually agreed. This represents the prioritisation of security over investment yield, in line with the principals of the Treasury Management Code.

4.11 **Liquidity**

The Council set liquidity facilities/benchmarks to maintain:

- Authorised bank overdraft of £nil.
- Liquid short term deposits of at least £5m available with a week's notice.

The liquidity arrangements were adequate during the year to date.

4.12 **Yield**

The prevailing economic environment means that the Council will not achieve yield levels seen in recent years. The return for 2021/22 will be lower than the Bank of England base rate of 0.10%. Returns for the year to 30 September 2021 were 0.01%.

Short-term investments returns are benchmarked against SONIA, the Sterling Overnight Index Average. This is a measure of market rates for actual returns on overnight cash deposits.

The average yield return was lower than the benchmark for the year to date of 0.05%, and reflects the return on the investment of short term, highly liquid, cash required to meet working capital requirements.

4.13 **Credit Ratings**

Credit rating information is supplied by our treasury consultants, Link Asset Services, on all counterparties that comply with the Council's criteria. Any counterparty failing to meet the criteria would be omitted from the counterparty (dealing) list. Any rating changes, rating watches (notification of a likely change), rating outlooks (notification of a possible longer term change) are provided to officers almost immediately after they occur and this information is considered before dealing. As at 30 September 2021 there have been no changes to the counter-party list as a result of changes to credit worthiness.

5.0 **IMPLICATIONS**

5.1 **Financial**

5.1.1 As continued in the body of the report.

5.2 **Legal Issues** (Monitoring Officer)

5.2.1 There is no requirement to make any amendments to the Treasury Management Strategy at this stage.

5.3 **Equalities**

None Specific.