REPORT TO:	Executive Board
DATE:	18 November 2021
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Resources
TITLE:	Treasury Management Half Year Report 2021-22
WARDS:	Borough-wide

1.0 PURPOSE OF REPORT

1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market as required by the Treasury Management Policy.

2.0 RECOMMENDED:

That the report is noted

3.0 SUPPORTING INFORMATION

Economic Outlook

3.1 The following analysis of the economic situation has been provided by Link Asset Services, the Council's treasury management advisors.

3.2 During the six months ended 30 September 2021

- GDP rose by 2.3% month on month in April as restrictions were lifted on non-essential retailers, and a further boost in May as indoor hospitality resumed. But there was only a 0.1% month on month rise in July as rising virus cases and product/labour shortages stalled the recovery. Shortages worsened in August and September
- CPI accelerated to 2.1% in May due to energy effects and a surge in reopening inflation. Inflation increased further to a nine-year high of 3.2% in August.
- Gilt yields and sterling made little headway between April and June, but then gained strongly between July and September.

3.3 In the UK the Monetary Policy Committee (MPC) meeting voted unanimously to keep Bank Rate unchanged at 0.10% throughout the first 6 months of the year, and made no changes to its programme of quantative easing which is due to finish at the end of the year. But at the meeting in September there was a major shift in the tone of the MPC's minutes at this meeting which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by increasing the Bank Rate too early.

3.4 Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

3.5 In the EU, the slow role out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the European Central Bank is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

3.6 World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

3.7 The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping. Combined with a shortage of semi-conductors, these issues have had a disruptive impact on production in many countries. Many western countries are having difficulty in filling job vacancies. It is expected that these issues will be gradually sorted out, but they are currently contributing to a spike upwards in inflation and shortages of materials and goods on shelves.

Interest Rate Forecast

3.8 The following forecast has been provided by Link Asset Services.

Link Group Interest Rate View	29.9.21									
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	[illegible]	[illegible]	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

3.9 The bank base rate has remained at 0.1% since 19 March 2020.

Short Term Borrowing Rates

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
Call Money (Market)	0.04	0.04	0.04	0.04	0.04	0.04	0.04
1 Month (Market)	0.05	0.05	0.05	0.05	0.06	0.05	0.05
3 Month (Market)	0.09	0.08	0.08	0.08	0.07	0.07	0.08

Longer Term Borrowing Rates

	Mar	Apr	May	Jun	Jul	Aug	Sep
	%	%	%	%	%	%	%
1 Year (Market)	0.16	0.16	0.16	0.18	0.19	0.22	0.37
10 Year (PWLB)	1.75	1.75	1.74	1.65	1.48	1.49	1.84
25 Year (PWLB)	2.19	2.16	2.16	2.06	1.82	1.84	2.19

3.10 Market rates are based on LIBOR rates and PWLB rates are for new loans based on principal repayable at maturity. The rates are shown for the end of each month.

Borrowing and Investments

Turnover during the period

	No of deals	Turnover £m
Short Term Borrowing	-	-
Short Term Investments	7	70

Position at month end

	Mar £m	Apr £m	May £m	Jun £m	Jul £m	Aug £m	Sep £m
Total Borrowing	172	172	172	172	172	172	172
Total Investments	(80)	(86)	(101)	(106)	(106)	(106)	(106)
Call Account Balance	(19)	(28)	(33)	(32)	(37)	(37)	(41)

Investment benchmarking

Benchmark	Benchmark Return %	Performance Apr - Sep %	Investment Interest Earned £000
7 day	-0.08	0.02	3
1 month	-0.07	0.00	-
3 months	-0.23	0.00	-
6 months	-0.20	0.35	77
12 months	0.06	0.37	68
Over 12 months		0.90	156
Property Fund		3.75	93
Total			**397**

3.11 This shows the Council has over achieved on all benchmarks for the first 6 months of the year. There are no benchmarks available for the Council's investment in the CCLA property fund, or for investments held over 12 months.

Budget Monitoring

	Net Interest at 30th September 2021		
	Budget Year to Date £000	**Actual Year to Date £000**	**Variance (o/spend) £000**
Investment	(335)	(397)	62
Borrowing	550	550	-
Total	**214**	**153**	**62**

New Long Term Borrowing

3.12 No new long term borrowing has been taken in this period.

Policy Guidelines

3.13 The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 04 March 2021. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.14 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in in line with Link Asset Service's credit rating methodology.

Treasury Management Indicators

3.15 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

Debt Rescheduling

3.16 No debt rescheduling was undertaken during the quarter.

4.0 POLICY IMPLICATIONS

4.1 None.

5.0 FINANCIAL IMPLICATIONS

5.1 The financial implications are as set out in the report.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

7.0 RISK ANALYSIS

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Authority operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

9.1 There are no background papers under the meaning of the Act.

Appendix 1

Treasury and Prudential Indicators – 2021/22 – Quarter 2

	2020/21	2021/22	
Prudential Indicators	**Full Year Actual £000**	**Original Estimate £000**	**Quarter 2 Estimate £000**
Capital Expenditure	26,761	24,583	47,782
Net Financing Need for the Year *(Borrowing Requirement)*	7,311	14,816	20,217
Increase / (Decrease) in CFR *(Capital Financing Requirement)*	(2,412)	(2,787)	2,379
Ratio of Financing Costs to Net Revenue Stream *(Proportion of cost of borrowing to Council's net revenue)*	2.1%	2.2%	1.9%
External Debt *(Borrowing plus PFI and lease liabilities)*	544,676	532,679	532,679
Operational Boundary *(Limit of which external debit is not epected to exceed)*	566,519	559,675	559,675
Authorised Limit *(Limit beyound which external debit is prohibited)*	637,602	647,965	647,965

Maximum Principal invested > 365 days	**Investment Limit £000**	**2020/21 Actual £000**	**2021/22 Estimate £000**
Principal Sums Invested over 365 days	40,000	20,000	25,700