REPORT TO:	Executive Board
DATE:	14 July 2022
REPORTING OFFICER:	Operational Director – Finance
PORTFOLIO:	Leader
TITLE:	Treasury Management Annual 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 be noted.

3.0 SUPPORTING INFORMATION

Economic Outlook

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

3.2 During the six months ended 31 March 2022

- War broke out in the Ukraine in February leading to CPI inflation reaching a 30 year high of 6.2% in February
- Bank of England Base rate rose from 0.10% to 0.25% in December and then a further 0.5% in the last quarter of the financial year, taking it to a post Global Financial Crisis high of 0.75%

3.3 The UK economy got off to a good start in Q1, growing by 0.8% in January. That more than reversed the 0.2% fall in December triggered by the Omicron wave. It took GDP 0.8% above the pre-virus February 2020 level.

3.4 With inflation set to keep rising, households are in for a prolonged period of negative real wage growth. The surge in CPI inflation to a new 30-year high of 6.2% in February means that it is now more than three times the Bank of England's 2% target. The rise in core inflation (excluding energy, food and alcohol) from 4.4% in January to 5.2% in February also left it at a 30-year high.

A 1.0% price rise this February meant that food and drink inflation rose from 4.3% to 5.1%. That was the highest rate since September 2011.

3.5 CPI inflation will continue to rise in the first quarter of 2022/23. The scheduled 54% rise in utility prices on 1st April 2022 will add an extra 1.4% to CPI inflation. The surge in agricultural commodity prices triggered by the war in Ukraine, means that food price inflation is expected to soon climb above 6%.

3.6 The Chancellor announced some support for households in his Spring Fiscal Statement in March, in the form of tax cuts. Despite the downward revision to the Office for Budget Responsibility's (OBR) real GDP growth forecast for this year (from 6.0% to 3.8%) and for next year (from 2.1% to 1.8%), the OBR's public finance forecasts still improved and gave the Chancellor a windfall of about £20bn. Nevertheless, the £9.2bn (0.4% of GDP) package for 2022/23, or £18.2bn (0.8% of GDP) if the support measures announced in February are included, will help to offset about half the impact for household finances from higher energy and food bills.

3.7 Households are drawing on their estimated £161bn of excess savings to offset lower real term incomes. The household saving rate dropped from 7.5% in Q3 to 6.8% in Q4. The £4.0bn rise in cash sitting in households' bank accounts in February, which was smaller than the 2019 average rise of £4.6bn, suggests that households have stopped adding to their excess savings and have begun to reduce them.

3.8 Meanwhile, the tight labour market will fuel the Bank of England's fears that high inflation is feeding through into a rise in wage growth that will feed back into inflation. The unemployment rate fell from 4.1% in December to 3.9% in January. That is only just above the pre-virus rate of 3.8%.

3.9 Job vacancies increased to a new record high of 1.3 million in February and maintained the upward pressure on wage growth. The rate of average earnings growth rose from 4.6% in December to 4.8% in January.

3.10 Meanwhile, the lasting financial market effects from the war in Ukraine so far appear to be higher commodity prices, higher interest rate expectations and wider corporate bond spreads. UK financial conditions have tightened to levels similar to those seen after the Brexit referendum in 2016.

3.11 Gilt yields have risen back above their pre-war levels, driven largely by an increase in inflation rates.

3.12 After the Bank of England became the first major western central bank to put interest rates up in December, it has quickly followed up its first 0.15% rise by a further two 0.25% rises to 0.75%, in what is very likely to be a series of increases during 2022.

Interest Rate Forecast

3.13 The following forecast has been provided by Capita Asset Services.

Link Group Interest Rate View 7.2.22	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

During the period of this report the bank base rate increased from 0.1% to 0.25% in December 2021, 0.50% in Feb 2022 and 0.75% in March 22.

Treasury Management Annual Report 2021-22

3.14 The borrowing rates from September 2021 to March 2022 are shown below:

Short Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
Call Money (Market)	0.04	0.05	0.00	0.10	0.15	0.40	0.65
1 Month (Market)	0.05	0.10	0.05	0.15	0.30	0.50	0.70
3 Month (Market)	0.08	0.05	0.20	0.35	0.45	0.75	1.10

Longer Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
1 Year (Market)	0.37	0.70	0.50	0.85	0.90	1.40	1.55
10 Year (PWLB)	1.84	1.85	1.64	1.82	2.10	2.27	2.45
25 Year (PWLB)	2.19	1.99	1.76	2.02	2.27	2.47	2.63

3.15 Market rates are based on rates provided by Reuters 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	6	50

Position at Month End

	Sep £m	Oct £m	Nov £m	Dec £m	Jan £m	Feb £m	Mar £m
Total Borrowing	172	172	172	172	172	172	172
Total Investments	(101)	(106)	(101)	(101)	(111)	(111)	(111)
Call Account Balance	(41)	(33)	(31)	(30)	(23)	(13)	(11)

Investment Benchmarking

Benchmark	Benchmark Return %	Performance Oct - Mar %	Investment Interest Earned £000
1 day	0.19	0.04	5
1 month	0.26	-	-
3 month	0.41	-	-
6 month	0.63	0.30	68
12 month	0.84	0.30	59
Over 12 months	-	0.92	137
Property Fund	-	3.35	69
Total			**338**

3.16 This shows the Council is under the benchmark on all investment returns due to the rising interest environment as the majority of investments were made before the increase in the base rate. Depending on the base rate increases over the following year the rate received on investments will increase and should get closer to the benchmark shown.

3.17 At 31st March 2022 Halton Borough Council held £10m in the CCLA Local Authority Property Fund after investing an additional £5m during the year. There is no benchmark available for this income, or for investments over twelve months.

Budget Monitoring

	Net Interest at 31st March 2022		
	Annual Budget £000	**Actual £000**	**Variance £000**
Investments	(671)	(735)	64
Borrowings	1,099	1,099	-
Total	**428**	**364**	**64**

New Long Term Borrowing

3.18 The Council has not borrowed any long term funds during this period.

Policy Guidelines

3.19 The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 03 March 2021. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.20 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 credit rating methodology.

Treasury Management Indicators

3.21 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

3.22 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

	2020/21	2021/22	
Prudential Indicators	**Full Year Actual £000**	**Original Estimate £000**	**Full Year Actual £000**
Capital Expenditure	21,901	24,583	21,319
Net Financing Need for the Year *(Borrowing Requirement)*	3,254	14,816	9,023
Increase / (Decrease) in CFR *(Capital Financing Requirement)*	(14,817)	(2,787)	(891)
Ratio of Financing Costs to Net Revenue Stream *(Proportion of cost of borrowing to Council's net revenue)*	6.5%	6.5%	6.6%
External Debt *(Borrowing plus PFI and lease liabilities)*	539,675	552,678	532,678
Operational Boundary *(Limit of which external debt is not expected to exceed)*	566,519	599,675	599,675
Authorised Limit *(Limit beyond which external debt is prohibited)*	637,602	647,965	647,965

Upper limit for principal sums invested for longer than 1 year	**31/03/2021 £000**	**31/03/2022 £000**
Upper limit of principal sums invested for longer than 1 year	40,000	40,000
Investments in excess of 1 years outstanding at year-end’	10,000	20,700