CABINET

DATE	19th January 2022
REPORT OF	Councillor Shreeve, Deputy Leader and Portfolio Holder for Finance, Resources and Assets
RESPONSIBLE OFFICER	Sharon Wroot, Executive Director Environment, Economy and Resources
SUBJECT	Treasury Management Mid-Year Report 2021/22
STATUS	Open
FORWARD PLAN REF NO.	CB 01/22/01

CONTRIBUTION TO OUR AIMS

Effective treasury management provides support towards the achievement of all Council Plan aims and objectives. Treasury management is an integral part of the Council's finances providing for cash flow management and financing of capital schemes.

EXECUTIVE SUMMARY

The report contains details of treasury management arrangements, activity and performance during the first six months of 2021/22.

The Council's high-level policies for borrowing and investments are:

- The Council's borrowing will be affordable, sustainable and prudent and consideration will be given to the management of interest rate risk and refinancing risk. The source from which the borrowing is taken and the type of borrowing should allow the Council transparency and control over its debt.

- The Council's primary objective in relation to investments remains the security of capital. The liquidity or accessibility of the Council's investments followed by the yield earned on investments remain important but are secondary considerations.

RECOMMENDATIONS

That Cabinet considers the content of the report and makes any recommendations to Council as necessary in respect of treasury management activity during 2021/22.

REASONS FOR DECISION

The Council's treasury management activity is guided by CIPFA's Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year. We therefore report after Quarter 2 and year end.

1. BACKGROUND AND ISSUES

1.1. CIPFA has defined treasury management as:

The management of the organisation's borrowing, 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.

1.2. The proposed Treasury Management Strategy Statement (TMSS) for 2021/22 was developed in consultation with our treasury management advisors, Link Asset Services Ltd. This statement also incorporates the Investment Strategy.

1.3 Whilst the Council has appointed advisors to support effective treasury management arrangements, the Council is ultimately responsible for its treasury decisions and activity. No treasury activity is without risk. The successful identification, monitoring and control of risk is therefore an important and integral element of treasury management activities.

1.4 The Council has nominated Audit & Governance Committee to be responsible for ensuring effective scrutiny of treasury management arrangements.

1.5 The key issues covered in the attached appendix include: -

- Management of the ongoing impact of the Covid-19 pandemic on balances, access to financing and the interest rate environment.

- Completion of additional short-term borrowing to deliver short-term savings on debt costs.

- Compliance with Limits and Indicators set within the Treasury Management Strategy

1.6 Following consideration by Cabinet, this report will be submitted to full Council

2. RISKS AND OPPORTUNITIES

2.1 No Treasury activity is without risk. Specific risks include, but are not limited to, Counterparty Credit Risk (the risk of an investment not being repaid), liquidity risk (the risk that the Authority does not have its funds in the right place, at the right time and in the right amount to make it's payments as they fall due), interest rate risk (the risk that future rate movements have a revenue implication for the Authority) and reputational risk (see Section 4 below).

2.2 The attached Appendix records our approach toward mitigating these risks during 2021/22.

2.3 Treasury is an Authority-wide function and its equalities implications are the same as for the Council itself.

2.4 As large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result equality issues are an increasingly important and heavily scrutinised part of their overall business.

2.5 **General Data Protection Regulation 2018** – Relationships with external providers covered by the Treasury management Practices are governed by and operated in accordance with the act.

3. OTHER OPTIONS CONSIDERED

These were set out on Page 28 of the Treasury Management Strategy Statement.

4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS

As you would expect, with large sums of public money involved, any treasury activity carries a high degree of reputational risk. Any losses have not just financial but also significant, ongoing resource implications for the Council and so Treasury retains a high degree of oversight from Senior Officers and Members.

5. FINANCIAL CONSIDERATIONS

The report confirms that all investment and borrowing transactions were in line with the Approved 2021-22 Treasury Management Strategy. No changes to the Strategy are anticipated for the remainder of the 2021-22 financial year.

6. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

Treasury is an Authority-wide function and its climate change, environmental and sustainability implications are the same as for the Council itself.

The Authority will have regard to the environmental activities of its Counterparties (where reported) but: -

- Prioritises Security, Liquidity and Yield,
- Recognises that as large, global institutions our high-quality counterparties operate across the full range of marketplaces in which they are legally able to, and as a result climate change considerations are an increasingly important and heavily scrutinised part of their overall business.
- Excluding any one counterparty will likely mean others will similarly have to be avoided and thus impact the Authority's capacity to mitigate risk through diversification.
- Supra-national counterparties offer access to high-quality (typically AAA-rated) ESG exposure and will continue to proportionately form part of our investment portfolio where Bonds matching our liquidity requirement can be sourced.

7. CONSULTATION WITH SCRUTINY

This Report was presented to Audit and Governance Committee on 11 November 2021.

8. LEGAL IMPLICATIONS

There are no direct legal implications arising from the recommendations in this report which are not covered in the body of the report. The Council has complied with its statutory obligations arising from the Local Government Act, the Local Government Finance Act and all relevant CIPFA guidance.

9. HUMAN RESOURCES IMPLICATIONS

There are no immediate HR implications arising from the recommendations contained in this report.

10. WARD IMPLICATIONS

All wards indirectly affected.

11. BACKGROUND PAPERS

CIPFA Treasury Management Code and Guidance Notes

12. CONTACT OFFICER(S)

Rachel Carey, Strategic Lead, Financial Planning (01472) 324633

COUNCILLOR S. SHREEVE

DEPUTY LEADER AND PORTFOLIO HOLDER FOR FINANCE, RESOURCES AND ASSETS

Half-Year Treasury Monitoring Report 2021/22

Contents

Key Messages:

All investment and borrowing transactions were in line with the Approved 2021-22 treasury Strategy.

There are no proposed policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Whilst our central case is interest rates will remain relatively low for some time this still has increasing uncertainty attached over the next few years and the implications for both investment income and borrowing cost will be closely monitored.

This report covers Treasury and it's related financial transactions. A Capital Strategy is reported separately covering non-treasury related investments

Director of Finance Overview

The Council operates a balanced budget, which broadly means cash raised during the year will meet its non-capital expenditure, however there will always be timing differences in how funds are received and expenses settled. A fundamental element of treasury management is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, whilst retaining adequate liquidity before considering optimising investment return.

Our 2021-22 Treasury Strategy is tailored to allow the Council to manage risks related to cash investments and has continued to stand up well to the ongoing pressures seen in the first half of the year as a result of the Coronavirus Pandemic.

The second main function of the treasury management service is the arrangement of funding for the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending plans as they fall due. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Coming into the new Financial Year the Authority took a strategic decision to procure a significant proportion of its identified 2021-22 borrowing requirement at low, short-term rates in order to lock in budget savings. This exercise thus contributed toward the achievement of a balanced Medium Term Financial Plan. This proactive approach has worked well, but latterly, rates have started to firm up on the back of increased inflation expectations. Our attention in the second half of the year therefore will be focussed on managing the 2022-23 and later requirement with a view to balancing short-term budget pressures and long-term interest rate risk as effectively as possible.

Sharon Wroot, Executive Director Environment Economy & Resources (s151)

October 2021

Key Messages:

No Treasury activity is without risk. These risks include, but are not limited to, Credit Risk, Liquidity Risk, Interest Rate Risk, Inflation Risk and Reputational Risk.

The Council uses in-house knowledge, advisors (Link Asset Services), treasury management software (Treasury Live) and the CIPFA Treasury Management Code to manage these risks.

Scrutiny of Treasury activity is undertaken by Audit Committee and reported twice-yearly to Full Council.

Introduction and External Context

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) to provide a review of treasury management activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

This mid-year report covers the following:

- An economic update for the first half of the 2021/22 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's investment portfolio for 2021/22;
- A review of the Council's borrowing strategy for 2021/22;
- A review of any debt rescheduling undertaken during 2021/22;
- A review of compliance with Treasury and Prudential Limits for 2021/22.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the mid-year position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to the above treasury management report by the Audit Committee before they were reported to the full Council. Member training on treasury management issues is undertaken annually to support members' scrutiny role.

The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. This report covers treasury activity and the associated monitoring and control of risk.

Key Messages:

The Council has taken a cautious approach to investing, but is also fully appreciative that the external risk environment is very much shaped by developments in the progression of both the Covid-19 pandemic and Brexit trade deal negotiations, with US election outcomes a further factor.

2021 thus far has seen higher volatility in borrowing rates than has been the case for some time. Structural changes in the central bank policy and the economy itself, post-Covid, mean that data will continue to be closely monitored to ascertain their meaning for rates going forward.

Introduction and External Context

Since the start of 2021, we have seen a lot of volatility in gilt yields, and hence PWLB rates. During the first part of the year, US President Biden's determination to push through a $1.9trn fiscal boost recovery package unsettled financial markets. This was in addition to the $900bn package already passed in December 2020 under President Trump. Markets were alarmed that all this stimulus, which is much bigger than in other western economies, was happening at a time in the US when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy had already been growing strongly during 2021.
3. A position of little spare capacity already existed due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing monetary stimulus through monthly QE purchases.

These factors could cause stronger inflationary pressures in the US than in other western countries. This could then force the Fed to take much earlier action to start reducing monthly QE purchases ('tapering') and/or increasing the Fed rate from near zero. However, the weak growth in August, (announced 3.9.21), has spiked anticipation that tapering of monthly QE purchases could start by the end of 2021. These purchases are currently acting as downward pressure on treasury yields. As the US financial markets are, by far, the biggest financial markets in the world, any trend upwards in the US will invariably impact and influence financial markets in other countries. As an average since 2011, there has been a 75% correlation between movements in 10 year treasury yields and 10 year gilt yields. This is therefore a significant upward risk exposure to previous forecasts for longer term PWLB rates. However, gilt yields and treasury yields do not always move in unison.

Furthermore, although there are nuances between the monetary policy of the major central banks, the overall common ground is a new willingness to perhaps allow the inflation target to be symmetrical so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time. For local authorities, this could mean that interest rates will not rise as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.

The Council maintains a cautious approach to investing. It recognises that regulatory changes introduced after the Financial Crisis for financial institutions in terms of additional capital and liquidity provide a stronger cushion for financial institutions in times of stress. Whilst these new rules demonstrated their worth during the Covid crisis, they do not remove the need for consistent risk management.

<u>Where next for rates?</u>

At the time of writing (early Oct 2021) there was still significant uncertainty around the future direction of interest rates. Even though prevailing rates remained near all-time lows the macro-economic effects of Covid-19 and Brexit still had the potential to take rates even lower or, alternatively, higher, quicker than expected. As summarised here.

Scenario 1	Scenario 2	Scenario 3
Hospitalisations/Vaccine efficacy data forces either the formal re-introduction of restrictions OR are sufficient to bring about self-imposed mobility reductions over the Winter causing growth to suffer, inflation comes back fast and undershoots 2% target.	Growth remains ok and inflation gradually comes back from peak c4% to target	Inflation overshoots 4% market expectations and/or remains above 2% target, even after coming off peaks.
Bank of England (BOE) eases its monetary policy. Negative rates likely required. UK banks have now confirmed they are capable of implementing such a scenario.	No action required from BoE beyond standard cyclical rate tweaks and measured tightening	BoE effectively finds itself caught napping and has to play catch up. Swift rate hikes likely necessary.

Key Messages:

The Treasury Management Strategy Statement, (TMSS), for 2021/22 was approved by this Council on 18 February 2021. No changes are considered necessary at the mid-year point despite the continuing uncertainty seen as a result of the Covid-19 pandemic.

The Authority has an increasing CFR over the next four years due to the capital programme, and will therefore need to borrow up to £44m over the next few years. An additional £18m will be required to replace maturing loans.

Since the 2008 financial crisis the Authority has adopted a cautious approach whereby investments are framed by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates.

Local Context

The Treasury Management Strategy Statement (TMSS) for 2021/22 was approved by this Council on 18 February 2021.

There are no policy changes to the TMSS; however **it is proposed that the new UK Infrastructure Bank be added to our Approved Lenders list, Goldman Sachs Mosaic becomes our Money Market Fund portal and BGC are added back on to our Broker List.** Beyond that this report updates on performance in the light of the updated economic position.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council must ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator does still allow the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22 should it desire.

The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator and we are on target to achieve the original forecast.

	31 March 2021 Principal	Rate/ Return	Average Life yrs		30 September 2021 Principal	Rate/ Return	Average Life yrs
Total debt	*£149.4m*	*3.30%*	*28.7*		*£155.1m*	*3.16%*	*27.4*
Capital Financing Requirement (CFR)	*£182.7m*				*£182.7m*		
Over / (under) borrowing	*(£33.3m)*				*(27.6m)*		
Total investments	*£31.7m*	*0.03%*	*0.03*		*£55.4m*	*0.01%*	*0.06*
Net debt	£117.7m				£99.7m		

Prior to March 2020 our level of investment balances had remained steady for several years, as the Authority used internal borrowing to both defer more expensive long-term borrowing and reduce it's credit risk exposure. However, balances rose in Spring 2020, and have remained above normal, as the Authority sought liquidity to assist with its response to the uncertainty created by Covid-19.

Key Messages:

When undertaking new borrowing the Council will review both the source and tenure of loans it seeks to take.

At 30/09/2021 the Authority held £155m of loans, (up £3m on 2020) as a result of funding previous years' capital programmes.

The Council's current borrowing portfolio is predominantly of a long-term and fixed nature. Whilst this provides certainty of cost it can restrict flexibility to restructure debts as plans and finances change.

No rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Borrowing Strategy

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. 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 such borrowing proves prudent.

	2021/22 Original Estimate £m	Current Position 30.9.2021 £m	2021/22 Revised Estimate £m
Borrowing	191.7	155.1	157.4
Other Long Term liabilities	0.0	0.0	0.0
Total debt	191.7	155.1	157.4
CFR (year end position)	219.1		208.5

The structure of our debt portfolio as at 30.9.2021 is shown below

Type of Loan	Amount	% of Portfolio
PWLB Fixed	£73.6m	47%
LOBO	£21.0m	14%
Market Fixed	£45.3m	28%
Short-term Fixed	£15.0m	10%
Variable Rate	£0.2m	1%
Total	£155.1m	

Key Messages:

Affordability and the "cost of carry" remained strong influences on the Authority's borrowing strategy. As short-term interest rates are likely to remain, at least over the forthcoming two years, lower than long-term rates, the Authority determined it was largely more cost effective in the short-term to use its own funds to defer borrowing.

Borrowing short-term from other local authorities provides a useful source of funding below current long-term rates and with the ability to exit loans within a reasonable timeframe.

Importantly however, whilst the above represents the default strategy, there always remains a risk of higher rates in the future. As such, the Authority monitors market movements with the support of its Advisors.

Borrowing Strategy (continued)

- During 2021-22, the Council has maintained an under-borrowed position. This means that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

- It is not currently anticipated that further borrowing, beyond that already committed to (see table on P10) will be undertaken during this financial year, primarily to allow current balances to adjust back down to more normal levels as we come out the other side of the Covid crisis.

- However, there remain significant risks within the economic forecast, so caution will continue to be adopted with treasury operations. In effect, this means not committing to a singular borrowing method or strategy but rather transacting in a way that mitigates (but not eliminates) risk across several possible outcomes. In order to facilitate this approach, the Section 151 Officer monitors interest rates in financial markets and will adopt a pragmatic strategy based upon the following principles to manage interest rate risks :

- where there is a significant perceived risk of a sharp **fall** in long and short term rates, (e.g. due to a marked increased risk of recession or risks of deflation), then long term borrowings may well be postponed, and potential rescheduling from fixed rate funding into short term borrowing will be considered.

- if it is felt that there is a significant risk of a sharp **rise** in long and short term rates, perhaps arising from an acceleration in the start date or rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position will be re-appraised. Potentially, fixed rate funding will be drawn whilst interest rates were lower than they were projected to be in the future.

- Other potential methods to mitigate interest rate risk include Forward Start loans and the use of short-term (less than 3 years) loans from other local Authorities.

Key Messages:

The Authority's traditional source of long-term borrowing is the Public Works Loan Board (part of HM Treasury).

The rate at which the Authority can borrow is determined by the Gilt Market (the Government's own primary source of borrowing) and fluctuates with market conditions. On top of this 'base rate' PWLB apply a margin, typically 0.8% but it can – and has in recent times – vary. This means it is important for the Authority to maintain relationships with alternate lenders who may be able to meet our requirement at terms that are, from time to time, preferable to those offered by PWLB.

Borrowing Strategy (continued)

PWLB rates are based on gilt (UK Government bonds) yields with H.M.Treasury determining a specified margin to add to gilt yields. H.M. Treasury have evidenced that they are prepared to raise this margin when they deem it necessary, such as was the case in late 2019 when LA borrowing was approaching PWLB's portfolio ceiling. It is therefore vital that the Authority maintain relationships with alternate lenders who may be able to meet our requirement at terms that are, from time to time, preferable to those offered by PWLB. We have demonstrated our ability to complete such transactions, for example, NELC were the first UK Local Authority to draw a Nomura/PPF loan in April 2020 at a rate well below that offered by PWLB at the time – representing a lifetime interest cost saving vs PWLB of £1.2m.

Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Key Messages:

Several short-term loans were agreed heading into 2021-22 in order to fix in a large portion of our identified borrowing need at prevailing low market rates and thus deliver in-year debt cost savings of c£0.5m that will be used to support the achievement of a balanced Medium term Financial Plan.

Borrowing Strategy (continued)

Borrowing – the following loans were taken during the period: -

Counterparty	Start Date	Maturity Date	Amount	Rate
Wychavon District Council*	01/04/2021	01/04/2022	£3,000,000	1.70%
Rugby Borough Council*	01/04/2021	01/04/2023	£3,000,000	1.70%
West Midlands Combined Authority	06/04/2021	25/11/2021	£5,000,000	0.20%
West of England Combined Authority	02/06/2021	01/06/2022	£5,000,000	0.25%
Nottinghamshire Police and Crime Commissioner	05/07/2021	04/07/2022	£5,000,000	0.22%
Walsall Metropolitan Borough Council	25/11/2021	25/11/2022	£5,000,000	0.60%

*These loans were arranged using the Authority's accrued internal borrowing position to match prepayment of the Authority's Pension Fund contributions in return for which East Riding Pension Fund offered a discount of 4%.

Investment Activity

The Authority has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. As part of its national response to the Coronavirus pandemic the UK Government provided large sums of additional cash resources to local authorities. Some of these funds supported additional burdens experienced by Authorities as a result of the pandemic and others were provided for Authorities to distribute targeted support to the private sector. Most significant among these funds was the BEIS Business Support Grant. Funds received under this grant were segregated from the Council's own funds (and therefore Treasury Limits).

During the period total investment balances ranged between £33.1m and £68.0 million. The average balance maintained was £54.7m with a weighted average maturity of 10 days. An average yield of 0.01% was achieved. Although low, this compares favourably with our targeted rate of 7-day LIBID (-0.08%).

Investment Policy – the Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council in February 2021. Investment activity during the period conformed to the Investment Strategy for 2021/22 which aimed to reduce risk by;

- Setting value and term limits for counterparties based on Credit rating, available collateral and sector.
- Utilising data tools available via Treasury Live and Link Asset Services to monitor risk.
- Ensuring a minimum level of liquidity was maintained to allow payments to be made as they fell due

The Council aims to achieve an adequate return (yield) on its investments commensurate with robust levels of security and liquidity. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs using our adopted creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

Creditworthiness -Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks. However, as economies are beginning to reopen, there have been some instances of previous lowering of Outlooks being reversed. NELC seeks to largely avoid direct bank exposure.

Key Messages:

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

All other things being equal we would expect to see balances fall each year by the amount of corporately funded capital expenditure less any new borrowing. However, during the period higher balances were maintained as a result of additional liquidity secured at the outset of the Covid-19 pandemic and subsequent Government support programmes.

Investment rates remained near historic lows during the period. Some modest upticks are now possible in the near/medium term.

Total investment income was £0.013m compared to an annual budget expectation of £0.050m.

Key Messages:

Counterparty credit quality is assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating for institutions defined as having "high credit quality" is A-); credit default swap prices, financial statements, and reports from quality financial news feeds.

The higher average balances were a result of a combination of an active strategy to maintain liquidity during the significant uncertainty around year-end due to Covid-19 crisis and subsequent central government assistance schemes.

Investment Activity

Investments	Balance on 31/03/2021 £m	Investments Made £m	Maturities/ Investments Sold £m	Balance on 30/09/2021 £m	Avg Rate/Yield (%) and Avg Life (years)
UK Government: - DMADF - Treasury Bills	21.5 -	234.0 -	(213.4) -	42.1 -	0.01% 24 days -
Bonds issued by Multilateral Development Banks	-	1.5	-	1.5	0.11%% 77 days
Direct Unsecured Investments (call accounts, deposits) with financial institutions - rated A- or higher - rated below A-	3.3 -	31.0	(31.3)	3.0	0.08% at Call
Tradable Investments with Financial institutions Corporates (CDs) rated A- or higher	-	-	-	-	-
Money Market Funds	6.9	7.1	(5.2)	8.8	0.01% at Call
TOTAL INVESTMENTS	31.7	273.6	(249.9)	55.4	0.01% 21 days
Increase/ (Decrease) in Investments £m				23.7	

Given the increasing risk and continued low returns from short-term unsecured bank investments, but having no funds available for longer-term investment, the Authority is unable to simply diversify into more secure and/or higher yielding asset classes such as repurchase agreements or covered bonds which are secured on financial assets. Eliminating Credit Risk by running down balances whilst still maintaining adequate liquidity is therefore a key strand of operational activity.

Key Messages:

Figuratively the Authority's risk profile remained fairly steady throughout the period and clearly demonstrates our cautious risk appetite in regard to placing surplus funds with counterparties.

Investment Activity (contd.)

Credit Risk

Counterparty credit quality as measured by credit ratings is summarised below:

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating
31/03/2021	3.50	AA-
30/06/2021	3.46	AA
30/09/2021	3.51	AA-

Scoring:
-Value weighted average reflects the credit quality of investments according to the size of the deposit
-Time weighted average reflects the credit quality of investments according to the maturity of the deposit
-AAA = highest credit quality = 1
- D = lowest credit quality = 26
-Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

As shown in the Table above (and in previous Reports) the Authority adopts a proactively cautious approach to investing surplus balances. This is, in part , a legacy of impacts seen during the Icelandic Banking Crisis in 2008 but also recognising the structural changes that have occurred in the wholesale deposit market since the Great Financial Crisis e.g., Bail-in Legislation and a near zero rate environment.

All this has resulted in a realignment of the Treasury functions focus towards managing the debt book and future borrowing as efficiently as possible. In a low-rate environment, the impact returns can have on the organisation are negligible whereas structuring borrowing effectively in the same space can have much more significant, far longer-term positive impact.

Key Messages:

In an environment where direct unsecured bank deposits present increased risk but low return NELC has sought to avoid this imbalance by utilising UK Government based investments and diversified funds.

Ultimately we seek to minimise counterparty risk by limiting our cash levels whilst still maintaining adequate liquidity.

There were no operational breaches of TMSS limits during the period.

Investment Activity (contd.)

Benchmarking

- Comparisons are made to other Authorities using the Treasury Live database which looks at over £7Bn of local Authority investments. As at the outturn date this shows that other Authorities:-
  - Hold more cash than NELC. Average balance £93m (estimated) vs £55m at NELC
  - Invest for longer periods. 81 days on average vs 21 days at NELC
  - Take more risk than us collectively.
  - Deliver higher return than us. 0.18% vs 0.01%
- Principally, other Authorities generate a return premium by lending to other Local Authorities for an average duration of 296 days.
- Whilst the above shows the greater return that can be generated by accessing term premiums, the Council is of the view that, in a post Bail-in environment, elimination of credit risk through lower balances is worth lower overall return. NELC also recognises that this strategy needs to ensure it does not replace credit risk with liquidity risk and so a liquid balance at least £10m is maintained. As an example of how liquidity risk comes into play, the uncertainty around March/April 2020 as a consequence of the Covid-10 pandemic meant that access to liquid funds carried increased importance and so this minimum balance was raised in March 2020 in order to ensure the Authority retained access to liquidity during that unprecedented period.

Operational Breaches

- There were no breaches of limits set within the TMSS during the period.

Key Messages:

The Authority confirms compliance with its Prudential Indicators for 2021/22, which were set in February as part of the Authority's Treasury Management Strategy Statement.

Compliance with Prudential Indicators

Treasury Management Indicators
The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

	2021/22	2022/23	2023/24
Upper limit on fixed interest rate exposure	£290m	£290m	£290m
Actual*	£155m	£170m (est)	£171m (est)
Upper limit on variable interest rate exposure	£90m	£90m	£90m
Actual*	£36m	£35m (est)	£35m (est)

*= Peak position for 2021/22

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Upper	Lower	Actual
Under 12 months	70%	0%	26%
12 months and within 24 months	30%	0%	3%
24 months and within 5 years	50%	0%	4%
5 years and within 10 years	50%	0%	11%
10 years and within 20 years	75%	0%	9%
20 years and within 30 years	75%	0%	11%
Over 30 years	100%	0%	36%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Note: LOBO option dates are included as potential repayment dates.

Key Messages:

For 2021-22 a minimum cash level of £10m was targeted though higher balances were maintained as part of our ongoing Covid-19 response and there were no breaches of this, or other Indicators.

Compliance with Prudential Indicators (contd.)

Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end will be:

	2021/22	2022/23	2023/24
Limit on principal invested beyond year end	£21m	£21m	£21m
Actual	£0m	£0m	£0m

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	AA-

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period, without additional borrowing.

	Target	Actual (Low)
Total cash available within 1 month	£10m	£32m*

*excludes Business Support Grant balances held during the period for the purpose of dispersal to local businesses.

Key Messages:

Borrowing remains comfortably below control levels as a result of continued internal borrowing support for the Capital Programme.

Borrowing levels were projected to be £167m at the end of 2021/22 when the TMSS was set in Feb 2021. The actual position as at 30.9.2021 was £155m and the revised year end forecast position is now £157m. The difference was represented by cash and Reserves at the period end and was expected to be utilised to fund Capital Spend during the remainder of 2021/22 although the Covid-19 crisis may still force some further delay in planned spend.

Compliance with Prudential Indicators (contd.)

Other Prudential Indicators

The following prudential indicators are relevant to the treasury function as they concern limits on borrowing and the adoption of the CIPFA Treasury Management Code.

Operational Boundary for External Debt: The operational boundary is based on the Authority's estimate of most likely, i.e. prudent, but not worst-case scenario for external debt.

Operational Boundary	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing	£215m	£215m	£215m
Other long-term liabilities	£30m	£30m	£30m
Boundary for Total Debt	£245m	£245m	£245m

Authorised Limit for External Debt: The authorised limit is "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2020-21 the Council has maintained gross borrowing within its authorised limit.

Authorised Limit	2021/22 £m	2022/23 £m	2023/24 £m
Borrowing Limit	£250m	£250m	£250m
Other long-term liabilities	£40m	£40m	£40m
Total Debt Limit	£290m	£290m	£290m
Actual/projected Peak Debt levels	£157m	£176m (est)	£182m (est)

Adoption of the CIPFA Treasury Management Code: The Authority adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition in February 2018.

Key Messages:

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow.

The Authority confirms compliance with its Capital Finance Prudential Indicators for 2021/22, which were set in February as part of the Authority's Treasury Management Strategy Statement.

Changes to the 2021/22 and later programmes may occur as these are rolled forward in the coming months.

Compliance with Capital Finance Prudential Indicators

The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

Estimates of Capital Expenditure

The Authority's planned capital expenditure and financing as at 30 September 2021 may be summarised as follows.

Capital Expenditure and Financing	2021/22 Original £m	2021/22 Changes £m	2021/22 New Estimate £m	2022/23 Estimate £m	2023/24 Estimate £m
Total Expenditure	51.5	2.6	54.1	53.8	45.6
Capital Receipts	0.3	0.2	0.5	0.5	0.5
Government Grants	27.2	-0.7	26.5	26.6	26.1
Ring-fenced External Funding	1.3	-1.0	0.3	0.0	5.0
Borrowing	22.8	4.0	26.8	26.7	14.0
Total Financing	51.5	2.6	54.1	53.8	45.6

NB Figures may not agree exactly to totals due to rounding

Key Messages:

The percentage of the Council's income required to service it's debt came in below projections due primarily to slippage in the capital programme and the effect of using short-term borrowing alongside alternate long-term lenders which came at lower than anticipated interest rates.

Compliance with Capital Finance Prudential Indicators (contd.)

Ratio of Financing Costs to Net Revenue Stream

This is a voluntary indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2021/22 Original Estimate %	2021/22 New Estimate %	2022/23 Estimate %	2023/24 Estimate %
General Fund	7.6	7.4	8.2	8.4