BRIEFING PAPER

REPORT to :	Audit and Governance Committee
LEAD OFFICER:	Director of Finance
DATE:	18th January 2022

WARD/S AFFECTED: All

TREASURY MANAGEMENT REPORT – 2021/22

Based on monitoring information for the period 1st September – 30th November 2021

1. PURPOSE
To allow scrutiny of the Treasury Management function.

2. RECOMMENDATIONS
It is recommended that Audit and Governance Committee notes the Treasury Management position for the period.

3. BACKGROUND
3.1 The Treasury Management Strategy for 2021/22, approved at Executive Board in March 2021, complies with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

The CIPFA Code, the Investment Guidance issued by MHCLG, and the Internal Audit & Assurance reviews of Treasury Management activities, all recommend a strong role for elected members in scrutinising the Treasury Management function of the Council.

3.2 This report summarises the interest rate environment for the period and the borrowing and lending transactions undertaken, together with the Council's overall debt position. It also reports on the position against Treasury and Prudential Indicators established by the Council.

3.3 A glossary of Treasury Management Terms is appended to this paper.

4. KEY ISSUES
4.1 <u>Bank of England Bank Rate</u>

The Bank of England Bank Rate remained steady at 0.1% during the period. On 16 December 2021 the Monetary Policy Committee voted to raise the Bank Rate to 0.25%.

4.2 Investments Made and Interest Earned

The graph in Appendix 1 shows the weekly movement in the totals available for investment, both actuals to date and projections for the rest of the year (adjusted for anticipated borrowing). These balances have fluctuated across the period, ranging between £45M and £70M. Investment balances continued to be unusually high during this period, because of funds received from central government. Funds received from central government included both grants received in advance of their usual payment dates and additional funds in respect of extra costs and the distribution of grants to businesses, in relation to the response to the COVID-19 pandemic. It is intended that investment balances will ultimately reduce in future to between £10M and £20M.

Investments made in the period were mainly in "liquid" (instant access) deposits, either bank "call accounts" or Money Market Funds (MMFs). Returns on MMF holdings remained low over the period, at around 0.01% throughout the period. Bank deposit account rates have remained steady over the period, paying 0.01%.

For limited periods, funds were also placed with the Government's Debt Management Account Deposit Facility (at 0.01-0.03%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
09-Jun-20	2 days notice	Thurrock Metropolitan Borough Council	£5,000,000	0.40%
06-Jul-21	06-Oct-21	Slough Borough Council	£5,000,000	0.03%
29-Jul-21	27-Oct-21	Royal Borough of Windsor and Maidenhead	£5,000,000	0.02%
15-Jul-21	15-Oct-21	Cornwall Council	£5,000,000	0.03%

At 30th November, the Council had approximately £52.5M invested, compared to £54.2M at the start of the period. Appendix 2 shows the breakdown of the closing investment balance.

The Council's investment return over the period was approximately 0.05%.

For comparison, benchmark LIBID (London Interbank Bid) rates were:
(a) 1 month lending – fluctuated throughout the period, reaching highs of 0.01%, lows of -0.08% and averaging -0.06%
(b) 3 month lending – fluctuated throughout the period, reaching highs of 0.11%, lows of -0.07% and averaging -0.01%

4.3 Borrowing Rates

The cost of long-term borrowing through the PWLB (Public Works Loan Board) is linked to central government's own borrowing costs.

The cost of short-term borrowing, based on loans from other councils, have started to rise during the period. Interest rates on loans from 3 months out to a year were priced at rates between 0.02% to 0.40% during the period.

The Council continues using short-term borrowing, with balances having fallen over the period as loans have not been replaced as they have matured, but should we need to borrow over the longer term this may be more expensive. Should the need arise, we will review the options available.

4.4 Short Term Borrowing in the 3 Month Period

The Council's CFR (Capital Financing Requirement) is the key measure of the Council's borrowing **need** in the long term. It is

(a) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.)

less

(b) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt -

less

(c) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

The Council's **actual** long-term debt is significantly below the CFR – the gap has widened as long-term debt has been repaid. We have been using "internal borrowing" from available revenue cash balances to partly cover this gap. The remaining gap has been covered by taking enough short term borrowing to ensure that the Council has sufficient funds to pay its liabilities and commitments, and to anticipate future borrowing needs. This has resulted in net interest savings.

Up to the end of November, there was a decrease in short-term borrowing of £19.3M, as loans of £24.3M were repaid and £5M of new loans were taken (listed below).

New loans taken in the period				
Start Date	**End Date**	**Counterparty**	**Amount £**	**Rate**
13/09/2021	12/09/2022	Crawley Borough Council	5,000,000	0.20%
			5,000,000	

No future deals had been agreed by the end of the period.

4.5 <u>Current Debt Outstanding</u>

	31st August 2021		30th November 2021	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	24,250		10,000	
Greater than 3 months (full duration)	20,000		15,000	
		44,250		25,000
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	127,418		125,302	
Stock & Other Minor Loans	262		262	
		145,680		143,564
Lancashire Council County – Transferred Debt		13,448		13,311
Recognition of Debt re PFI Arrangements		60,828		60,364
TOTAL DEBT		**264,206**		**242,239**
LESS: TEMPORARY LENDING				
Fixed Term		(33,600)		(26,205)
Instant Access		(20,648)		(26,300)
NET DEBT		**209,958**		**189,734**

The key elements of long term borrowing set out above are:

(a) £18M classed as bonds, borrowed from the money markets, largely in the form of "LOBO" (Lender Option, Borrower Option) debt. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.4%.

(b) £125.3M borrowed from the PWLB at fixed rates, at an overall average rate of around 4%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.7% to 3.77%.

(c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 1.82%.

(d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use school buildings financed through Public Finance Initiative (PFI) arrangements. The Council's effective control over, and use of these assets is thereby shown "on balance sheet", with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax Payer as these payments made to the PFI contractor are largely offset by PFI grant funding from the Government.

During the quarter enquires have been made into to the possibility of making early repayments of the Council's LOBO loans, following successful repayments and refinancing of LOBO loans by other authorities, which resulted in interest cost savings for those authorities. Following discussions with the relevant financial institutions and our advisors, Arlingclose, the high premiums offered for early repayment of the Council's debt make this an uneconomic option, early repayment and refinancing would result in additional costs for the Council.

4.6 Performance against Prudential and Treasury Indicators

Appendix 3 shows the current position against the Prudential and Treasury Indicators set by the Council for the current year.

With regard to the movement in the key indicator, **Total Borrowing against the Authorised Borrowing Limit**, this is shown as the first graph in Appendix 4. Total borrowing at 30th November 2021 was £242.2M, which is below both our Operational Boundary (£337.6M) and our Authorised Borrowing Limit (£347.6M) for 2021/22.

This year we have remained within both our Operational Boundary – which is set for management guidance - and the (higher) Authorised Borrowing Limit. The Authorised Limit is the key Prudential Indicator – any borrowing cannot be taken if this Limit is (or would be caused to be) breached.

This total debt includes the impact on the balance sheet of the recognition of assets that have been financed through PFI. The accounting adjustments are designed to show our effective long-term control over the assets concerned, and the "indebtedness" arising from financing the cost of them. They do not add to the "bottom line" cost met by the Council Tax Payer.

The Council still holds a part of its debt portfolio in loans of less than a year's duration - short-term loans still represent a cheap way to fund marginal changes in its debt. This remains under review, with regular updates from the Council's treasury management advisors, Arlingclose.

Interest Risk Exposures

Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at -£14.5M, against the **limit** set for this year of £108.6M.

This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget. The limit is set to allow for short as well as long term borrowing, and takes:

(a) all variable elements of borrowing (including short term borrowing – up to 364 days – and any LOBO debt at risk of being called in the year), which is then offset by

(b) any lending (up to 364 days).

Our **Fixed Interest Rate Exposure** was around £130.6M, against the **limit** of £245.3M. This indicator effectively mirrors the previous indicator, tracking the Council's position in terms of how much of the debt will **not** vary as interest rates move. The historically low interest rates prevailing over recent decades led the Council to hold a large part of its debt in this way.

This limit was set to allow for the possibility of much higher levels of new long-term, fixed rate borrowing. There are still significant levels of short-term debt.

4.7 Draft Treasury Management Strategy for 2022/23

The Council's proposed Treasury Management Strategy and Treasury Management Indicators for 2022/23 will be submitted to Executive Board in March 2022.

The content of the strategy remains largely similar to the previous year. Details of the proposed draft strategy are included in Appendix 6.

4.8 Codes of Practice and MRP – Consultation and Proposed Changes

Earlier this year CIPFA consulted on the principles to support the changes to the Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code), as well as the changes to the Prudential Code for Capital Finance in Local Authorities. These will be reviewed in detail once the final codes are issued.

Government are currently consulting on changes to the capital framework: Minimum Revenue Provision. The outcome of this consultation may have an impact on the Council, this will be reviewed in detail once the outcome of the consultation is issued.

5. POLICY IMPLICATIONS

None

6. FINANCIAL IMPLICATIONS

The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

7. LEGAL IMPLICATIONS

The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council's Constitution.

8. RESOURCE IMPLICATIONS

None

9. CONSULTATIONS

None

10. STATEMENT OF COMPLIANCE

The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

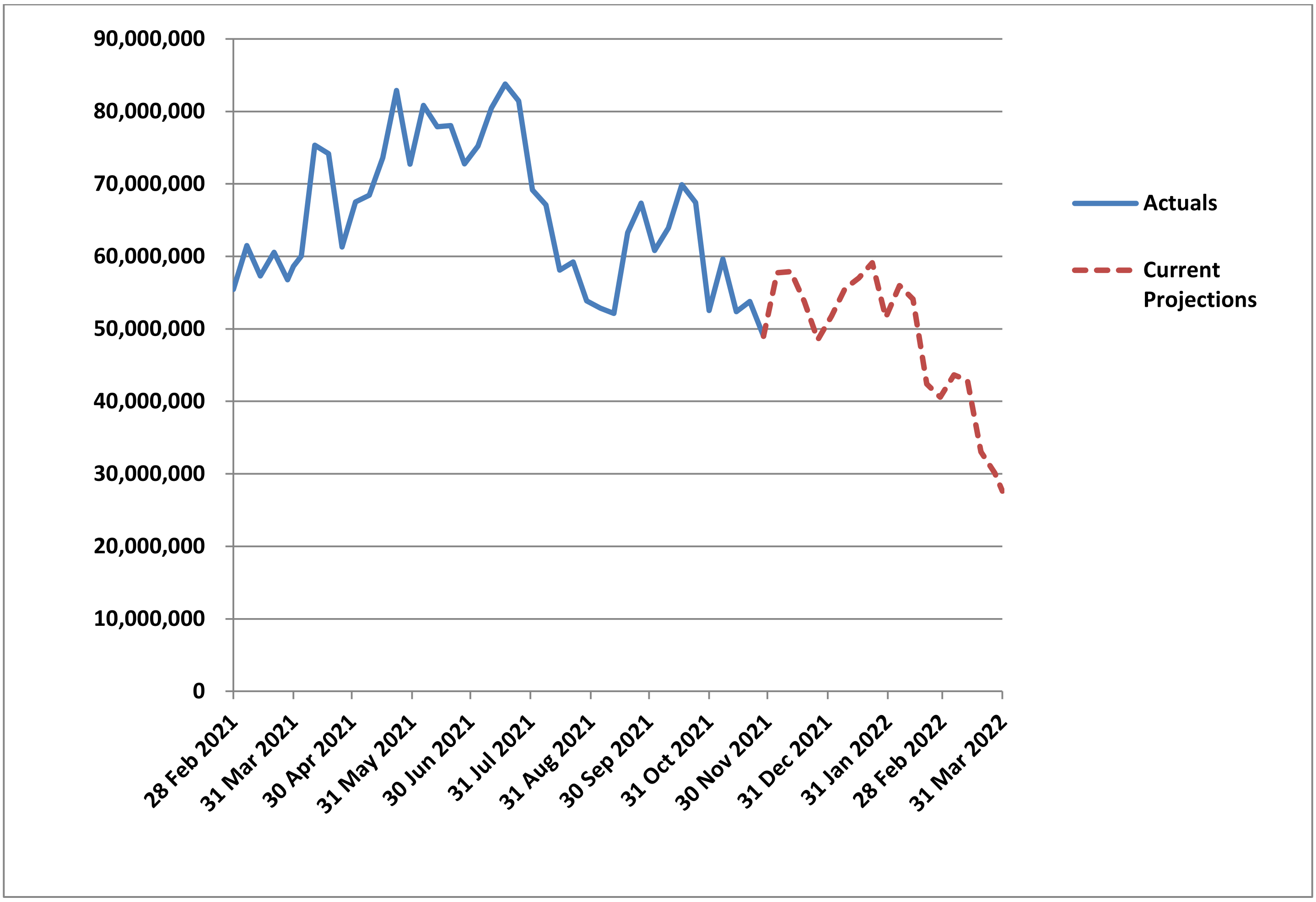
VERSION:	**0.01**

CONTACT OFFICER:	Jody Spencer-Anforth – Finance Manager extn 507748 Dean Langton – Director of Finance extn 666703
DATE:	December 2021
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Treasury Management Strategy for 2021/22 approved by Executive Board 11th March 2021

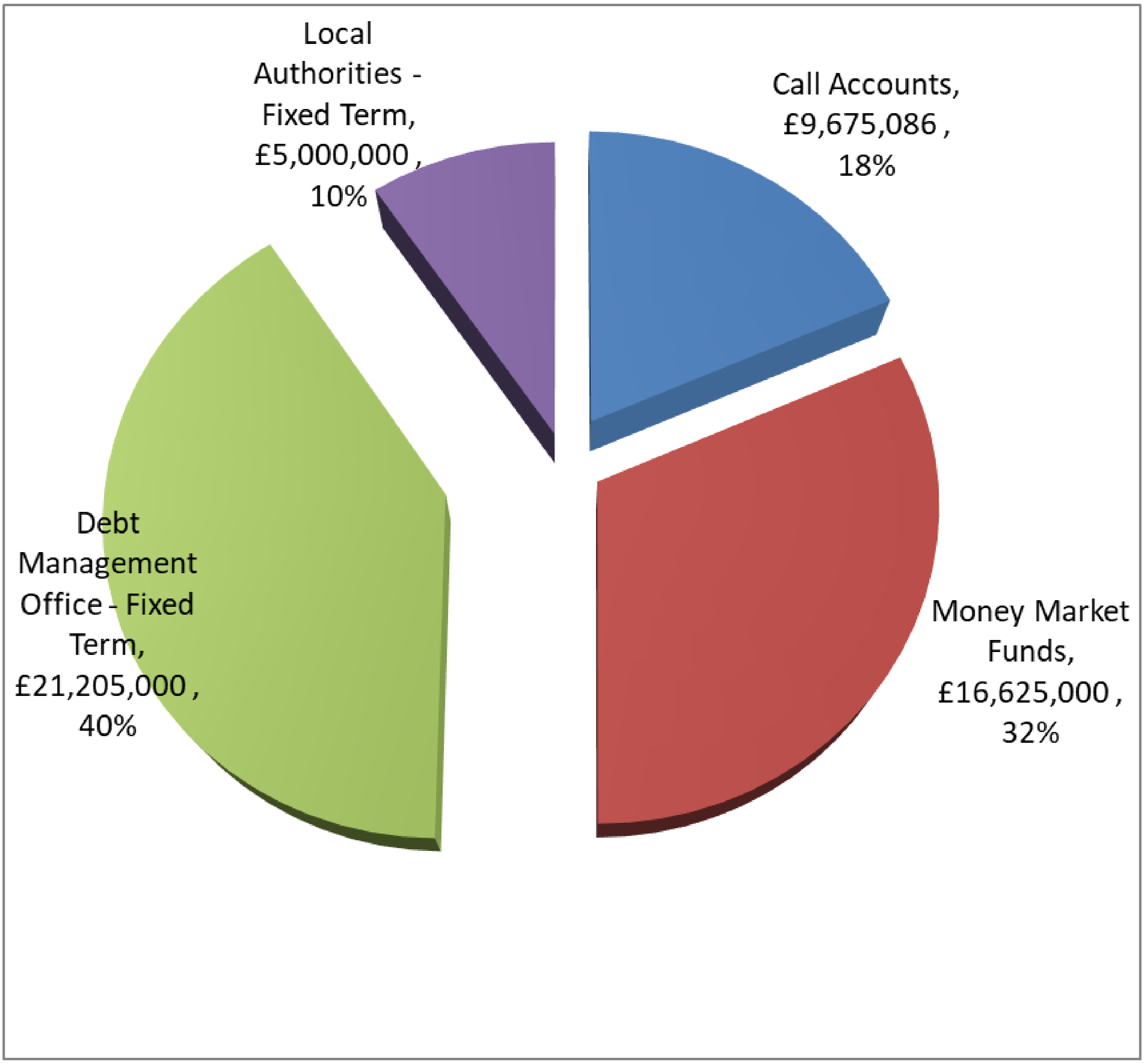
Weekly Investment Balances

Appendix 1

2021/22 (Feb 21 to Mar 22)



Investments at 30th November 2021 **Appendix 2**

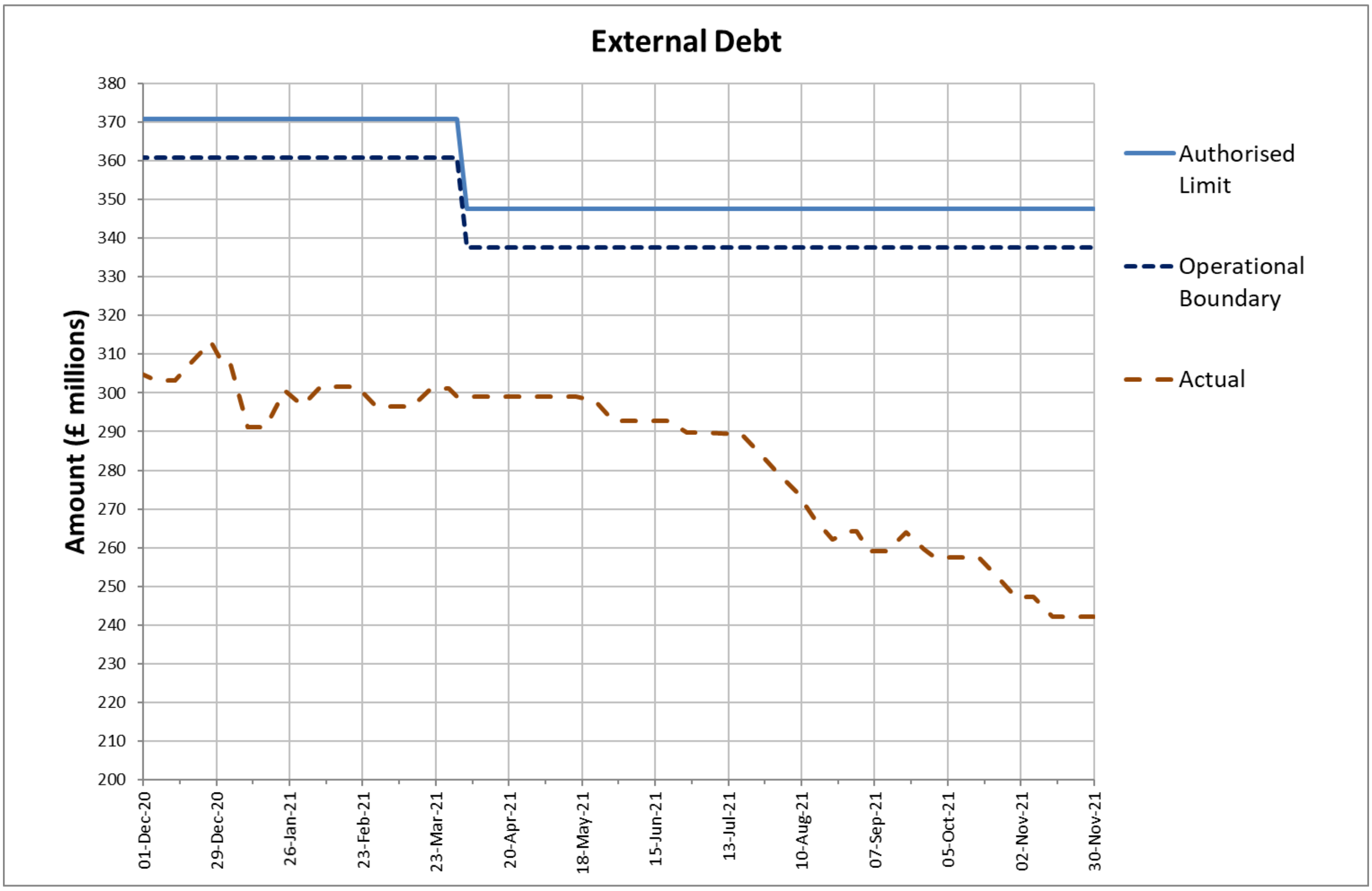


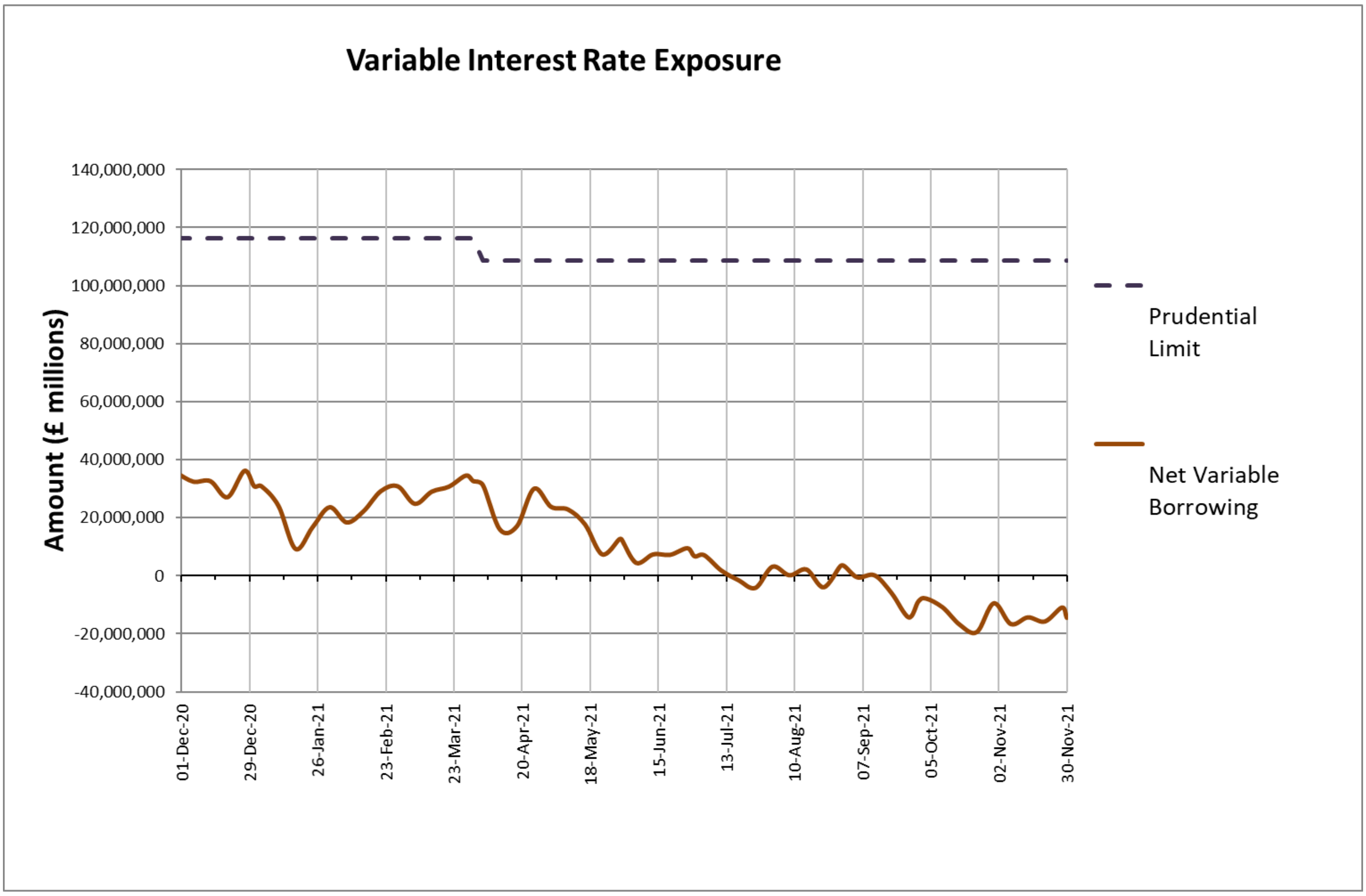
Performance against Treasury & Prudential Indicators 2021/22 (approved by Council 1st March 2021 / Executive Board 11th March 2021) **Appendix 3**

<table>
<tr><th></th><th>Indicator 2021/22</th><th>As Approved Mar 21</th><th>Current Monitoring</th><th>Commentary</th></tr>
<tr><td></td><td>Estimated Capital Expenditure</td><td>£25.5M</td><td>£38.3M</td><td></td></tr>
<tr><td></td><td>Estimated Total Capital Financing Requirement at End of Year</td><td>£301.6M
(incl projections re LCC debt £15.1M and accumulated PFI/lease debt £69.1M)</td><td rowspan="2">These indicators are set when the Capital Programme is approved, to inform the decision making around that process, and are not, as a matter of course, updated during the financial year.</td><td></td></tr>
<tr><td></td><td>Estimated Ration of Financing Costs to Net Revenue Stream</td><td>12.60%</td><td></td></tr>
<tr><td></td><td>Outturn External Debt Prudential Indicators</td><td><table>
<tr><td>LCC Debt</td><td>15.2M</td></tr>
<tr><td>PFI Elements (no lease)</td><td>69.3M</td></tr>
<tr><td>Remaining Elements</td><td>253.1M</td></tr>
<tr><td>Operational Boundary</td><td>337.6M</td></tr>
<tr><td>Authorised Borrowing Limit</td><td>347.6M</td></tr>
</table></td><td><table>
<tr><th>Borrowing to Date</th><th>£M</th></tr>
<tr><td>LCC Debt</td><td>13.3</td></tr>
<tr><td>PFI Elements</td><td>60.3</td></tr>
<tr><td>BwD</td><td>168.6</td></tr>
<tr><td>Total</td><td>242.3</td></tr>
</table></td><td>LCC debt and BSF PFI debt will both fall across the year, as debt payments are made</td></tr>
<tr><td></td><td>Variable Interest Rate Exposure</td><td>£108.6M</td><td>Exposure to Date -£14.5M</td><td>Limit not breached during the year</td></tr>
<tr><td></td><td>Fixed Interest Rate Exposure</td><td>£245.3M</td><td>Exposure to Date £130.6M</td><td>Limit not breached during the year</td></tr>
<tr><td></td><td>Prudential Limits for Maturity Structure of Borrowing</td><td><table>
<tr><th>Lower Limit</th><th>Upper Limit</th><th>Period (Years)</th></tr>
<tr><td>0%</td><td>50%</td><td><1</td></tr>
<tr><td>0%</td><td>30%</td><td>1-2</td></tr>
<tr><td>0%</td><td>30%</td><td>2-5</td></tr>
<tr><td>0%</td><td>30%</td><td>5-10</td></tr>
<tr><td>25%</td><td>95%</td><td>>10</td></tr>
</table></td><td><table>
<tr><th colspan="3">Actual Maturity Structure to Date</th></tr>
<tr><th>Period (Years)</th><th>£M</th><th>%</th></tr>
<tr><td><1</td><td>36.6</td><td>22%</td></tr>
<tr><td>1-2</td><td>3.5</td><td>2%</td></tr>
<tr><td>2-5</td><td>26.6</td><td>16%</td></tr>
<tr><td>5-10</td><td>26.6</td><td>16%</td></tr>
<tr><td>>10</td><td>75.3</td><td>44%</td></tr>
<tr><td>Total</td><td>168.6</td><td>100%</td></tr>
</table></td><td></td></tr>
<tr><td></td><td>Total Investments for Longer than 364 Days</td><td>£7M</td><td>No Long Term Investments Made</td><td></td></tr>
</table>

Movements in Prudential Indicators – Total Debt and Variable Interest Exposure
Year to 30th November 2021

Appendix 4





<u>Investment Rates</u>
The interest rates for durations of less than a year are represented by LIBID (London Interbank Bid Rate), a reference rate measuring levels at which major banks are prepared to borrow from one another. This is a potential benchmark for the return on the Council's investments, though the rates actually available are constrained by the Council's investment criteria and largely short term investment horizon, designed to ensure cash is available when required.

<u>Borrowing Rates</u>
To indicate the potential costs of borrowing to fund the Council's capital programme, the reference point is Public Works Loans Board (PWLB) borrowing rates. The benchmark used is for "Certainty Rate" borrowing of "Maturity" Loans (loans of fixed lump sums, at fixed rates, over periods from 1 to 50 years).
The PWLB is the statutory body which lends to public bodies from Government resources – the Government has declared that it will be abolished at some point in the future, but that the facility for lending at good value will be continued - no date has been proposed for the change.

PWLB Loans - Fixed rate loans are repayable by one of three methods:
(a) **Maturity**: half-yearly payments of interest only, with a single repayment of principal at the end of the term.
(b) **Annuity**: fixed half-yearly payments to include principal and interest or
(c) **EIP (Equal Instalments of Principal)**: equal half-yearly instalments of principal together with interest on the balance outstanding at the time.

Certainty Rates - a discount - currently 0.20% - is available on new PWLB borrowing to local authorities completing an information request on borrowing intentions to Central Government.

Current PWLB rates have no impact so long as no new longer term borrowing is taken, as all the Council's existing long term debt is at fixed rates.

LOBO - LOBO stands for Lender Option, Borrower Option. It means that the lender can increase the interest rate, which gives the borrower the option to repay the loan in full without penalty fees. Public bodies used to be only able to borrow money through government Public Works Loan Board (PWLB) loans, however borrowing from banks in the form of LOBOs was permitted from the early 2000s. LOBOs were made available with low rates (cheaper than then available PWLB rates) so they appeared to be an attractive alternative.

LOBOs have provoked criticism because of high initial profits to the lender from day one, and high subsequent interest rates. It is difficult to exit LOBO loans early unless the lender is in agreement, so they are less flexible, and there is a risk that if/when they are "called", the borrower may find itself having to refinance debt at high rates.
This Council always limited the scale of LOBO borrowing taken, so that it formed part of an overall balanced debt portfolio, while bringing the advantage of initial lower rates.

PFI - The private finance initiative is a way of creating "public–private partnerships" (PPPs) by funding public infrastructure projects with private capital.

BSF - Building Schools for the Future (BSF) was the name given to Central Government's investment programme in secondary school buildings in England in the 2000s. In Blackburn with Darwen, the schools funded through this scheme are Witton Park High School, Blackburn Central High School and Pleckgate High School.

Prudential Indicators

Prudential Indicators are established mainly to allow members to be informed of the impact of capital investment decisions and to establish that the proposals are affordable, prudent and sustainable. In addressing the debt taken on by the Council, the indicators also deal with treasury issues, in particular the absolute level of debt being taken on (through the Authorised and Operational Borrowing Limits).

It should be noted that a "breach" of a prudential indicator is not necessarily a problem for the Council. Some indicators are more crucial that others, particularly in terms of their impact. If we spend more on the capital programme in total, that is not necessarily a problem if it has no adverse revenue consequences, for instance. Similarly, if we breach the indicator relating to variable interest rate exposure, this can just point to the balance of different types of debt taken up (between at fixed or variable interest rates) being significantly different from that anticipated when the indictor was set.

On the other hand, the Council's ability to borrow from the PWLB is constrained by needing to remain within the Authorised Borrowing Limit the Council has set for itself. If it became necessary to re-shape the Council's overall capital spending and borrowing strategy to the extent that the original Authorised Borrowing Limits were at risk of being breached, it would be necessary to obtain authority from full Council to change the borrowing limits.

Money Market Fund

A Money Market Fund is a type of fund investing in a diversified portfolio of short term, high quality debt instruments - provides benefit of pooled investment - assets are actively managed with very specific guidelines to offer safety of principal, liquidity and competitive returns - such funds “ring-fenced”, kept fully separate from the remainder of funds managed by the investment house running the fund.

Council only uses highly rated funds - **policy** is to limit to those with long-term credit ratings no lower than A-, but current **practice** is to only use AAA rated with daily access (like instant access bank accounts).