Agenda Item No:11

Treasury Management Report – Quarter Four Update 2021/22

To:	Strategy & Resources Committee
Meeting Date:	27th June 2022
From:	Director of Resources/Section 151 Chief Finance Officer
Electoral division(s):	All
Key decision:	No
Forward Plan ref:	Not applicable
Outcome:	Through this report the Committee supervises the Council's treasury management, and ensures that public money across the Council's cashflows, borrowing and investments is utilised and deployed effectively and in compliance with the Treasury Management Strategy.
Recommendation:	The Strategy & Resources Committee is recommended to note the Treasury Management Quarter Four Outturn Report for 2021/22, and endorse it for consideration at Full Council.

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1. Background

1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management recommends that Members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

1.2 Updates are provided quarterly to this committee on treasury management activities and are necessarily retrospective in describing the position at the end of a quarter. However, changes to the UK economy and corresponding implications for our treasury management activity can be sometimes fast paced, therefore some of the information relevant to a quarter's report may be partially out of date by the time it is reported. Any significant live treasury management information is therefore presented on a regular basis to committee as part of the Integrated Finance Monitoring Reports.

2. Economic Update

2.1 In Quarter 4, the 1.3% quarter on quarter (q/q) rise in nominal household disposable income was wiped out by a 1.4% q/q rise in consumer prices. As a result, real household incomes fell by 0.1% q/q; the third fall in a row. The GfK measure of consumer confidence has now fallen for four consecutive months, reaching a 17-month low in March 2022.

2.2 With inflation set to keep rising, households can expect 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. In February, a 1.0% month on month (m/m) price rise meant that food and drinks inflation rose from 4.3% to 5.1%. That was the highest rate since September 2011.

2.3 Consumer Prices Index (CPI) inflation is expected to peak at around 8.3% in April and will stay above 7.0% for most of 2022, and above 3.0% for most of 2023. The scheduled 54% rise in utility prices on 1st April will add an extra 1.4 percentage points to CPI inflation in April. The surge in agricultural commodity prices triggered by the war in Ukraine means that food price inflation is expected to climb above 6%.

2.4 Job vacancies increased to a new record high of 1.3 million in February and maintained the upward pressure on wage growth. The three-month average rate of earnings growth rose from 4.6% in December to 4.8% in January. Earnings excluding bonuses rose by another 0.4% m/m, which lifted the average rate of earnings growth from 3.7% to 3.8%.

2.5 The Bank of England Monetary Policy Committee's (MPC's) forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative tightening) holdings of bonds is as follows:

- Raising the Bank Rate is "the active instrument in most circumstances".

- After the Bank Rate hits 0.50%, start reducing its gilt/bond holdings and stop reinvesting maturing gilts.

3. Interest Rate Forecast

3.1 The latest forecast for the Bank Rate along with Public Works Loan Board (PWLB) borrowing rates (certainty rate) from the Council's treasury advisors is set out in Tables 1a and 1b.

3.2 The MPC has tightened short-term interest rates to try to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control, but without pushing the economy into recession. The latest forecast on 4th February for Quarter 4 is compared to the last forecast (20th December) in the previous quarter. A comparison of these forecasts shows that PWLB rates have increased generally and show a speeding up in the increase in the Bank Rate as inflation is now posing a greater risk. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally due to inflation concerns.

Table 1a: Interest Rate Forecast (%) February 2022

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

Table 2b: Interest Rate Forecast (%) December 2021

Link Group Interest Rate View 20.12.21	Dec-21	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	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Forecasts for Bank Rate

3.3 The following summarises the potential factors that might influence the future path for the Bank Rate:

- The MPC has now set out on a monetary policy tightening spree. In March, it voted 8-1 for rates to increase to 0.75%.
- If the MPC becomes more heavily focused on combating inflation than on protecting economic growth, the forecast will be revised up further.
- In April, there will be an energy cap increase of 54%, together with a 1.25% rise in employee national insurance. Food inflation will be around 5%, and council tax is likely to rise in the region by 5% too.
- These increases will hit lower-income families hard, despite some limited assistance from the Chancellor, who was asked to postpone the full impact of rising energy costs.
- It is estimated that consumers are sitting on over £160bn of excess savings left over from the pandemic, which will cushion some of the impacts of the above increases. But most of those holdings are held by more affluent households, whereas lower-income families have already spent nearly all their income before these increases hit and have few financial reserves.
- The big issue is whether the current spike in inflation will lead to a second-round effect in terms of labour demanding higher wages (and/or lots of people securing higher wages by changing jobs).
- If the labour market remains very tight during 2022, then wage inflation poses a greater threat to overall inflation being higher for longer, and the MPC may feel it needs to take more action.

Forecasts for Gilt Yields / PWLB Rates

3.4 The current PWLB rates are set as margins over gilt yields as follows:

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps)
- Local Infrastructure Rate is gilt plus 60bps (G+60bps)

3.5 The yield curve has flattened out considerably. It is difficult to say currently what effect the Bank of England starting to sell gilts will have on gilt yields once the Bank Rate rises to 1%; it is likely to act cautiously as it has already started to not refinance maturing debt. A passive process of not refinancing maturing debt began in March when the 4% 2022 gilt matured; the Bank owns £25bn of this issuance. A pure roll-off of the £875bn gilt portfolio by not refinancing bonds as they mature would see holdings fall to about £415bn by 2031, which would be about equal to the Bank's pre-pandemic holding. Last August, the Bank said it would not actively sell gilts until the "Bank Rate had risen to at least 1%" and, "depending on economic circumstances at the time."

3.6 However, increases in US treasury yields over the next few years could add upside pressure on gilt yields; more recently, gilts have been more correlated to movements in bund yields, rather than treasury yields.

4. Summary Portfolio Position

4.1. The level of net debt borrowing set in the Treasury Management Strategy (TMS) for 31st March 2022 was £805.0m. On 1st April 2021, net debt was £709.3m, and by 31st March 2022 it had reduced to £660.8m (excluding all Third-Party Loans and Equity). This is a decrease in borrowing over the period, due to some loans maturing and not yet being refinanced, combined with slower spend on the Council's Capital Programme than was forecast, plus an increase in cash reserves which have allowed the Council to increase levels of internal borrowing. In particular, the cash flow position was improved at the end of Quarter 4 by a large Section 106 payment, as well as a significant sale of a piece of land.

4.2 Further analysis on borrowing and investment is set out in the next two sections. A snapshot of the Council's debt and investment position is shown in Table 2.

Table 2: Net Borrowing Quarter 4 2021/22

Borrowings	Actual as at 1 April 2021 £m	Actual as at 31 March 2022 £m	Year -date-change £m
Borrowing repayable in >12mth	675.7	724.3	48.6
Borrowing repayable in <12mth	137.0	55.0	-82.0
Total Borrowings	812.7	779.3	-33.4
Less Treasury Investment	-98.1	-113.6	-15.5
Less Third-Party Loans and Equity	-5.3	-4.9	0.4
Total Net Debt/Borrowings	709.3	660.8	- 48.5

5. Investments

5.1 The Treasury Management Strategy for 2021/22, including the Annual Investment Strategy for financial assets, was approved by Council in February 2021. It sets out the Council's investment priorities as being:

1. Security of Capital;
2. Liquidity; and then
3. Yield

5.2 The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. As shown by the interest rate forecasts in Section 3, the Money Market Fund (MMF) & Call Account rates are increasing daily, therefore the Council will receive a better return on short-term, laddered investment. The Bank rate is at 1%, an increase from 0.1% earlier in 2021.

5.3 At 31st March 2022, the Council's investment balances totalled £113.6m; the balance is split between Money Market Funds, Call/Notice accounts and Collective Investment Funds (see Table 3 below). The balance excludes Third-Party Loans and Share Capital.

Collective Investment Funds

5.4 **Property Fund:** At the end of Quarter 4, the capital value of the investment was £12.6m compared to an original investment value of £12m. The UK commercial property had a good start to 2022, building on strong progress in 2021; high tenant demand was reflected in the industrial sub-sector. However, rental growth in both the retail and office sectors stalled. Overall, the portfolio has retained income better than expected during the pandemic, reflecting the fund's active asset management strategy and tenant engagement. Sector values continued to improve through the quarter, closing a year of strong recovery in valuations. The improvement was helped by the recovery in transaction levels which were back up to their long-term averages. The dividend rate of return on the initial investment for Quarter 4 was 3.5%.

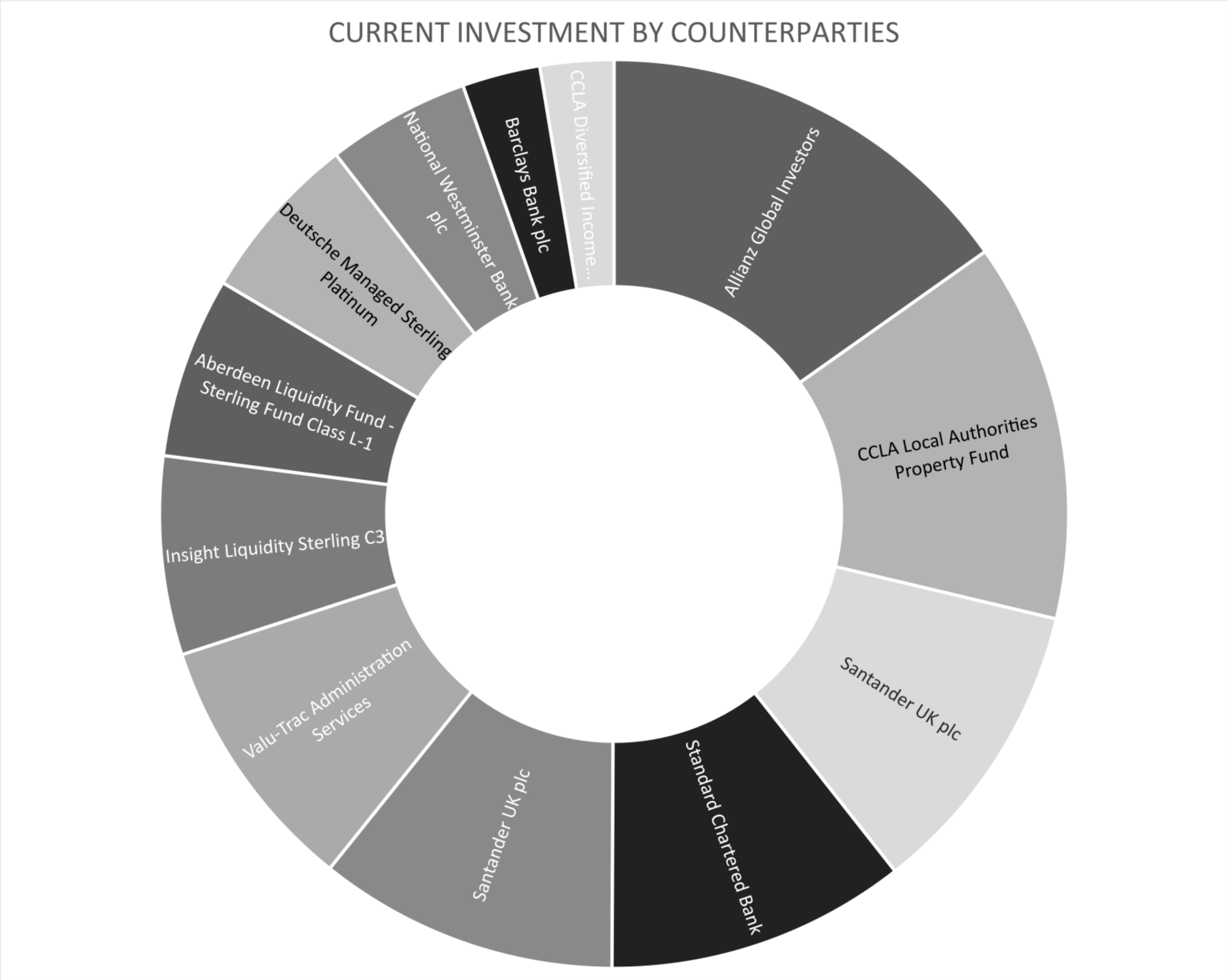
5.5 **Diversified Income Fund:** At the end of Quarter 4, the capital value of the investment was £2.445m compared to an original investment value of £2.450m. Continuing through 2022, monetary policies will continue to tighten, with inflation likely to remain above the projected rate. In this environment, CCLA expects to maintain the portfolio's emphasis on real assets, such as good quality equities with a cautious allocation to the fixed income sectors. The dividend rate of return on the initial investment for Quarter 4 was 2.3%.

5.6 **Multi-Class Credit Fund:** At the end of Quarter 4, the valuation of the CCC share of the fund stood at £14.2m compared to an original investment value of £14.5m. The market in 2022 started somewhat uncertain, and with the invasion of Ukraine, the market has become further volatile. The Council received the annual dividend payment of £304k in 2021/22; the dividend rate of return on the initial investment was 2.1%.

5.7 **Infrastructure Income Fund:** At the end of Quarter 4, the valuation of the CCC share of the fund stood at £8.6m, compared to an original investment value of £8m. Positive momentum in the Fund's core universe accelerated in March and the strategy performed well, recording a strong 7.96% total return for the period. Following heavy capital deployment throughout periods of market weakness earlier in the year, the Fund started the month almost fully invested. The strategy was therefore able to fully capitalise on the positive market backdrop, but it also meant that portfolio activity was relatively muted. The dividend rate of return on the initial investment for Quarter 4 was 3.9%.

5.8 The average level of investment in Quarter 4 (excluding Third-Party Loans and equity) was £781.6m, which carried a weighted average rate of 2.37%. The level of investment funds varies dependent on the timing of precept receipts, grants, and the progress of the capital programme; at the end of Quarter, 4 investments (excluding Third-Party Loans and Equity) totalled £113.6m. Figure 1 overleaf shows the investment by counterparty at 31st March 2022.

Figure 1: CCC Investments allocation by Counterparty



5.9 The table below summarises the maturity profile of the Council's investment portfolio at the end of Quarter 4 2021/22 (excluding Third-Party Loans):

Table 3: Investment maturity profile at end of Quarter 4 2021/22

Product	Access Type	Maturity Period 0d £m	0-3m £m	3-6m £m	~5yrs £m	Total £m	%
Money Market Funds	Same-Day	18.3				18.3	*16.1*
Bank Call Account	Instant Access	37.4				37.4	*32.9*
Notice Account	35 Day Notice			20.0		20.0	*17.6*
Pooled Property Fund	Redemption Period Applies				12.6	12.6	*11.1*
Pooled Diversified Income Fund	Redemption – two days				2.5	**2.5**	*2.2*
Pooled Multi-class credit Fund	Redemption Period Applies				14.2	**14.2**	*12.5*
Income Fund (Energy)	Redemption Period Applies				8.6	**8.6**	*7.6*
	Total	55.7	0.0	20.0	37.9	113.6	*100.0*
	%	*49.0*	*0.0*	*17.6*	*33.4*	*100.0*	

5.10 The tables below set out details of the amounts outstanding on loans and share capital investments classed as capital expenditure advanced to third-party organisations at the end of Quarter 4:

Table 4: Loans/Equity holdings in This Land companies end of Quarter 4 2021/22

Loan Summary	Amount Outstanding (£m)	Repayment Year
Land, Construction & Development loans	113.851	2026/27, 2027/28 and 2028/29
Equity holding	5.851	N/A
Total Loans/Equity in This Land Ltd	119.702	

Table 5: Loans/Equity holdings in Pathfinder Legal Services end of Quarter 4 2021/22

Loan Summary	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Cashflow loan	0.325	0.325	2029/30
Equity holding	0.475	0.475	-
Total Loans/Equity in Pathfinder Legal Services	0.800	0.800	

Table 6: Third-Party Loans Principal Outstanding end of Quarter 4 2021/22

Loan Counterparty	Original Amount (£m)	Amount Outstanding (£m)	Repayment Year
Arthur Rank Hospice Charity	4.000	3.280	2042/43
Estover Playing Field 2015 CIC (Guaranteed by March Town Council)	0.350	0.163	2024/25
Wisbech Town Council	0.150	0.150	2043/44
VIVA Arts & Community Group	0.300	0.032	2031/32
Total Third-Party Loans	4.800	3.625	

5.11 Investment returns compared to benchmark returns are shown in Table 7 below. The publication of official LIBOR (London Inter-Bank Offered Rate) figures (and related LIBID (London Inter-Bank Bid Rate) calculations ceased at the end of 2021. Moving forward, the preferred benchmark is SONIA (Sterling Overnight Index Average), which is the risk-free rate for sterling markets administered by the Bank of England. SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors. Moving forward, the Council has chosen to use the 30-day backward looking rate on a SONIA basis, as this most accurately reflects the type and length of investments (excluding Collective Investment Funds) that the Council holds. The decision to use backward looking is because this reflects the rates at the time of decision-making, rather than forward looking rates at the time of reporting.

Table 7: Average Benchmark versus Council Performance (excluding Collective Investment Funds) 2021/22

	Benchmark	Benchmark Return	Council Performance
Quarter 1	3m LIBID	-0.04%	0.05%
Quarter 2	3m LIBID	-0.05%	0.08%
Quarter 3	3m LIBID	0.02%	0.10%
Quarter 4	30-day backward SONIA	0.31%	0.32%
For the Year	**30-day backward SONIA**	**0.12%**	**0.13%**

5.12 Leaving market conditions aside, the Council's return on investments is influenced by several factors, the largest contributors being the duration of investments and the credit quality of the institution or instrument:

- Credit risk is the consideration of the likelihood of default and is controlled through the creditworthiness policy approved by Council.
- The duration of an investment introduces liquidity risk; the risk that funds cannot be accessed when required.
- Interest rate risk, arising from fluctuating market interest rates.

These factors and associated risks are actively managed by the Council's Finance team.

6. Borrowing

6.1 The Council can raise cash through borrowing to fund expenditure on its capital programme for the benefit of Cambridgeshire. The amount of new borrowing needed each year is determined by capital expenditure plans and projections of the Capital Financing Requirement, underlying borrowing requirement, forecast cash-backed reserves and both current and forecast economic conditions.

6.2 The Council will continue to utilise short to medium-term borrowing from other local authorities and authorised brokers, as well as PWLB if either rates are low, or longer-term borrowing is required. The Council intends to keep a proportion of the borrowing portfolio short-dated to take advantage of lower rates; but has also focused on extending the average duration of loans in the portfolio whilst there have been opportunities to fix loans for extended maturities at historically low levels. As a result, the Council's overall average interest rate for borrowing is low at around 2.3%.

6.3 In Quarter 4, the Council repaid on maturity a total of £65.0m, of which £22.0m was short-term loans from other local authorities and £43.0m was longer-term loans from other local authorities and PWLB. Loans raised during Quarter 4 amounted to £77.0m from other local authorities; £47.0m was medium-term borrowing, and £30.0m short-term loans.

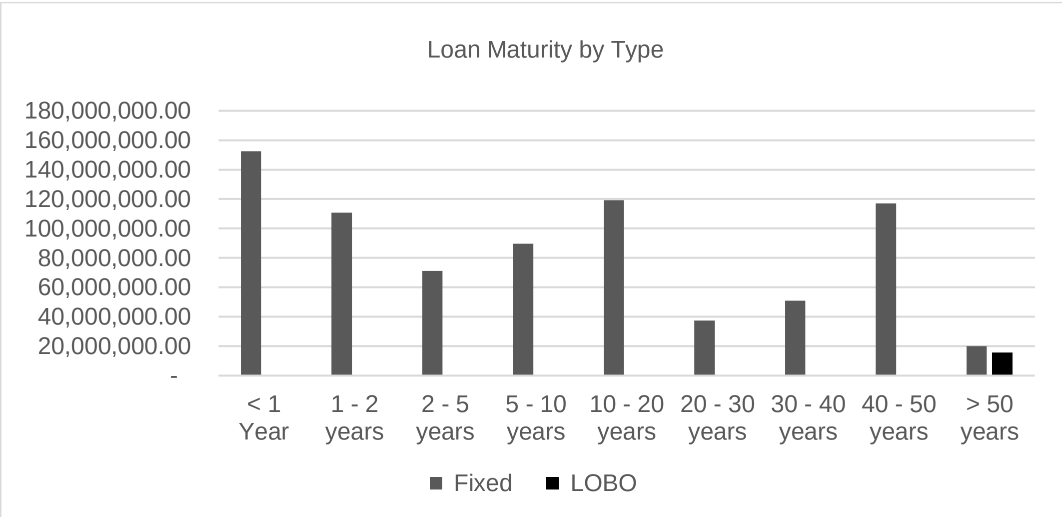
6.4 At the end of Quarter 4, the Council held £779.3m of borrowing of which £55.0m was short-term borrowing that matures in less than 1 year from date of issue. The Council continues to be able to re-finance loans as required, generally at this time at a similar interest rate to the maturity loan. As opportunities arise, we have sought longer loan terms, rather than less than 1 year, in view of the recent historically low rates. However, this is becoming a less favourable option as rates are starting to rise.

6.5 Table 8 overleaf sets out the maturity profile of the Council's borrowing portfolio at the end of Quarter 4; £464.8m is held with the PWLB, £254.0m from other local authorities, £45.0m in market loans and £15.5m is a single market Lender Option Borrower Option (LOBO) loan. Of the £779.3m of borrowing, £152.5m (including both short-term and longer-term loans) will mature in less than 1 year, therefore potentially requiring refinancing.

Table 8: Loan Maturity Profile (Closing) – Quarter 4 2021/22

Term remaining	Borrowing £m	Borrowing %
< 1 Year	152.5	19.6
1 - 2 years	110.7	14.2
2 - 5 years	71.2	9.1
5 - 10 years	89.7	11.5
10 - 20 years	119.2	15.3
20 - 30 years	37.5	4.8
30 - 40 years	51.0	6.5
40 - 50 years	117.0	15.0
> 50 years	30.5	3.9
Total	779.3	100.0

Figure 2: Loan Maturities by Type (Closing) – Quarter 4 2021/22



6.6 The market LOBO loan is included in Table 8 at final maturity rather than next potential call date. In the current environment, the likelihood of the lender exercising their option to increase the interest rate on this loan – and so triggering the Council's option to repayment at par – is considered to be low.

6.7 The Council is in an internally borrowed cash position and balances will need to be replenished at some point in the future (subject to expenditure demands), which is in accordance with our Treasury Management Strategy. This strategy is prudent while investment returns are lower than the cost of servicing debt and also serves to mitigate counterparty risk. The Council therefore plans to maintain this internal borrowing position but will closely monitor those reserves, balances and cashflows supporting this approach.

6.8 No borrowing rescheduling was undertaken during Quarter 4. Rescheduling opportunities are limited in the current economic climate. For PWLB loans, due to the spread between the carrying rate of existing borrowing and early redemption rates, substantial exit (premium) costs would be incurred. For market borrowing, the lender uses the certainty of the loans cashflow profile to hedge against forecast interest rate movements and so would pass the cost of unwinding these instruments onto the Council as an exit (premium) cost. Officers continue to monitor the position regularly.

7. Compliance with Treasury and Prudential Limits

7.1 The Council's treasury and prudential indicators are shown in Appendix 2.

7.2 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the quarter ended 31st March 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy for 2021/22.

7.3 All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

8. Debt Financing Budget

8.1 This section summarises the 2021/22 debt financing budget, which is held as a central budget within Corporate Services, and complies with the reporting requirement in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Treasury Management Practice. The overall outturn position is an overspend of £2.8m, summarised in the table below.

	Budget (£m)	Outturn (£m)	Variance (£m)
Interest payable	21.139	18.553	(2.586)
Interest charged to Other Funds	(6.901)	(6.394)	0.507
Interest receivable	(9.604)	(9.989)	(0.385)
Interest charged from Other Funds	10.090	9.953	(0.137)
Capitalisation of interest cost	(2.173)	(1.127)	1.046
Technical & Other	0.598	0.401	(0.197)
MRP	18.145	22.664	4.519
Total	31.295	34.061	2.766

8.2 Minimum Revenue Provision (MRP) is a charge made on the Council's revenue budget to finance its capital programme. The figures presented here include a proposed overpayment of £3.528m. This is money the Council allocates to its capital costs rather than an outbound external expenditure. The proposed overpayment is the estimate of the impact of potential changes to MRP on Third-Party Loans that are currently being consulted on by central government. As the consultation is not yet concluded, and there is a potential for substantial impact should the consultation not resolve in our favour, it is considered prudent to overpay MRP to an equivalent amount. This provides some offset for one year should Government require us to change the MRP approach on Third-Party Loans, and give us time to build into budget for 2023/24 onwards. If the consultation resolves in our favour, we can unwind this overpayment in a future year. (For reference the Statutory Guidance on Minimum Revenue Provision issued by the Secretary of State under section 21(1A) of the Local Government Act 2003 states in paragraph 24 that Local authorities may choose to pay more MRP than they consider prudent in any given year.)

8.3 The Interest Payable on Borrowing underspent by £2.6m. The low borrowing rate was primarily due to the Bank of England base rate cut to an all-time low level, from 0.25% to 0.1%, which resulted in a reduction in borrowing rates. For this reason, CCC was able to secure cheaper market loans from both other Local Authorities and PWLB. Following analysis of capital schemes completed in 2020/21 and how they were funded, the MRP payment for 2021/22 has been recalculated and the year-end position was £1.0m higher than budgeted. Taking into account the £3.5m additional payment for the estimated impact of changes to MRP on Third-Party Loans, the final MRP position was £4.5m higher than budgeted. The Interest Payable underspend was partially offset by a £1.0m overspend on the capitalisation of interest budget; as lower capital spend and lower interest rates resulted in lower interest costs being charged to schemes; consequently, there was a smaller recharge back to the debt financing costs budget.

9. Alignment with Corporate Priorities

9.1 Environment and Sustainability

There are no significant implications for this priority.

9.2 Health and Care

There are no significant implications for this priority.

9.3 Places and Communities

There are no significant implications for this priority.

9.4 Children and Young People

There are no significant implications for this priority.

9.5 Transport

There are no significant implications for this priority.

10. Significant Implications

10.1 Resource Implications

This report provides information on performance against the Treasury Management Strategy. Decisions on treasury management, which are driven by the capital programme and the Council's overall financial position, will impact the Debt Charges Budget and are reported through the Budget Monitoring process.

10.2 Procurement/Contractual/Council Contract Procedure Rules Implications

There are no significant implications for this category.

10.3 Statutory, Legal and Risk Implications

The Council continues to operate within the statutory requirements for borrowing and investments. Further details can be found within Appendix 2.

10.4 Equality and Diversity Implications

There are no significant implications for this category.

10.5 Engagement and Communications Implications

There are no significant implications for this category.

10.6 Localism and Local Member Involvement

There are no significant implications for this category.

10.7 Public Health Implications

There are no significant implications for this category.

11. Source documents

11.1 None

Appendix 1: Detailed economic commentary on developments during quarter ended 31st March 2022

Prepared with advice from the Council's treasury management advisors

The UK economy got off to a good start in Q4 of 2021/22, growing by 0.8% m/m in January. That more than reversed the 0.2% m/m fall in December triggered by the Omicron wave. It took GDP 0.8% above the pre-virus February 2020 level. The rise was driven by areas where Omicron hit hardest, with output in consumer-facing services rising by 1.7% m/m after falling by 0.2% m/m in December. Within that, wholesale/retail output rose by 2.5% m/m in January and restaurants/hotels output rose by 3.0% m/m.

- 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 lot of the latest rises were due to unfavourable base effects as the COVID-19 lockdown in early 2021 meant that price changes were soft a year ago. Even so, a genuinely large 1.0% m/m 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.

- We think that CPI will likely stay above 7.0% for most of this year and above 3.0% for most of next year. Fuel prices are likely to jump by 11% m/m in March, which would be the largest monthly rise on record and would add 0.3 percentage points (ppts) to CPI inflation. The scheduled 54% rise in utility prices on 1st April will add an extra 1.4ppts to CPI inflation in April. And the surge in agricultural commodity prices triggered by the war in Ukraine means that we expect food price inflation to soon climb above 6%.

- We think that the impact on consumer spending from the fall in real household disposable incomes this year will be cushioned to some extent by fiscal support and, to a greater extent, by a decline in the saving rate. The Chancellor announced some support for households in his Spring Fiscal Statement in March, in the form of tax cuts. 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 blow to household finances from higher energy and food bills.

  Households are drawing on their savings to offset lower real incomes**.** The household saving rate dropped from 7.5% in Q3 2021 to 6.8% in Q4. And 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. We estimate that the stock of excess savings has fallen from £161.8bn in January to £161.2bn in February. The £1.9bn leap in consumer credit in February also suggest that households had the confidence to borrow to smooth their spending.

  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. That's why UK financial conditions have tightened to levels similar to those seen after the Brexit referendum in 2016.

Despite a slight narrowing in the earnings gap between equities and bonds, equities still look favourably valued. And they still trade at a big discount relative to US equities, even after accounting for compositional differences. Even so, we have revised down our forecast for the FTSE 100 from 8,500 to 8,000 for the end of 2022 and from 8,900 to 8,500 for the end of 2023 to reflect the prospect of slower economic growth and higher inflation.

Appendix 2: Treasury and Prudential Indicators Quarter 4

Treasury / Prudential Indicator	2021/22 Indicator	2021/22 Quarter 4
Authorised limit for external debt (Inc’ loans raised to on-lend to Housing & Investment Company)	-----£1,074.0m-----	
Operational boundary for external debt (Inc’ loans raised to on-lend to Housing & Investment Company)	----- £1,044.0m-----	
Total Net Borrowing – Quarter 4	--------£660.8m------	
Capital Financing Requirement (CFR) *[Including PFI and Finance Lease Liabilities]*	£984.4m	£922.7m^
Ratio of financing costs to net revenue streams – yearly average	8.4%	4.58%
Upper limit of fixed interest rates based on net debt*	150%	115%
Upper limit of variable interest rates based on net debt*	65%	-15%
Principal sums invested over 365 days (excluding Third-Party Loans)	£50.0m	£37.9m
Maturity structure of borrowing limits**: -		
Under 12 months	Max. 80% Min. 0%	19.6%
12 months to 2 years	Max. 50% Min. 0%	14.2%
2 years to 5 years	Max. 50% Min. 0%	9.1%
5 years to 10 years	Max. 50% Min. 0%	11.5%
10 years and above	Max. 100% Min. 0%	45.6%

^ Estimated – this will be updated once the Statement of Accounts position has been finalised

*The interest rate exposure is calculated a percentage of net debt. Due to the mathematical calculation exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula.

**The Treasury Management Code of Practice guidance notes requires that maturity is determined by the earliest date on which the lender can trigger repayment, which in the case of LOBO loans is the next break/call point. This approach differs to Table 8 at paragraph 6.5 above, which instead shows the Council’s LOBO loan at maturity date as the likelihood of the option being exercised is low.

Summary – Prudential and Treasury Indicators at 31st March 2022

The following section provides monitoring of Prudential and Treasury Indicators against the indicators originally approved by the Council in February 2021 as part of the Treasury Management Strategy.

Has the Council adopted CIPFA code of practice for Treasury Management in the Public Services?

The Council has adopted CIPFA's Treasury Management in the Public Services: Code of Practices and Cross sectoral Guidance Notes. This is a key element of the Treasury Strategy 2021/22, approved by the Council in February 2021.

Limit for exposure to fixed and Variable rate of net borrowing (Borrowing less investments)

	Limit	Actual
Fixed rate	150%	115%
Variable rate	65%	-15%

The interest rate exposure is calculated as a percentage of net debt. Due to the mathematical calculation, exposures could be greater than 100% or below zero (i.e., negative) depending on the component parts of the formula. Where the indicator is negative, it is due to investment income of that category exceeding debt of that category. The formulas are shown below:

Fixed rate calculation:

$$\frac{\text{Fixed rate borrowing* – fixed rate investments}}{\text{Total borrowing – total investments}}$$

Variable rate calculation:

$$\frac{\text{Variable rate borrowing** – fixed rate investments}}{\text{Total borrowing – total investments}}$$

* Defined as greater than 1 year to run
** Defined as less than 1 year to remaining to maturity, or in the case of LOBO borrowing, the next call date falling within 12 months.

Total Principal sums invested for the periods longer than 364 days

	2021/22 Limit £m	Actual £m
Investment longer than 354 days to run*	£50m	£37.9m

**Treasury Management Investment only*

Limit for maturity structure of borrowing

	Upper Limit	Actual
< 1 Year	80%	19.6%
1 - 2 years	50%	14.2%
2 - 5 years	50%	9.1%
5 - 10 years	50%	11.5%
>10 years	100%	45.6%

Note: The guidance for calculation of this indicator requires that LOBO loans are shown as maturing at the next possible call date rather than at final maturity.

Ratio of financing cost to net revenue stream

2021/22 Original Estimate %	2021/22 Outturn %	Difference %
8.8	6.9	-1.9

Prudence

Gross borrowing and the Capital Financing Requirement (estimated) borrowing liability excluding PFI.

Original 2021/22 Capital Financing Requirement (CFR as of the 31st March 2022) £m	2021/22 CFR (as at 31st March 2022) £m	Actual Gross Borrowings (as at 31st March 2022) £m	Difference between actual borrowings and CFR (as at 31st March 2022) £m
984.4	922.7^	779.3	£167.1

^ Estimated – this will be updated once the Statement of Accounts position has been finalised

Capital Expenditure

Estimates of Capital

For the detail of capital expenditure and funding please refer to the capital outturn in the Integrated Finance Monitoring Report.

External Debt

Authorised Limit for external debt

2021/22 Authorised Limit per TMSS £m	Actual Borrowings £m	Headroom compared to Authorised Limit £m
1,074.0	779.3	294.7

The Authorised Limit is the statutory limit on the Council's level of debt and must not be breached. This is the absolute maximum amount of debt the Council may have in the year.

Operational boundary for external debt

2021/22 Operational Boundary Limit per TMSS £m	Actual Borrowings £m	Headroom compared to Operational Boundary £m
1,044.0	779.3	264.7

The operational boundary is set as a warning signal that debt has reached a level nearing the Authorised Limit and must be monitored carefully.