Title of Report	Treasury Management Update Report
For Consideration By	Audit Committee
Meeting Date	20th October 2022
Classification	Open
Ward(s) Affected	All Wards
Group Director	Ian Williams, Group Director Finance and Corporate Resources

1. Introduction

1.1. The report, at Appendix 1, introduces the treasury management outturn report and the actual prudential indicators for 2021/22 for the Audit Committee setting out the background for treasury management activity over the previous financial year and confirming compliance with treasury limits and prudential indicators.

1.2. The report, at Appendix 2, provides a quarterly update on treasury management activity for the period July 2022 to Sep 2022 of 2022/23.

2. Recommendations

2.1. There are no immediate recommendations arising from this report as the purpose is to update the Audit Committee on the past events.

3. Reason(s) for decision

3.1. This report is an update on the past events.

4. Background

Policy Context

4.1. Treasury management and ensuring that the function is governed effectively means that it is essential for those charged with governance to review the operations of treasury management on a regular basis. This report sets out the prior year's outturn and forms part of the regular reporting cycle for the Audit Committee along with the second of the in-year updates for the current financial year covering the period from July 2022 to Sep 2022.text here.

Equality impact assessment

4.2. There are no equality impact issues arising from this report.

Sustainability and climate change

4.3. There are no sustainability and climate changes issues arising from this report.

Consultations

4.4. No consultations are required in respect of this report.

Risk assessment

4.5. There are no risks arising from this report as it reports on past events. Clearly though the treasury management function is a significant area of potential risk for the Council if the function was not properly carried out and monitored by those charged with responsibility for oversight. Regular reporting on treasury management ensures that the Committee is kept informed.

5. Comments of the Group Director of Finance and Corporate Resources.

5.1. There are no direct financial consequences arising from this report as it reflects past performance through 2021/22 and for the period from July 2022 to Sep 2022. The information contained in this report will assist members of this Committee in monitoring the treasury management activities and enable better understanding of such operations. Officers continue to pay close attention to the council cashflow making sure there is enough liquid cash to meet any unexpected situation as a result of a highly volatile economy at present.

5.2. Global bond markets have been extremely volatile over the prolonged period following the recovery from the pandemic. Inflationary issues arising from supply bottlenecks, first considered transitory, have merged with inflationary behaviour.

5.3. No new borrowings have been undertaken since the last update due to sufficiency of internal cash levels. Councils liability benchmark based on current capital financing requirement suggest a small borrowing requirement which will be met by short term borrowing. For future capital financing requirements, the Council will continue to consider borrowing rates offered by alternative lenders, including other local authorities alongside PWLB rates in order to minimise, where possible, its costs of borrowing. Gilt yields and, therefore, PWLB rates, have been highly volatile since the start of Q4 2021 and that trend has continued throughout the first four months of 2022; indeed, they have risen sharply, beyond what was forecast. Our treasury advisors forecasted PWLB certainty rates to be around 2.60 by end September 2022 in May 2022 compared to the actual rate 3.97 at end September 2022. Increases in rates have been rapid. Officers regularly review council borrowing requirements based on development in cash forecasts and capital programmes. Cash needs have been pushed further out while the council cash balance remains high.

5.4. The Committee is requested to note this report.

6. Comments of the Director of Legal, Democratic and Electoral Services

6.1. The Accounts and Audit Regulations 2015 place obligations on the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which includes arrangements for management of risk. In addition, the Council within its Annual Treasury Management Strategy has agreed to comply with the CIPFA Code of Practice on Treasury Management. This report sets out the work that Treasury Management is undertaking to ensure that it is meeting these requirements and adapting to changes as they arise.

6.2. There are no immediate legal implications arising from the report.

Appendices

Appendix 1 - Annual Treasury Management Outturn Report 2021/22
Appendix 2 - Treasury Management Update Report (July 2022 to September 2022)

Background documents

None

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APPENDIX 1: Annual Treasury Management Outturn Report 2021/22

1. External Context

1.1 **Economic background:** The continuing economic recovery from the coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

Having increased the Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

1.2 **Financial markets:** The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

1.3 **Credit background:** In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of the period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

2 The Borrowing Requirement and Debt Management

2.1 The Council currently had one £1.6m LEEF (London Energy Efficient Fund) loan from the European Investment Bank to fund housing regeneration. This loan is below market rate and was taken out in July 2014.

2.2 The LEEF loan is an EIP (Equal Instalment of Principle) loan where each payment includes an equal amount in respect of loan principle throughout the duration of the loan. Therefore the interest due with each payment reduces as the principle is eroded, and so the total amount reduces with each instalment. Consequently, part of the loan is short term in duration, the amount which will be paid via instalments within one year with the remainder of loan maturing beyond 1 year (long term).

2.3 In addition, the Authority had £70.5m in long term external borrowing to finance part of the borrowing requirement within the Housing Revenue Account associated with the delivery of the housing capital programme, particularly in respect of regeneration.

Table 1: Capital Financing Requirement (CFR) & Total External Debt

	Balance as at 31/03/21 £'000	**New Borrowing £'000**	**Debt Maturing £'000**	**Debt Repaid £'000**	**Balance as at 31/03/22 £'000**	**Average Rate %**
CFR	503,330				466,705	
Short Term Borrowing*	400	-	-	-	400	1.9%
Long Term Borrowing	76,200	-	-	4,500	71,700	1.9%
TOTAL BORROWING	**76,600**	**-**	**-**	**4,500**	**72,100**	
Other Long Term Liabilities	11,646	-	-	949	10,697	
TOTAL EXTERNAL DEBT	**88,246**	-	-	50,382	**82,797**	

2.4 The Council's underlying need to borrow, as measured by the Capital Financing Requirement (CFR), as at 31/03/2022 was provisionally (whilst accounts remain open and unaudited, but no expectation of change) £466.7m.

2.5 External Borrowing – During the year no new external borrowing was accessed by the council.

3. Investment Activity

3.1 MHCLG's Investment Guidance requires local authorities to focus on security and liquidity, rather than yield.

3.2 Security of capital remained the Council's main investment objective. This was maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2021/22 Investments during the year included:

- Deposits with other Local Authorities
- Investments in AAA-rated Money Market Funds
- Market Funds
- Call accounts, deposits and
- Housing Associations

Table 2: Investment Balances

Investments	Balance as at 31/03/21 £'000	Average Rate %	Balance as at 31/03/22 £'000	Average Rate %
Short Term Investments	18,543		15,045	
Long Term Investments	200		200	
Housing Associations	15,000		15,000	
Money Market Funds	35,700		95,000	
TOTAL INVESTMENTS	**69,443**	**0.7**	**125,245**	**0.6**

3.3 The Council's investment balance increased from £69m to £125m at the end of the financial year with an investment return of 0.6%. The Council is forecasting a further downward trend in cash balances as the Council progresses on a number of major capital schemes requiring forward funding.

3.4 Credit Risk- Counterparty credit quality was assessed and monitored with reference to credit ratings; credit default swaps; GDP of the country in which the institution operates; the country's net debt as a percentage of GDP; any potential support mechanisms and share price. The minimum long-term counterparty credit rating determined for the 2021/22 treasury strategy was A- across rating agencies Fitch, S&P and Moody's.

Table 3: Credit Score Analysis

Date	Value Weighted Average Credit Risk Score	Value Weighted Average Credit Rating	Time Weighted Average Credit Risk Score	Time Weighted Average Credit Rating
31/03/2021	5.3	A+	6.1	A
30/06/2021	5.4	A+	5.4	A+
30/09/2021	5.3	A+	6.4	A
31/12/2021	5.5	A+	6.5	A-
31/03/2022	5.3	A+	6.0	A

3.5 Liquidity - In keeping with the MHCLG's Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds/overnight deposits/call accounts.

3.6 Yield - The Council sought to optimise returns commensurate with its objectives of security and liquidity. The UK Bank Rate changed from 0.50% to 0.75% in March 2022.

4. Compliance

4.1 The Council can confirm that it has complied with its Prudential Indicators for 2021/22, which were approved on 24th Feb 2021 as part of the Council's Treasury Management Strategy Statement.

4.2 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2021/22. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

4.3 The Authority can confirm that during 2021/22 it complied with its Treasury Management Policy Statement and Treasury Management Practices. However, the Audit Committee will be aware that the 2021/22 accounts at this point remain open and unaudited. There is therefore the possibility that changes to the numbers could occur but this is not expected.

5. Prudential Indicators

5.1 Capital Financing Requirement (CFR)

The Council's cumulative maximum external borrowing requirements for 2019/20 to 2022/23 are shown in the table below.

	31/03/20 Actual £'000	31/03/21 Draft £'000	31/03/22 Draft £'000	31/03/23 Estimated £'000
Gross CFR	493,014	503,330	466,706	488,539
Less: Other Long Term Liabilities	12,528	11,646	10,697	9,677
Borrowing CFR	**480,486**	**491,684**	**456,009**	**478,862**
Less: Existing Profile ofBorrowing	126,008	76,600	72,100	67,600
Gross Borrowing Requirement/Internal Borrowing	**354,478**	**415,084**	**383,909**	**411,262**
Usable Reserves	276,176	283,313	309,894	225,000
Net Borrowing Requirement/(Investment Capacity)	**78,302**	**131,771**	**74,015**	**186,262**

In the Prudential Code Amendment (November 2012), it states that the Chief Finance Officer should make arrangements for monitoring with respect to gross debt and the capital financing requirement such that any deviation is reported to him/her, since any such deviation may be significant and should lead to further investigation and action as appropriate.

	2019/20	2020/21	2021/22	2022/23
	Actual	**Draft**	**Draft**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**
Gross Debt	138,536	88,246	82,797	77,277
CFR	493,014	503,330	466,706	488,539
Borrowed in excess of CFR? (Y/N)	N	N	N	N

5.2 Prudential Indicator Compliance

(a) Authorised Limit and Operational Boundary for External Debt

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.

- The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst case scenario without the additional headroom included within the Authorised Limit.

- The Group Director of Finance and Corporate Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during the year.

	Operational Boundary (Approved) as at 31/03/22 £'000	**Authorised Limit (Approved) as at 31/03/22 £'000**	**Actual External Debt as at 31/03/22 £'000**
Borrowing	529,000	559,000	72,100
Other Long-term Liabilities	19,000	19,000	10,697
Total	**547,000**	**577,000**	**82,797**

(b) Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits, and, in particular, to consider the impact on Council tax and in the case of the HRA, housing rent levels.

	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**
	Draft	**Draft**	**Estimate**	**Estimate**	**Estimate**
	£000	**£000**	**£000**	**£000**	**£000**
Capital Expenditure					
Housing	91,414	102,105	70,097	170,190	102,782
Non-Housing	110,715	52,089	95,469	267,083	248,307
Total spend	**202,129**	**154,194**	**165,566**	**437,273**	**351,089**

Current capital expenditure financing is as per the table below. However further review of the capital programme will be happening during the 2022/23 financial year meaning configuration of numbers below are likely to change. The Prudential borrowing line below relates primarily to regeneration schemes.

Capital Financing	2020/21 Draft £'000	2021/22 Draft £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000
Prudential Borrowing	71,339	9,584	29,010	315,721	170,318
S106/CIL	8,661	11,003	8,048	12,597	4,099
Capital receipts	44,975	68,463	68,311	35,411	106,885
Grants	27,724	21,392	14,982	16,877	7,738
Reserves/ Discretionary	4,813	0	579	545	320
RCCO	44,618	43,751	44,635	56,123	61,729
Total Financing	**202,129**	**154,194**	**165,566**	**437,274**	**351,089**

The above table shows that the capital expenditure plans of the Authority could not be funded entirely from sources other than borrowing.

(c) Ratio of Financing Costs to Net Revenue Stream

- This is an 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.
- The ratio is based on costs net of investment income.
- The 2020/21 and 2021/22 number here is provisional whilst the accounts remain open, and 2022/23 to 2024/25 numbers will be updated again in this financial year prior to year-end.

Ratio of Financing Costs to Net Revenue Stream	2020/21 Draft	2021/22 Draft	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Non-HRA	0.8%	0.8%	0.8%	0.9%	0.9%
HRA	28%	30%	30%	30%	30%

(d) Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the Authority adopted the principles of best practice via approval of the CIPFA Treasury Management Code

Appendix 2 – Treasury Management Update Report

Treasury Management Activities from July 2022 to September 2022

1. Economic Highlights

1.1 **Growth:** Estimates show that headline GDP fell by 0.1% in the second quarter of 2022. The 2022 calendar year growth was estimated to be 2.9%. The level of quarterly GDP in Quarter 2 2022 is now 0.6% above its pre-coronavirus level.

1.2 **Inflation:** CPI increased by 9.9% over the course of the previous 12 months to August 2022, down from 10.1% in July. From April 2020, the beginning of the first COVID-19 lockdown, until March 2021, the annual rate was less than 1.2%.

1.3 **Labour Market:** The unemployment rate increased by 0.1 percentage points in the quarter to 3.8%. This is now 0.2 percentage points below pre-coronavirus pandemic levels. The rate of pay growth was 5.1% for total pay (including bonuses) and 4.7% for regular pay. In real terms (adjusted for inflation), growth in total pay fell by 2.5% while regular pay fell 3.0%; this was a record fall for regular pay in real terms.

1.4 **Monetary Policy Committee:** The Bank of England's Monetary Policy Committee came together on 21st September 2022 and voted by a majority of 5-4 to increase the official Bank Rate by 0.5 percentage points, to 2.25%. Three members preferred to increase Bank Rate by 0.75 percentage points to 2.50%, one member preferred to increase Bank Rate by 0.25 percentage points to 2%. The Committee also voted unanimously to reduce the stock of purchased UK government bonds by £80 billion over the next twelve months, to a total of £758 billion. On 28 September, the Bank of England's Financial Policy Committee noted the risks to UK financial stability from dysfunction in the gilt market. It recommended that action be taken, and welcomed the Bank's plans for temporary and targeted purchases in the gilt market on financial stability grounds at an urgent pace. The Monetary Policy Committee has been informed of these temporary and targeted financial stability operations. The MPC's annual target of an £80bn stock reduction is unaffected and unchanged.

2. Borrowing & Debt Activity

2.1 The Authority currently has £70.6m in external borrowing. This is made up as a single LEEF loan of £1.4m from the European Investment Bank to fund housing regeneration and £69.2m borrowed from Public Work Loan Board for housing capital programme, particularly in respect of housing regeneration. No new borrowing was done during the period due to high cash balance and uncertainty over economic outlook. PWLB certainty rates were forecasted to be around 2.60 by end September 2022 whereas the current rate is 5.17.

3. Investment Policy and Activity

3.1 The Council held average cash balances of £105 million during the reported period, compared to an average £79 million for the same period last financial year. Increase in cash balance is generally due to more receipts and lower bacs.

Movement in Investment Balances 01/07/22 to 30/09/22

	Balance as at 01/07/2022 £'000	**Average Rate of Interest %**	**Balance as at 30/09/2022 £'000**	**Average Rate of Interest %**
Short Term Investments	25,046	-	20,046	-
Long Term Investments	200	-	200	-
Housing Associations	15,000	-	15,000	-
Money Market Funds	76,400	-	61,500	-
	116,646	**1.03**	**96,746**	**1.35**

3.2 Due to the volatility of available creditworthy counterparties, longer and short term investments have been placed in highly rated UK Government institutions, thus ensuring creditworthiness of investments.

4. Counterparty Update

4.1 S&P has affirmed Greater London Authority's long and short-term ratings at AA and A-1+ respectively, revising the outlook to Stable from Negative. Our advisors remains comfortable with clients lending to Greater London Authority for up to two years without further due diligence, where this is in line with the approved investment strategy.

4.2 Our treasury advisors advise against new lending to the Thurrock Borough Council.

4.3 Whilst the ongoing investment strategy remained cautious counterparty credit quality remains strong, as can be demonstrated by the Credit Score Analysis summarised below.

5. **Credit Score Analysis**

Date	Value Weighted Average – Credit Risk Score	Value Weighted Average – Credit Rating Score	Time Weighted Average – Credit Risk Score	Time Weighted Average – Credit Rating Score
31/07/2022	A+	5.1	A	6.0
31/08/2022	A+	5.1	A	6.0
30/09/2022	A+	5.3	A	6.1

5.1 The Council continues to utilise AAAmmf/Aaa/AAAm rated Money Market Funds for its very short, liquidity-related surplus balances. This type of investment vehicle has continued to provide very good security and liquidity, although yield suffers as a result.

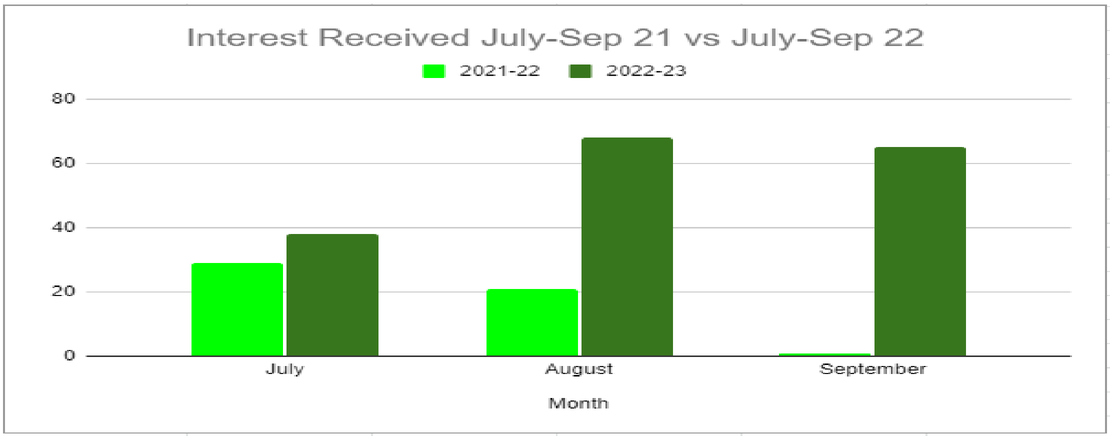
5.2 Council continues to invest in highly rated UK Government institutions, Building Society and Housing Associations. This investment vehicle offers a good level of security and increases diversification for the Council's portfolio whilst achieving a reasonable yield.

6. Comparison of Interest Earnings

6.1 The Council continues to adopt a fairly cautious strategy in terms of investment counterparties and periods. Due to the volatility of available creditworthy counterparties, longer term and short term investments have been placed in highly rated UK Government institutions and Housing Associations, thus ensuring creditworthiness whilst increasing yield's through the duration of the deposits.

6.2 The graph below provides a comparison of interest earnings for July 2022 to September 2022 against the same period for 2021/22.

6.3 Average interest received for the period July 2022 to September 2022 was £57k compared to £17k for the same period last financial year. Increase interest received this year is due to increase in investment levels and interest rates.



7. Movement in Investment Portfolio

7.1 Investment levels have increased to £97 million at the end of Sep 2022 in comparison to the end of Sep 2021 last year of £90 million. It is anticipated that overall levels of investment balance will reduce as and when the capital programmes are delivered, although we need to maintain liquidity for day-to day operational purposes.