



Cyngor Castell-nedd Port Talbot
Neath Port Talbot Council

NEATH PORT TALBOT COUNTY BOROUGH COUNCIL

CABINET

REPORT OF THE CHIEF FINANCE OFFICER HUW JONES

15th December 2021

MATTERS FOR: MONITORING

WARDS AFFECTED - ALL

TREASURY MANAGEMENT MID YEAR REVIEW REPORT 2021/22

Purpose of the Report

1. To review treasury management activities for the 6 month period to 30th September 2021.

Background

2. The Council operates a cash balanced treasury budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.
3. The second main function of the treasury management service is the funding of 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 operations. 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.

4. As a consequence treasury management is defined as:

“The management of the local authority’s 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. ”

Introduction

5. The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council at the Council meeting in 28th February 2013.

The primary requirements of the Code are as follows:

- (i) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
- (ii) Creation and maintenance of Treasury Management Practices set out in the manner in which the Council will seek to achieve those policies and objectives.
- (iii) Receipt by the full Council of an Annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
- (iv) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- (v) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated bodies are the Audit and Policy and Resources Committees.

Scheme of Delegation

Area of Responsibility	Council/ Committee	Frequency
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet for approval by Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet for approval by Full Council	Periodically
Annual Treasury Outturn Report	Cabinet	Annually by 30 th September after the end of the year
Treasury Management Monitoring and Performance Reports	Cabinet and Audit Committee	Quarterly Quarterly
Treasury Management Practices	Cabinet for approval by Full Council	Annually
Scrutiny of Treasury Management Strategy	Cabinet (and Audit Committee)	Annually

6. This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- An economic update for 2021/22;
 - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
 - The Council's capital expenditure (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.
 - Revised Treasury and Prudential Limits for 2021/22 to 2023/24.
7. There have been no changes to the approved Treasury Management and Investment Strategies for the 6 months up to 30th September 2021

Economic Update

8. The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it has left the Bank Rate unchanged to date, although some forecasters had suggested that interest rate rises were on the horizon. However, other forecasters believe this won't happen until inflation "is achieving the 2% inflation target sustainably", had already been met. Although other Monetary Policy Committee members did not agree with them, they did all agree that "some modest tightening of monetary policy over the forecast period was likely to be necessary to be consistent with meeting the inflation target sustainably in the medium term".

Interest rate forecasts

9. The Council's treasury advisor, Link Group, provided the following forecasts on 10th August 2021 (PWLB rates are certainty rates, gilt yields plus 80bps)::

Link Group Interest Rate View		10.8.21									
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25	0.50
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30	0.50
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.50	0.50
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.70
5 yr PWLB	1.20	1.20	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.50	1.50
10 yr PWLB	1.60	1.60	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00
25 yr PWLB	1.90	2.00	2.10	2.20	2.30	2.30	2.30	2.40	2.40	2.40	2.50
50 yr PWLB	1.70	1.80	1.90	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.30

The Council's Capital Position (Prudential Indicators)

10. This part of the report updates:
- The Council's capital expenditure plans;
 - How these plans are being financed;
 - The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
 - Compliance with the limits in place for borrowing activity.

The Council's Capital Expenditure and Financing 2021/22

	2020/21 Actual £'000	2021/22 Original Estimate £'000	2021/22 Current Estimate £'000
Capital expenditure	58,769	80,170	82,410
Resourced by:			
• Capital receipts	936	3,161	2,778
• Capital grants & contributions	46,304	51,789	56,230
• Capital reserves + DRF	1,245	1,692	2,026
Capital Expenditure to be financed from borrowing	10,284	23,528	21,376

11. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the unfinanced capital expenditure, and prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
12. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLb] or the

money markets), or utilising temporary cash resources within the Council.

13. Reducing the CFR – the Council’s underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
14. The total CFR can also be reduced by:
- The application of additional capital financing resources (such as unapplied capital receipts); or
 - Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
15. The Council’s 2021/22 MRP Policy (as required by CIPFA Code of Practice on Treasury Management) was approved by Council as part of the Treasury Management Strategy Report for 2021/22 on 21st March 2021.
16. The Council’s CFR for the year is shown below, and represents a key prudential indicator.

CFR	2020/21 Actual £'000	2021/22 Original Estimate £'000	2021/22 Current Estimate £'000
Opening balance	342,874	364,080	343,055
Add unfinanced capital expenditure (point 10)	10,284	23,528	21,376
Less MRP/Set aside receipts	(10,103)	(10,340)	(10,216)
Closing balance	343,055	377,268	354,215

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

17. Net borrowing and the CFR – in order to ensure that borrowing levels are prudent over the medium term the Council’s external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22. The following table highlights the Council’s net borrowing position against the CFR. This shows the Council is complying with this prudential indicator as projected net borrowing is less than the CFR.

	2020/21 Actual £'000	2021/22 Original Estimate £'000	2021/22 Current Estimate £'000
External Debt (Gross) Less Investments	301,613 (52,500)	298,147 (61,000)	300,612 (55,000)
Net Borrowing Position	249,113	237,147	245,612
CFR	343,055	377,268	354,215

18. The authorised limit – the authorised limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.
19. The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2020/21 Actual £'000	2021/22 Original Estimate £'000	2021/22 Current Estimate £'000
Authorised Limit	393,055	427,268	404,215
Operational Boundary	373,055	407,268	384,215
Gross Borrowing *	301,613	298,147	300,612

* Total maximum long term and short term

20. This report confirms that during the first 6 months of 2021/22 Council has maintained gross borrowing within the Authorised Limit.

Investment Portfolio 2021/22

21. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. It is currently not possible to earn the level of interest rates commonly seen in previous decades as all investment rates are barely above zero now that Bank Rate is at 0.10%, while some entities, including more recently the Debt Management Account Deposit Facility (DMADF), are offering negative rates of return in some shorter time periods. Given this risk environment and the fact that the Bank Rate may only rise marginally, or not at all, before the second half of 2023, investment returns are expected to remain low.
22. It is confirmed that the approved limits within the Annual Investment Strategy have not been breached during the first six months of 2021/22 other than with the Council's banker. Members should note that due to the COVID pandemic it was prudent for us to hold more cash in our Santander Deposit Account (the Authority's bankers) rather than the amount set out in the Specified Investment Criteria (appendix 3). The highest amount placed with Santander during the first six months was £91m and this was on 5th July. This has now reduced to £33.3m as at 30 September 2021. This is a temporary arrangement during the pandemic and all other criteria are being adhered to.
23. The Council's original budget for investment return for 2021/22 has been set at £200k. This is being reviewed regularly to reflect the low level of returns anticipated on investments, with any actual shortfall being funded from the Treasury Management Reserve.
24. The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, sets out the Council's investment priorities as being:
- Security of Capital

- Liquidity

25. There has been no change in the Council's Investment Strategy aims from those approved on 21st March 2021. The aim continues to be to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep an adequate level of investments which can be instantly accessed to cover short term cash flow needs. The Council also seeks out value where available in significantly higher rates in periods up to 12 months with approved institutions that meet the Council's stringent credit rating assessment.
26. Investment rates available have continued at historically low levels. The average level of funds available for investment purposes during the period was affected by the timing of precept payments, receipt of grants and progress on the Capital Programme.

Investment performance to the 30th September 2021

27. The Council held £60.3m of investments as at 30th September 2021 and the investment portfolio yield for the first six months of the year is 0.11% against a benchmark -0.05%. The Council has outperformed the benchmark by 16 basis points. The benchmark for funds managed in-house is the 3 month LIBID un compounded rate which is the most realistic comparison rate as advised by our treasury management consultants.

A full list of investments held as at 30th September 2021 is provided in Appendix 1.

Investment counterparty criteria and proposed amendments

28. The current investment counterparty criteria approved by Members earlier this year are detailed in Appendix 3 of this report.

Borrowing

29. The Council's agreed Strategy in relation to borrowing is set out in the Treasury Management Strategy Report as approved by Council. This strategy outlined that consideration would be given

to entering into new external borrowing if PWLB (or money market) rates became more favourable.

30. During 2021/22 the Council has entered into the below new loan with the PWLB.

Lender	Date	Amount (£000)	Rate	Period
PWLB	7 th Dec 2021	10,000	1.37%	50 yr Maturity

Borrowing in advance of need

31. The Council has not borrowed in advance of need during the six month period ended 30th September 2021. Members should note that the total external debt projection for 31st March 2022 is as follows:

	£'000
Public Works Loans Board (PWLB)	231,597
Market Loans	62,500
WG Town Centre Loan	3,000
Salix (Public Lighting) Loan	1,943
Temporary Borrowing	1,572
Total	300,612

Debt Rescheduling

32. Debt rescheduling opportunities have been non-existent during 2021/22 due to the penalties involved in entering into such arrangements.

Compliance with Treasury and Prudential Limits

33. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's original approved Treasury and Prudential Indicators (affordability) limits were included in the approved Treasury Management Strategy Statement as reported to Council on 21st March 2021.
34. During the financial year to date, the Council has operated within the Treasury Limits and Prudential Indicators set out in the

Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. The Prudential and Treasury Indicators for 2021/22 onwards have been revised and are presented in Appendix 2.

Financial Impact

35. All relevant financial information is provided in the body of the report.

Integrated Impact Assessment

36. There is no requirement to undertake an Integrated Impact Assessment as this report is for information purposes.

Valleys Communities Impacts

37. No implications

Workforce Impacts

38. There are no workforce impacts arising from this report.

Legal Impacts

39. There are no legal impacts arising from this report.

Risk Management

40. There are several risks associated with the treasury management activities. These include interest rate fluctuations, counter party investment, international economic and political etc. The treasury management strategy is included within the Council's Corporate Risk Register.

Consultation

41. There is no requirement under the Constitution for external consultation on this item.

Recommendation

42. Members **note** the Treasury Management activities to date this financial year, and how they relate to the proposed activities within the original 2021/22 Treasury Management Strategy and Annual Investment Strategy Statements.

Appendices

43. Appendix 1 – Investment Position as at 30th September 2021
Appendix 2 – Prudential Indicators
Appendix 3 – Specified Investments - Current Criteria

List of Background Papers

44. Link Asset Services Mid-year Reporting Template
Investment and Borrowing Records 2021/22

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Appendix 1

Investment Position as at 30th September 2021

Borrower	Maturity	Rate %	Total £'000
<u>Banks and Building Societies</u>			
Goldman Sachs	23 rd Dec 2021	0.135	5,000
Goldman Sachs	17 th Feb 2022	0.165	5,000
Nationwide BS	22 nd Nov 2021	0.05	5,000
<u>Other Local Authorities</u>			
Aberdeenshire CC	24 th Jan 2022	0.18	5,000
Derbyshire CC	29 th Apr 2022	0.20	5,000
<u>Call Deposit</u>			
Santander	Instant Access	0.10	35,300
Total			60,300

PRUDENTIAL INDICATORS

PRUDENTIAL INDICATORS	2020/21 Actual	2021/22 Original Estimate	2021/22 Revised Estimate	2022/23 Estimate	2023/24 Estimate
	£'000	£'000	£'000	£'000	£'000
Capital Expenditure	58,769	80,170	82,410	17,885	13,208
Capital Financing Requirement	343,055	377,268	354,215	350,960	369,774
Ratio of financing costs to net revenue stream	6.74%	6.45%	6.35%	6.19%	6.03%

PRUDENTIAL INDICATORS

TREASURY MANAGEMENT INDICATORS	2020/21 Actual	2021/22 Original Estimate	2021/22 Revised Estimate	2022/23 Estimate	2023/24 Estimate
	£'000	£'000	£'000	£'000	£'000
Authorised Limit for External Debt: Borrowing and other long term liabilities	393,055	427,268	404,215	400,960	419,774
Operational Boundary for External Debt: Borrowing and other long term liabilities	373,055	407,268	384,215	380,960	399,774
External Debt (Gross)	301,613	298,147	300,612	280,461	273,817
Less Investments	(52,500)	(61,000)	(55,000)	(55,000)	(55,000)
Net Borrowing Position	249,113	237,147	245,612	225,461	218,817

PRUDENTIAL INDICATORS

	2021/22 limit
	£'000
Upper Limit on Fixed Interest Rate Exposure Lower Limit on Fixed Interest Rate Exposure	427,268
Upper Limit on Variable Rate Exposure Lower Limit on Variable Rate Exposure	213,634
Upper Limit for Total Principal Sums Invested for Over 364 Days (per maturity date)	£25m

Maturity Structure of Fixed Rate Borrowing During 2020/21	2020/21 Actual	2021/22 Estimate		
	%	%	Upper Limit %	Lower Limit %
Under 12 months	1	9	15	0
12 months to 2 years	9	4	15	0
2 to 5 years	4	1	40	0
5 to 10 years	1	6	60	0
10 years and above	85	80	100	15

Appendix 3

Specified Investments Criteria

	Minimum 'High' Credit Criteria	Funds Managed	Max Amount	Max Duration
Term deposits				
Term deposits - Debt Management Office	N/A	In-house	Unlimited	1 year
Term deposits – local, police and fire authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1	In-house	£15m	6 months or 185 days
Callable deposits				
Callable deposits – Debt Management Agency deposit facility	N/A	In-house	Unlimited	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F2	In-house	£10m	
Callable deposits - UK banks/Building Societies	Fitch short-term rating F1+ or F1	In-house	£15m *	
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months or 185 days

* Where necessary this limit may be temporarily exceeded with the Authority's bankers only.