

## **Meeting of the Council – 11<sup>th</sup> October 2021**

### **Report of the Audit and Standards Committee**

#### **Treasury Management**

##### **Purpose**

1. To outline treasury activity during the financial year 2020/21 and in the current financial year up to the end of July 2021.

##### **Recommendation**

2. That the report be noted.

##### **Background**

3. The Treasury Management strategy for 2021/22 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2017. The Code recommends that members are informed of Treasury Management activities at least twice a year. This report ensures that the Council is embracing best practice in accordance with CIPFA's recommendations.
4. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.
5. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund (*WMDAF*). We are responsible for administering capital funding of approximately £780m on our own account and another £94m on behalf of other West Midlands councils in respect of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

### Treasury activity in 2020/21 on the Dudley fund

6. Our treasury activities were undertaken in the context of the Treasury Strategy Statement 2020/21 approved by Audit and Standards Committee and Full Council in February 2021. The Strategy Statement stated:  
  
*“The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We will seek to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity”*
7. In 2020/21 our investments averaged £61.8 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.21%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2020/21. Our investment activity for 2020/21 is set out in more detail in Appendix 1.
8. The average value of long-term borrowings in 2020/21 was £683.5 million. The average rate of interest on these borrowings was 3.37%. The loans were due to mature on dates ranging from 2021 to 2061.
9. In 2020/21 we took out 15 medium term market loans (1-4 years duration) totalling £86m, most of which had been arranged in advance to fund an advance payment of £92m to the West Midlands pension fund (to obtain a discount on the employer’s pension contribution rate), and to replace some existing loan maturities. The average value of these loans was £5.7m at an average rate of 1.45%, for an average duration of 21 months.
10. Due to cash flow requirements in 2020/21, it was necessary to undertake short term borrowing on 3 occasions. The average value of these loans was £4.5m at an average rate of 0.17% for average duration of 36 days.

### Treasury activity in 2020/21 on the WMDAF

11. It was necessary to undertake short term borrowing on 2 occasions for cashflow purposes for the WMDAF, at an average value of £2.75m at an average rate of 0.18% for an average duration of 151 days. We also made 2 investments in 2020/21 for the WMDAF at an average value of £1.75m at an average rate of 0.01% for an average duration 64 days.

### Performance comparisons 2020/21

12. Our treasury management advisors Link Asset Services have compared our treasury performance with their other clients using borrowing and investment data at financial year end. The results are summarised in the table below:



## Performance Benchmarking

	<b>Dudley</b>	<b>Client Average</b>
<b>Gross Borrowing (£M)</b>	663.3	224.6
<b>Investments (£M)</b>	34.0	70.5
<b>Net Borrowing (£M)</b>	629.3	154.1
<b>Gross average borrowing rate</b> (the cost of borrowing, ignoring the return on investments)	3.44%	3.68%
<b>Investment return rate</b> (the return on investments, ignoring the cost of borrowing)	0.20%	0.35%
<b>Net average borrowing rate</b> (a combination of the above, representing the cost of borrowing net of the return on investments)	3.63%	5.20%

13. The data above is based on a snapshot of treasury portfolios at 31 March 2021 and includes long and short term borrowing and investments. Dudley's net cost of borrowing was substantially lower than the average of local authorities in the client group. This is partly because our ratio of gross to net borrowing is higher than other authorities who maintain larger levels of investments which are currently delivering very low yields.
14. It should be remembered that treasury performance measurement is not an exact science. These statistics represent the cumulative effect of decisions dating back over many years and the performance of other local authorities may have been achieved in circumstances different from our own.

## Prudential indicators 2020/21

15. The 2003 Prudential Code for Capital Finance in Local Authorities sets out a framework for the consideration and approval of capital spending plans. In so doing, it requires the Council to set a number of prudential indicators, some of which concern matters of treasury management. Appendix 2 outlines those indicators for 2020/21

## Treasury activity 2021/22 to July

16. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2021/22 approved by Audit and Standards Committee and Council in February of this year. In that document we anticipated that long term borrowing would be required in the next 12 months due to cash flow need.
17. Our investments up to the end of July have averaged £55.4 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.09%. All investments were placed with institutions that satisfied the criteria for credit-worthiness set out in the Treasury Strategy Statement 2021/22. Our investment activity for 2021/22 is set out in more detail in Appendix 3.
18. Temporary cash balances have been significantly higher than usual in 2021-22 due to the various Covid-19 grant payments from Central Government in both 2020-21 and 2021-22, and some unspent grant will be repaid later in the year. The Monetary Policy Committee (MPC) have maintained the bank rate at a record low level of 0.10% . Consequently, investment rates have been at very low levels and are expected to stay very low in the medium term.
19. The last Monetary Policy Committee meeting in June saw no change to policy measures – as expected. The Committee re-iterated its view that inflation will breach its target, it will be transitory and moderate back to its target rate of 2% over the medium term. It also stated it needed to see clear evidence that there has been significant progress towards their target of eliminating spare capacity while reaching and maintaining 2% inflation before it would look to tighten policy.
20. The average value of long-term borrowings up to the end of July has been £643.3 million. The average rate of interest on Dudley’s loans is 3.51%. The maturity dates for the loans range from the current year to 2061. To date no new loans have been taken out in 2021/22.
21. We are monitoring interest rates and cash flow closely and anticipate that some new long term borrowing may be required before the end of the current financial year.
22. On the WMDAF it has been necessary to take out one loan in 2021-21 to date, for £2m at 0.03% for 21 days. We have not made any investments on the WMDAF to date in 2021/22.

## Finance

23. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates.

## **Law**

24. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

## **Risk Management**

25. Treasury Management, by its nature entails the management of financial risks, specifically credit risk for investments which is mitigated by limiting acceptable counterparties to those of the highest credit quality and imposing counterparty limits for non-government institutions; and interest rate risk which is mitigated by prudential indicators detailed in Appendix 2.

## **Equality Impact**

26. The treasury management activities considered in this report have no direct impact on issues of equality.

## **Human Resources/Organisational Development**

27. There are no Human Resources/Organisational Development implications associated with this report.

## **Commercial/Procurement**

28. The over-riding purpose of the Council's Investment Strategy is day to day cash management and not income generation. The strategy prioritises security and liquidity of cash investments over yield. Once those are met, we aim to secure the maximum yield from our investments held with the small number of counterparties that meet the strict criteria laid out in our Annual Investment Strategy.

## **Council Priorities**

29. Treasury Management supports the Council's capital investment priorities as set out in the approved Capital Strategy



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**Chair of the Audit and Standards Committee**

**Investment Activity 2020/21**

<b>Counterparty name</b>	<b>Number of investments</b>	<b>Average value £ million</b>	<b>Average rate %</b>	<b>Average duration (days)</b>
Debt Management Office	149	16.8	0.06	9
Other Local Authorities	14	27.3	0.32	95
Bank of Scotland	N/A	0.04	0.32	Call Account
HSBC Call Account	N/A	4.62	0.14	Call Account
HSBC 31 Day Notice	N/A	3.97	0.25	Deposit Account
Santander Call Account	N/A	6.92	0.18	Call Account
Santander 35 Day Notice	N/A	2.15	0.25	Deposit Account
Barclays Call Account	N/A	0.08	0.01	Call Account

**Prudential indicators relating to treasury management 2020/21****External Borrowing**

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The operational boundary is a lower threshold allowing for a prudent but not worst case scenario for cash flow.

	<b>£m</b>
Authorised limit for external borrowing	863
Operational boundary for external borrowing	807
Outturn - actual external borrowing	767

**Interest rate exposures and maturity structure of borrowing and investments**

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

**Dudley MBC**

	<b>Indicator</b>	<b>Outturn</b>
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	10%	0%
Upper limit of principal maturing in any one year for sums invested for over 364 days	£10m	Nil
Maturity structure of fixed rate borrowing:-		
under 12 months	0-15%	11%
12 months and within 24 months	0-15%	9%
24 months and within 5 years	0-20%	7%
5 years and within 10 years	0-25%	7%
10 years and above	50-100%	67%

## West Midlands Debt Administration Fund

	<b>Indicator</b>	<b>Outturn</b>
Maturity structure of fixed rate borrowing:-		
under 12 months	0-19%	19%
12 months and within 24 months	0-16%	16%
24 months and within 5 years	0-65%	65%



## Appendix 3

### Investment Activity 2021/22 to July

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Debt Management Office	39	12.41	0.01	9
Other Local Authorities *	4	8.66	0.18	120
Bank of Scotland	N/A	0.04	0.00	Call Account
HSBC Call Account	N/A	7.04	0.01	Call Account
HSBC 31 Day Notice	N/A	6.54	0.25	Deposit Account
Santander Call Account	N/A	8.61	0.08	Call Account
Santander 35 Day Notice	N/A	4.16	0.25	Deposit Account
Barclays Call Account	N/A	7.93	0.01	Call Account

\*Includes investments brought forward from 2020-21