ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE
ON 16 November 2021

REPORT

SUBJECT: Treasury Management - Mid-year review report 2021/22

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)
DATE: November 2021
EXTN: 01903 737861
AREA: Corporate Support

EXECUTIVE SUMMARY:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the activities to 30th September 2021. It enables the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

RECOMMENDATIONS:

Audit and Governance Committee is requested to recommend Full Council to:

(i) approve the actual prudential and treasury indicators for 2021/22 contained in the report;
(ii) note the treasury management mid-year review (this report) for 2021/22;
(iii) note the treasury mid-year activity for the period ended 30th September 2021, which has generated interest receipts of £225,000 (0.62%) year to date, against a budget of £332,000 (0.64%) for the full year.
(iv) note the addition of Leeds and Principality Building Society to the lending list adhering to the required criteria of category 4.

1. BACKGROUND:

1.1 Capital Strategy

In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2020/21, all local authorities have been required to prepare a Capital Strategy which is to provide the following: -

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed; and
- the implications for future financial sustainability.

1.2 Treasury Management

The Council operates a balanced 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 optimising investment return.

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 commitments. 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.

Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, 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."

2. INTRODUCTION

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2017) and covers the first 6 months of the year to 30th September 2021.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. 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 (this report) and an Annual Report, covering activities during the previous year.

4. 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.

5. 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 body is the Audit and Governance Committee.

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first half of the 2021/22 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2021/22;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of compliance with Treasury and Prudential Limits for 2021/22;
- A review of the Council's borrowing strategy for 2021/22.

3. ECONOMICS AND INTEREST RATES

3.1 Economics update

MPC meeting 24.9.21

- The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

- There was a major shift in the tone of the MPC's minutes at this meeting from the previous meeting in August which had majored on indicating that some tightening in monetary policy was now on the horizon, but also not wanting to stifle economic recovery by too early an increase in Bank Rate. In his press conference after the August MPC meeting, Governor Andrew Bailey said, "the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs" and that "the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment, wider measures of slack, and underlying wage pressures." In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer

- So, in August the country was just put on alert. However, this time the MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next

  April, are, indeed, likely to lead to **faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. Indeed, to emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement;** this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. Indeed, whereas in August the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

- Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in February 2022, but this looks ambitious as the MPC has stated that it wants to see what happens to the economy, and particularly to employment once furlough ends at the end of September. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

- **COVID-19 vaccines.** These have been the game changer which have enormously boosted confidence that **life in the UK could largely return to normal during the summer** after a third wave of the virus threatened to overwhelm hospitals in the spring. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of pent-up demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

World growth. World growth was in recession in 2020 but recovered during 2021 until starting to lose momentum more recently. Inflation has been rising due to increases in gas and electricity prices, shipping costs and supply shortages, although these should subside during 2022. It is likely that we are heading into a period where there will be a reversal of **world globalisation** and a decoupling of western countries from dependence on China to supply products, and vice versa. This is likely to reduce world growth rates from those in prior decades.

3.2 Interest rate forecasts

The Council's treasury advisor, Link Group, has provided the following forecasts on 29th September 2021 (PWLB rates are certainty rates gilt yields plus 80bps):

Link Group Interest Rate View	29.9.21									
	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	0.25	0.25	0.25	0.25	0.50	0.50	0.50	0.75
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

- *LIBOR and LIBID rates will cease from the end of 2021. Work is currently progressing to replace LIBOR with a rate based on SONIA (Sterling Overnight Index Average). In the meantime, these forecasts are based on expected average earnings by local authorities for 3 to 12 months.*

The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.
As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 2 of 2022/23, a second increase to 0.50% in quarter 2 of 23/24 and a third one to 0.75% in quarter 4 of 23/24.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that supresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.
- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the "moral hazard" risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.

The balance of risks to the UK economy: -

- The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Forecasts for Bank Rate

Bank Rate is not expected to go up fast after the initial rate rise as the supply potential of the economy has not generally taken a major hit during the pandemic, so should be able to cope well with meeting demand without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the surge to around 4% towards the end of 2021. Three increases in Bank rate are forecast in the period to March 2024, ending at 0.75%. However, these forecasts may well need changing within a relatively short time frame for the following reasons: -

- There are increasing grounds for viewing the economic recovery as running out of steam into the autumn. This could lead into stagflation which would create a dilemma for the MPC as to which way to face.
- Will some current key supply shortages e.g., petrol and diesel, spill over into causing economic activity in some sectors to take a significant hit?
- Rising gas and electricity prices in October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflation.
- On the other hand, consumers are sitting on around £200bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- 1.6 million people were due to come off furlough at the end of September; how many of those had jobs on 1st October and therefore, be available to fill labour shortages in many sectors of the economy? So, supply shortages which have been driving up both wages and costs, could reduce significantly within the next six months or so and alleviate the MPC's current concerns.

In summary, with the high level of uncertainty prevailing on several different fronts, it is likely that these forecasts will need to be revised again soon - in line with what the new news is.

It also needs to be borne in mind that Bank Rate being cut to 0.10% was an emergency measure to deal with the Covid crisis hitting the UK in March 2020. At any time, the MPC could decide to simply take away that final emergency cut from 0.25% to 0.10% on the grounds of it no longer being warranted and as a step forward in the return to normalisation. In addition, any Bank Rate under 1% is both highly unusual and highly supportive of economic growth.

Forecasts for PWLB rates and gilt and treasury yields

As the interest forecast table for PWLB certainty rates above shows, there is likely to be a steady rise over the forecast period, with some degree of uplift due to rising treasury yields in the US. There is likely to be **exceptional volatility and unpredictability in respect of gilt yields and PWLB rates** due to the following factors: -

- How strongly will changes in gilt yields be correlated to changes in US treasury yields?
- Will the Fed take action to counter increasing treasury yields if they rise beyond a yet unspecified level?
- Would the MPC act to counter increasing gilt yields if they rise beyond a yet unspecified level?

- How strong will inflationary pressures turn out to be in both the US and the UK and so impact treasury and gilt yields?
- How will central banks implement their new average or sustainable level inflation monetary policies?
- How well will central banks manage the withdrawal of QE purchases of their national bonds i.e., without causing a panic reaction in financial markets as happened in the "taper tantrums" in the US in 2013?
- Will exceptional volatility be focused on the short or long-end of the yield curve, or both?

A new era – a fundamental shift in central bank monetary policy
One of the key results of the pandemic has been a fundamental rethinking and shift in monetary policy by major central banks like the Fed, the Bank of England and the ECB, to tolerate a higher level of inflation than in the previous two decades when inflation was the prime target to bear down on so as to stop it going <u>above</u> a target rate. There is now also a greater emphasis on other targets for monetary policy than just inflation, especially on 'achieving broad and inclusive "maximum" employment in its entirety' in the US before consideration would be given to increasing rates.

- The Fed in America has gone furthest in adopting a monetary policy based on a clear goal of allowing the inflation target to be symmetrical, (rather than a ceiling to keep under), so that inflation averages out the dips down and surges above the target rate, over an unspecified period of time.
- The Bank of England has also amended its target for monetary policy so that inflation should be 'sustainably over 2%' and the ECB now has a similar policy.
- ***For local authorities, this means that investment interest rates and very short term PWLB rates will not be rising as quickly or as high as in previous decades when the economy recovers from a downturn and the recovery eventually runs out of spare capacity to fuel continuing expansion.***
- Labour market liberalisation since the 1970s has helped to break the wage-price spirals that fuelled high levels of inflation and has now set inflation on a lower path which makes this shift in monetary policy practicable. In addition, recent changes in flexible employment practices, the rise of the gig economy and technological changes, will all help to lower inflationary pressures.
- Governments will also be concerned to see interest rates stay lower as every rise in central rates will add to the cost of vastly expanded levels of national debt; (in the UK this is £21bn for each 1% rise in rates). On the other hand, higher levels of inflation will help to erode the real value of total public debt.

4. <u>TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY UPDATE</u>

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by Full Council on 24th March 2021.

It sets out the Council's investment priorities as being:

- Security of Capital;
- Liquidity; and
- Yield

The Council will aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. As shown by forecasts in section 3.2, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are at an all-time low and in line with the current 0.10% Bank Rate that is expected to be in place for the foreseeable future (reduced on 19th March 2020).

A full list of investments held as at 30th September, 2021 and the authorised counterparties are shown in Appendices 2 and 3 respectively.

There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

The current investment counterparty criteria selection approved in the TMSS has not been changed but two counterparties have been added to category 4 as they have assets greater than £10billion and therefore adhere to the minimum criteria of this category. These are Leeds Building Society and Principality Building Society as below.

Building Societies Association

Factsheet

August 2021

This table shows the assets of UK building societies, ranked by group assets, taken from their latest annual reports. These figures have not been adjusted to take account of any mergers, transfers of engagements or purchases of mortgage portfolios that have taken place since the societies' financial year end.
* The Society has no Group - the Society Assets figure has been repeated in the Group Assets field.

Rank by Group Assets	Name of Society	Financial Year Ended	Society Assets £m	Group Assets £m (see note *)
1	Nationwide	04 April 2021	251,920	254,914
2	Coventry	31 December 2020	50,781	51,498
3	Yorkshire	31 December 2020	57,786	47,931
4	Skipton	31 December 2020	26,658	28,263
5	Leeds	31 December 2020	20,725	20,640
6	Principality	31 December 2020	10,912	11,121

The average level of funds available for investment purposes during the first 6 months of 2021/22 was £74m. A proportion of these funds were available on a temporary basis, (more so than in previous years due to the receipt of Covid grants, of which some needs to be repaid to government), and the level of funds available was mainly dependent on the timing of precept payments (WSCC and Sussex Police, approximately £10M per month for 12 months), receipt of grants and progress on the Capital Programme. The authority holds approximately £40M core cash balances for investment purposes (i.e. funds available for more than one year).

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first 6 months of 2021/22.

Investment performance for period ended 30.09.2021

Benchmark	Benchmark Return	Budgeted Return	Council Performance	Investment Interest Earned
7 day LIBID	-0.082%*	0.64%	0.62%	£225,000

**As in 3.2 LIBOR and LIBID rates will cease at the end of 2021 and work is currently being done to replace these with SONIA.*

The Council's budgeted investment return for 2021/2 is £332,000 (0.64%).

Covid 19 has impacted these returns based on;

- the bank of England base rate being at an all time low since March 2020 (0.10%) and therefore investments are achieving lower rates than were budgeted.

- however, higher than anticipated balances available to invest (approx. £52m budgeted to £74m average balances year to date) has meant that the budget will be exceeded.

Currently £5M is invested in the CCLA (Churches, Charities and Local Authorities) property fund achieving a return of approx. 4.2% year to date, and £2m is invested in the CCLA diversified fund with an expected return of approx. 2.90% (2.60% at September 2021). These continue to enhance the returns although the rates have reduced over the last 6 months.

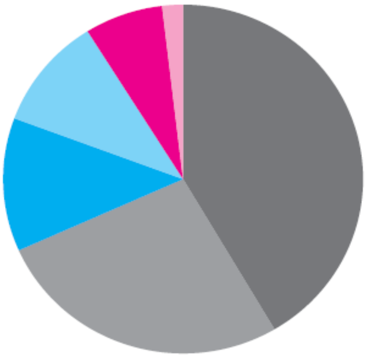
The estimated outturn for 2021/2022 is £445,000 (0.64%) which is above budget (monetary).

Fund investments

Other than cash investments the Council currently invests in the below funds;

- Money Market Funds (MMFs)
- Multi-Asset Income Funds (MAIFs) – *Diversified Fund Valued at £2.082M - 30th September 2021 (£2m invested)*
- Property Funds (asset allocation below)

Asset allocation at 30 September 21



Within the CCLA property fund portfolio (above), It is expected to maintain the existing bias towards industrial Assets. The fund is underweighted to the retail area overall but is positively disposed towards the retail warehouse sector and may increase the exposure if the right asset is found.

During 2020/21, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	31 March 2021 Actual £000	2021/22 Original £000	2021/22 Current £000	**30 Sept 2021 Actual £000**
Capital Expenditure				
• Non – HRA	2,930	3,228	*12,253	1,694
• HRA	6,472	4,732	**21,127	3,658
• **TOTAL**	**9,402**	**7,960**	**33,380**	**5,352**
Total Debt	44,320	44,320	44,320	**44,320**
Capital Financing Requirement at 31st March:				
• Non-HRA	-4,223	-4,442	n/a	**n/a**
• HRA	51,674	49,914	n/a	**n/a**
• **Total**	**47,451**	**45,472**	**n/a**	**n/a**
Over / (under) borrowing	(3,131)	(1,169)	**n/a**	**n/a**

* *£1m due to IT Corporate support, £3m Littlehampton Public Realm, £2m Asset management and £3m Parks and play area schemes.*

*** £15m due to Council House New Build-stock development.*

The HRA capital financing requirement will reduce by the amount set aside for debt repayment. This reduction will be offset by any increase due to new borrowing (or use of cash flow funds) in respect of the new build programme.

Other prudential and treasury indicators are shown in Appendix 1.

5. COMPLIANCE WITH TREASURY AND PRUDENTIAL LIMITS

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The authorised limit of £55m was not breached in the first half of the year (2021/22).

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. The operational boundary of £50m was not breached.

During the financial year to date the Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators are shown in Appendix 1.

6. BORROWING

No new borrowing was undertaken during the first half of the year. All prior borrowing was for the sole purpose of funding the HRA self-financing settlement payment and all loans are fixed maturity loans. The 5 remaining loans are shown in Appendix 4.

The Council's capital financing requirement (CFR) at 31 March 2021 was £47.5m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

The Council has borrowings of £44.32m (PWLB) which relates to the HRA Self-Financing settlement (originally £70.9m) and has utilised £10.76m of cash flow funds instead of borrowing externally (as at 31 March 21). This is a prudent and cost effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which had arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision. Arun's gross external debt does not exceed its CFR and is not expected to except in the short term.

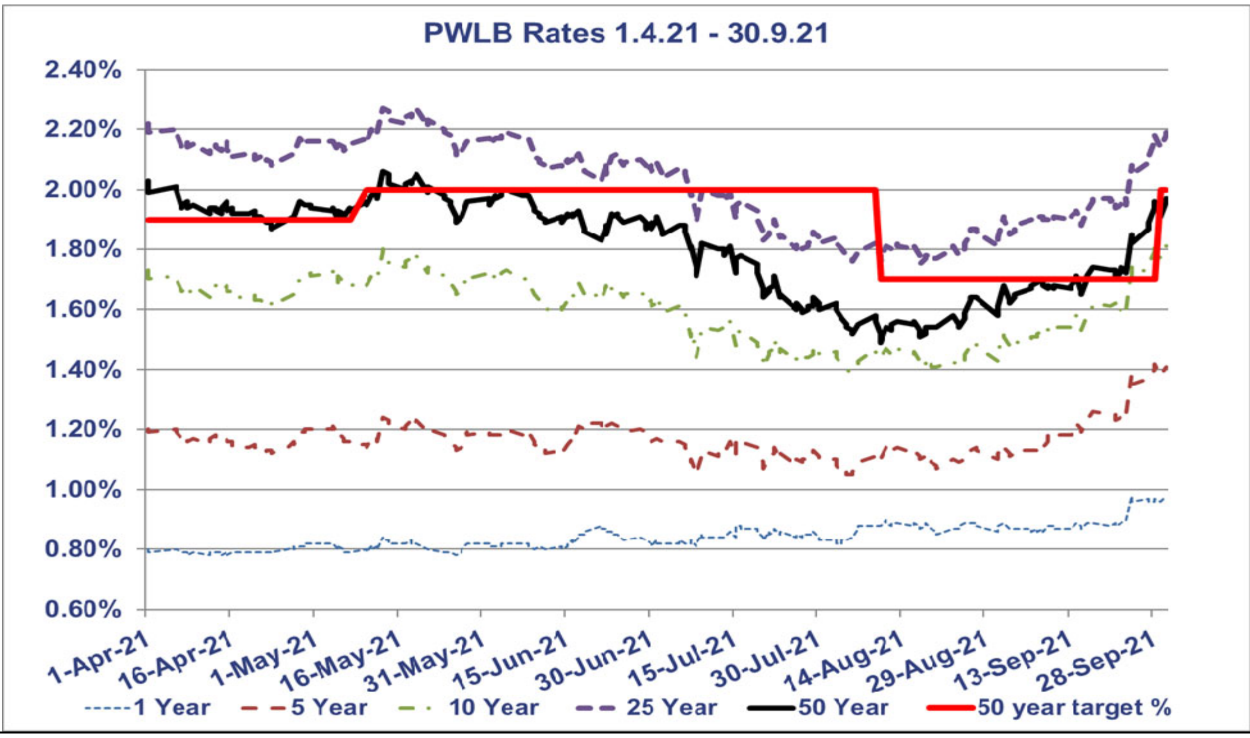
The borrowing activity is constrained by prudential indicators for net borrowing, the CFR, and by the authorised limit.

It is anticipated that no further borrowing will be undertaken during this financial year.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2021 Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September.
The 50 year PWLB target certainty rate for new long-term borrowing started 2021/22 at 1.90%, rose to 2.00% in May, fell to 1.70% in August and returned to 2.00% at the end of September after the MPC meeting of 23rd September.

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

The graph and table below show the movement in PWLB certainty rates since the start of the current financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	**0.98%**	**1.42%**	**1.81%**	**2.27%**	**2.06%**
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

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2. PROPOSAL(S): To approve all 4 recommendations.		
3. OPTIONS: The Treasury Management Strategy is a mandatory requirement under the Local Government act 2003 and therefore the only option is to accept the recommendations..		
4. CONSULTATION:		
Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)	✓ Treasury Advisors	
5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial	✓	
Legal		✓
Human Rights/Equality Impact Assessment		✓
Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		
6. IMPLICATIONS: Approval will enable the Council to comply with legislation and provide a Treasury Service ensuring that the expected budget income from interest on investments for the financial year is achieved.		

7. REASON FOR THE DECISION:

Statutory and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:

CIPFA'S Treasury Management in the Public Services: Code of Practice (2017)

(Link not available as copyright)

The Prudential Code for Capital Finance in Local Authorities (2017) Guidance notes (2018) *(Link not available as copyright)*

The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)

Prudential and treasury indicators

Appendix 1

1. PRUDENTIAL INDICATORS	2020/21	2021/22	2021/22
Extract from budget and rent setting report	**Actual**	**Original**	**Actual at 30th Sept**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non – HRA	2,930	3,228	1,694
HRA	6,472	4,732	3,658
TOTAL	9,402	7,960	5,352
Ratio of financing costs to net revenue stream			
Non - HRA	-1.96%	-1.90%	n/a
HRA	31.84%	32.32%	n/a
Capital Financing Requirement as at 31 March			
Non – HRA	-4,223	-4,442	n/a
HRA	52,973	49,914	n/a
TOTAL	48,750	45,472	n/a
Annual change in Cap. Financing Requirement			
Non – HRA	-214	-218	n/a
HRA	*609	-951	n/a
TOTAL	395	-1,169	n/a

* HRA CFR increased partly due to Osbourne leases effective from 2020/21

2. TREASURY MANAGEMENT INDICATORS	2020/21	2021/22	2021/22
	Actual	**Original**	**Actual at 30th September 21**
	£'000	**£'000**	**£'000**
Authorised Limit for external debt			
Borrowing	60,000	54,000	54,000
Other long term liabilities	1,000	1,000	1,000
TOTAL	**61,000**	**55,000**	**55,000**
Operational Boundary for external debt			
Borrowing	57,000	49,000	49,000
other long term liabilities	1,0000	1,000	1,000
TOTAL	**58,000**	**50,000**	**50,000**
Actual external debt	44,320	*44,320	*44,320
Upper limit for total principal sums invested for over 364 days	**18,000**	**18,000**	**18,000**

* £8.86m of debt being repaid (28 March 2022)

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 30/09/21	lower limit	upper limit
under 12 months	20%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	20%	0%	60%
10 years and above	60%	0%	100%

INVESTMENTS at 30th September 2021

Appendix 2

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	771	Close Brothers	27/10/2020	26/10/2021	£1,000,000.00	0.80
Fixed Term Deposit	773	Close Brothers	27/10/2020	26/10/2021	£1,000,000.00	0.70
Fixed Term Deposit	775	Close Brothers	10/11/2020	09/11/2021	£2,000,000.00	0.70
Fixed Term Deposit	776	Qatar National Bank	17/11/2020	09/11/2021	£2,000,000.00	0.53
Fixed Term Deposit	772	Slough BC	19/11/2020	18/11/2021	£2,000,000.00	0.30
Fixed Term Deposit	779	Goldman Sachs	22/02/2021	22/11/2021	£2,000,000.00	0.265
Fixed Term Deposit	793	Development Bank Singapore (DBS)	07/06/2021	07/12/2021	£2,000,000.00	0.12
Fixed Term Deposit	786	Goldman Sachs	07/04/2021	07/01/2022	£1,000,000.00	0.31
Fixed Term Deposit	777	Goldman Sachs	15/01/2021	14/01/2022	£1,000,000.00	0.085
Fixed Term Deposit	796	Thurrock Council	15/06/2021	15/02/2022	£3,000,000.00	0.12
Fixed Term Deposit	784	Qatar National Bank	06/04/2021	07/03/2022	£3,000,000.00	0.505
Fixed Term Deposit	803	NatWest Bank	16/07/2021	16/03/2022	£2,000,000.00	0.090
Fixed Term Deposit	787	Qatar National Bank	26/04/2021	21/03/2022	£2,000,000.00	0.505
Fixed Term Deposit	789	Qatar National Bank	04/05/2021	21/03/2022	£1,000,000.00	0.485
Fixed Term Deposit	801	Standard Chartered Bank	07/07/2021	21/03/2022	£1,000,000.00	0.15
Fixed Term Deposit	804	Standard Chartered Bank	24/08/2021	28/03/2022	£2,000,000.00	0.120
Fixed Term Deposit	783	Qatar National Bank	01/04/2021	01/04/2022	£1,000,000.00	0.535
Fixed Term Deposit	791	Goldman Sachs	21/05/2021	23/05/2022	£7,000,000.00	0.325
Fixed Term Deposit	792	Qatar National Bank	07/06/2021	06/06/2022	£1,000,000.00	0.56
Fixed Term Deposit	802	Qatar National Bank	03/08/2021	02/08/2022	£1,000,000.00	0.585
Fixed Term Deposit	797	Close Brothers	10/08/2021	10/08/2022	£1,000,000.00	0.45
Fixed Term Deposit	799	Close Brothers	03/09/2021	05/09/2022	£3,000,000.00	0.45
Call Account	44447	Lloyds			£13,735,480.28	0.01
Callable deposit	44446	Lloyds 32DN			£5,000,000.00	0.03
Callable deposit	44443	Santander 95DN			£11,000,000.00	0.40
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*4.04
Diversified Fund	140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*2.6
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.023
					£82,735,480.28	

* rates at September

Appendix 3

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Bank of Nova Scotia (CAN)
DBS Bank Ltd (SING)
Oversea-Chinese Banking Corp Ltd (SING)
Handelsbanken Plc (UK)
United Overseas Bank Ltd (SING)
First Abu Dhabi Bank (U.A.E)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Goldman Sachs International Bank (UK)
HSBC Bank plc (UK)
Standard Charted Bank (UK)
Qatar National Bank (Qatar)
National Westminster Bank PLC (RFB) (UK)
Royal Bank of Scotland PLC (RFB) (UK)
Santander (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Leeds Building Society (UK)
Principality Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Bank Plc (RFB) (Cat 2)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2)
Bank of Scotland PLC (RFB) (Cat2)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

		Long Term	Short Term
Min Criteria	**Fitch**	**BBB-**	**F3**
	Moody	**Baa3**	**P-3**
	S&P	**BBB-**	**A-3**

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

- Money Market Funds (MMF's), (CNAV, LVNAV, VNAV) & Enhanced MMF's
- Government Liquidity Funds

Limit of £4million for each institution

	Fitch	NAV
Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
Northern Trust	AAA	

Category 8 - Alternative Investments (Asset Backed Bonds) - 25 Years
Maximum investment £4 million

Category 9 - Debt Management Office
Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years
Maximum investment £4 million AAA

Category 11 – Property Funds - 25 Years
Maximum investment £6 million

CCLA

Category 12 - Multi-Asset Funds - 15 Years
Maximum investment £6 million

CCLA - Diversified Income Fund

Appendix 4

Arun District Council - Loans at 30th September 2021

Reference	Lender	Start Date	Maturity Date	Principal	Rate
499488	Public Works Loan Board	28/03/2012	28/03/2022	8,860,000	2.40%
499493	Public Works Loan Board	28/03/2012	28/03/2030	8,870,000	3.21%
499494	Public Works Loan Board	28/03/2012	28/03/2035	8,870,000	3.40%
499491	Public Works Loan Board	28/03/2012	28/03/2050	8,860,000	3.53%
499490	Public Works Loan Board	28/03/2012	28/03/2062	8,860,000	3.48%
				44,320,000	