

Gloucester City Council

Meeting:	Cabinet	Date: 15 June 2022
	Audit and Governance Committee	18 July 2022
Subject:	Treasury Management Update – Annual Report 2021/22	
Report Of:	Cabinet Member for Performance and Resources	
Wards Affected:	All	
Key Decision:	No	Budget/Policy Framework: No
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Appendices:	1. Prudential and Treasury Indicators	
	2. Interest Rate Forecasts	

FOR GENERAL RELEASE

1.0 Purpose of Report

- 1.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (TMSS, annual and midyear reports). This report covers the six months 1st October 2021 to 31st March 2022 and therefore, ensures this Council is implementing best practice in accordance with the Code.
- 1.2 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council's treasury advisors Link Asset Services.
- 1.3 The body of the report provides an overview of the Council's performance for the first half 2021/22;
 - **Appendix 1** highlights the key performance indicators in line with the Councils Treasury Management Strategy.
 - **Appendix 2** Interest Rate Forecast.

2.0 Recommendations

- 2.1 Cabinet is asked to **RESOLVE** that the contents of the report be noted.
- 2.2 Audit and Governance Committee is asked, subject to any recommendations it wishes to make to Cabinet, to note the contents of the report.

3.0 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2021/22, which includes the Annual Investment Strategy, was approved by the Council on 18th March 2021. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

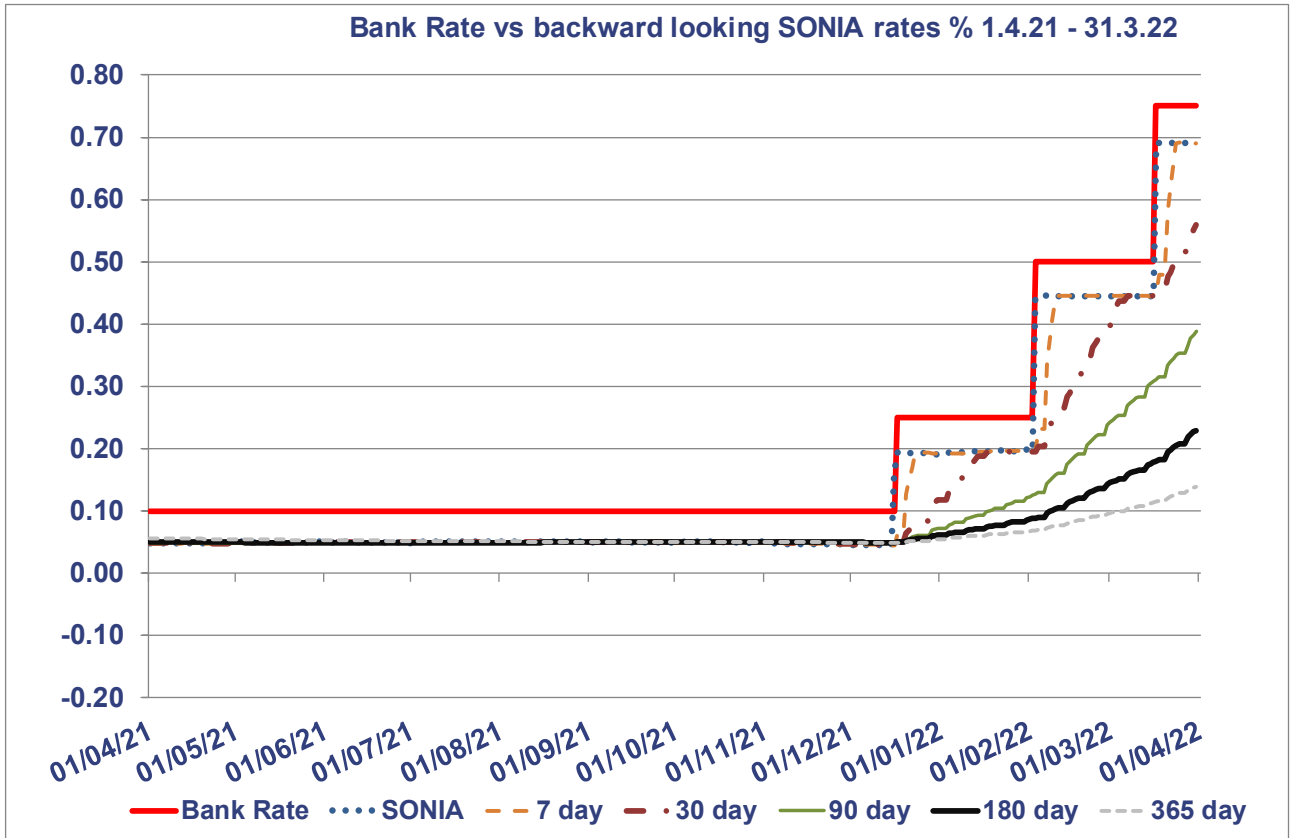
- 3.1 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.
- 3.2 As shown by the interest rate forecasts in section 2, it is currently impossible to earn the level of interest rates commonly seen in previous decades. However, rates have improved during quarter 3 of 21/22 and are expected to improve further as Bank Rate continues to increase over the next two years.
- 3.3 The average level of funds available for investment purposes during the year to date was £21.9m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.
- 3.4 The Council holds £13.5m core cash balances for investment purposes (i.e. funds available for more than one year), the majority of these funds are held with the CCLA and have delivered £302k in dividends for the first six months of the year.

Investment performance for the financial year to date as at 31st March 2022

Benchmark	Benchmark Return	Council Performance	Investment Interest Earned
7 day	0.05%	0.04%	£8,010
1 month	0.05%	N/A	N/A
3 month	0.05%	N/A	N/A
6 month	0.05%	N/A	N/A
12 month	0.6%	N/A	N/A

As illustrated, the Council underperformed the benchmark by 0.01 bps on 7-day investment returns.

Interest Rate Profile - year ended 31 March 2022



	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	0.75	0.69	0.69	0.56	0.39	0.23	0.14
High Date	17/03/2022	18/03/2022	25/03/2022	31/03/2022	31/03/2022	31/03/2022	31/03/2022
Low	0.10	0.05	0.05	0.05	0.05	0.05	0.05
Low Date	01/04/2021	15/12/2021	16/12/2021	16/12/2021	16/12/2021	07/06/2021	13/12/2021
Average	0.19	0.14	0.13	0.12	0.09	0.07	0.06
Spread	0.65	0.65	0.65	0.51	0.34	0.18	0.09

4.0 New Borrowing

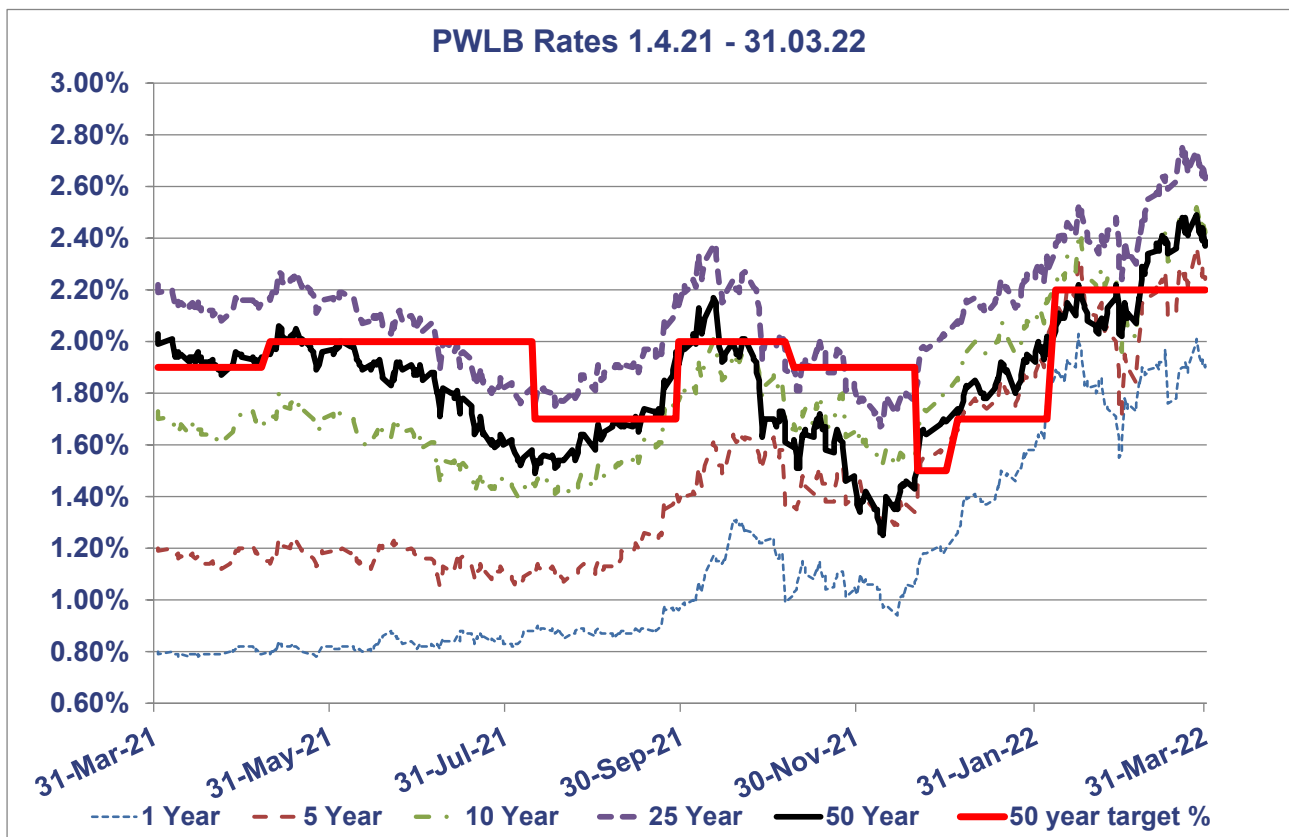
4.1 No long term borrowing was undertaken during the period ended 31st March 2022.

4.2 PWLB maturity certainty rates year to date to 31st March 2022

Gilt yields and PWLB rates were on a falling trend between May and August. However, they rose sharply towards the end of September before falling again during quarter 3 until rising once more in the last ten days of 2021.

Since the start of January yields have climbed steeply on the back of market concerns in relation to inflation.

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, returned to 2.00% at the end of September until falling to 1.90% in early November and then falling again further still to 1.50% in December before increasing to 2.20% in February.



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

5.0 Debt Rescheduling

5.1 Debt rescheduling opportunities have been very limited in the current economic climate given the consequent structure of interest rates and following the increase in the margin added to gilt yields which has impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

6.0 Compliance with Treasury and Prudential Limits

6.1 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.

6.2 During the financial year the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

7.0 Other

7.1 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update reports.

7.2 The Council will continue to monitor its approach to short-term borrowing in accordance with our treasury advisor forecasts and future Council events which impact on the Council borrowing requirement.

8.0 Social Value Considerations

8.1 This report notes the treasury management performance of the Council. There are no anticipated Social Value considerations from this report as it is reporting performance and not making investment decisions.

9.0 Environmental Implications

9.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report.

10.0 Financial Implications

10.1 Contained in the report

(Financial Services have been consulted in the preparation of this report.)

11.0 Legal Implications

11.1 There are no legal implications directly arising from this report.

(Legal Services have been consulted in the preparation of this report.)

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12.0 Risk & Opportunity Management Implications

12.1 There are no specific risks or opportunities as a result of this report

13.0 People Impact Assessment (PIA):

13.1 A PIA screening assessment has been undertaken and the impact is neutral. A full PIA is not required.

14.0 Other Corporate Implications

Community Safety

14.1 None

Sustainability

14.2 None

Staffing & Trade Union

14.3 None