Boston Borough Council
Treasury Management Strategy Statement and Annual Investment Strategy

Mid-Year Review Report 2021/22

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. From 2019/20, all local authorities have been required to prepare a Capital Strategy, providing 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 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 existing debt previously 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). 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 by 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** and an Annual Report, (stewardship 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 part of the 2021/22 financial year;
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure, as set out in the Capital Strategy, and 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; and
- A review of compliance with Treasury and Prudential Limits for 2021/22.

3. Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement (TMSS) for 2021/2 was approved by Council on 1 March 2021, as part of the Capital Strategy.

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

4. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- 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.

4.1 Prudential Indicators for Capital Expenditure

This table shows the original capital expenditure estimate, actual expenditure to 30 September and the revised estimate, representing the latest approved programme (at Q2, being presented to Cabinet in November 2021).

Capital Expenditure by Head of Service	2021/22 Original Estimate £'000	Position at 30/09/21 £'000	2021/22 Revised Estimate £'000
Regulatory Services	346	140	1,015
Place	1,237	18	1,502
Corporate Services	831	639	834
Economic Growth/Towns Fund	0	186	400
Operations	44	3	259
Total Capital Expenditure	**2,458**	**986**	**4010**

4.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table (nil for 2019/20) increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

Capital Expenditure and Financing	2021/22 Original Estimate £'000	Position at 30/09/21 £'000	2021/22 Revised Estimate £'000
Total Capital Expenditure	**2,458**	**986**	**4,010**
Financed by:			
Capital Grants and Contributions	1,370	326	2,670
Revenue Resources	1,088	660	1,340
Total Financing	**2,458**	**986**	**4,010**
Borrowing Need	**-**	**-**	**-**

4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

This table shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

Prudential Indicator – Capital Financing Requirement

We are on target to achieve the original forecast Capital Financing Requirement.

Prudential Indicator – the Operational Boundary for external debt

	2021/22 Original Estimate £'000	Position at 30/09/21 £'000	2021/22 Revised Estimate £'000
Prudential Indicator – Capital Financing Requirement			
CFR – Non Housing	20,369	20,304	20,304
Net movement in CFR	-	-65	-65
Prudential Indicator – the Operational Boundary for external debt			
Borrowing	22,000	22,000	22,000
Other long term liabilities	-	-	-
Total Debt at 30 September	**22,000**	**22,000**	**22,000**

4.4 Limits to Borrowing Activity

The first key control over treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2020/21 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need which will be adhered to if this proves prudent.

	2021/22 Original Estimate £'000	Position at 30/09/21 £'000	2021/22 Revised Estimate £'000
Gross Borrowing	16,449	16,449	16,449
Total Debt	**16,449**	**16,449**	**16,449**
CFR (year-end position)	**20,369**	**20,304**	**20,304**

The Deputy Chief Executive – Corporate Development reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	2021/22 Original Estimate £'000	Position at 30/09/21 £'000	2021/22 Revised Estimate £'000
Borrowing	25,000	25,000	25,000
Other long term liabilities	-	-	-
Total	**25,000**	**25,000**	**25,000**

5. Investment Portfolio

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 a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.10% Bank Rate. The continuing risks of Covid disruption to the economy, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are forecast to remain low.

The Council budgeted to receive £1,016,000 in gross investment income in 2021/22 comprising £977,000 from Property Funds (including £215,000 of management fees), and £39,000 from cash investments.

At 30 September 2021, total investment income for the year is estimated to be £946,000 comprising £924,000 from Property Funds and £22,000 from cash investments. Property Fund Management fees for 2021/22 are estimated at £215,000.

In 2021/22, cumulatively to 30 September 2021, the Council achieved an average gross revenue return (before deduction of management charges) of 4.46% from the Property Fund purchases (3.42% after fees).

Treasury (cash) Investments achieved an average rate of 0.09% compared to the benchmark average 3-month LIBID rate of -0.054%.

The table below details the cash investments held by the Council at 30 September 2021. Investments are made in line with both Link's creditworthiness guidance and the duration limits applied to each colour banding.

Financial Institution	Amount £'000	Duration	Rate	Most recent Link Asset Services Colour Rating
HSBC	10,105	Call	0.01%	**Orange (12 months)**
CCLA	3,000	Call	0.022%	**Yellow 5 Years**
Santander	3,000	95 day notice	0.40%	**Red – 6 months**
Barclays Bank	3,000	95 day notice	0.15%	**Red – 6 months**
Lloyds Bank	2,000	95 day notice	0.05%	**Red – 6 months**
Bank of Scotland	2,000	175 day notice	0.06%	**Red – 6 months**
Total	**24,105**			

The Council's Treasury Management Strategy states investments are limited with any one institution to no more than £3m invested per institution, and £5m per counterparty 'group'. The 28 working days residual balances in excess of the £5m limit were deposited in the Council's current bank account (HSBC) for cash flow reasons (in accordance with para 7.3 of the Treasury Management Strategy).

The average level of funds available for investment from 1 April to 30 September 2021 was £21.683. Of this, an average of £10.683m was available on a temporary basis, the level dependent on the timing of precept and business rate pool payments, receipt of grants and capital programme spend.

Capital Strategy and Property Fund Valuation

Detailed below are the property fund investments held by the Council, the valuation date for all funds being 30 September 2021.

Financial Institution	Purchase Cost £'000	Net Asset Value at 31 March 2021 £'000	Net Asset Value at 30 Sept 2021 £'000	In-year Gain /(Loss) to 30 Sept 2021 £'000
Black Rock UK Property Fund	4,500	4,403	4,628	225
Schroder UK Real Estate Fund	4,250	4,255	4,450	195
Threadneedle Property Unit Trust	4,239	3,830	4,094	264
M&G UK Property Fund	4,000	3,478	3,716	238
AEW	4,000	3,526	3,824	298
Total	**20,989**	**19,492**	**20,712**	**1,220**

The difference between purchase price (i.e. the amount invested) and fair value reflects premiums paid or discount received against the Funds' 'Net Asset Value' at the settlement date together with the movement in fund valuations since acquisition. Fair values have increased during the first half of the financial year, by 5.89% since 31 March 2021. The increase has been largely due to the vaccination process that has helped to combat Coronavirus and the economy rebounding as a result of restrictions lifting.

6. Borrowing

The Council's projected capital financing requirement (CFR) at 31 March 2021 is £20.304m. The CFR denotes the Council's underlying need to borrow for capital purposes. As 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.

At the start of the 2021/22 financial year the Council's total long-term external borrowing was £16.449m, and it has utilised £3.855m of cash reserves in lieu of borrowing due to the current low rate of return on cash investments. Borrowing costs for 2021/22 are projected to be £494,000.

No additional borrowing was undertaken during the half year ended 30 September 2021, and officers continue to monitor opportunities to replace the internally invested sums with long-term borrowing.

7. Debt Rescheduling

The Council has £16.449m of long-term external borrowing. No debt rescheduling has been undertaken to date in the current financial year.

8. Other

8.1 Changes in Risk Appetite

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.

There has been no change in risk appetite since the Treasury Management Strategy Statement for 2021/22 was approved on 1 March 2021.