

Treasury Management (TM) update

The Council's Treasury Management Strategy was approved by Council on 24th February 2021. It is a requirement of the Strategy that a half yearly report is presented to Members detailing any changes to the approved strategy.

Economic update

Budget 2021 was presented by the Chancellor of the Exchequer on Wednesday 27th October. This was well received by the markets as the Chancellor was handed a significant upgrade to forecasts for the public finances from the OBR which enables him to begin to build a significant 'war chest' that could be deployed ahead of the next election. Current estimates have it at around £17.6bn but the feeling is this could rise to £25bn / £30bn or more come 2024/25.

It was also announced in the budget that the UK Government had reduced its planned debt sales this year by nearly £60bn, a much larger cut than markets had anticipated. In essence, a stronger than expected economic rebound through 2021 has bolstered tax receipts, leading the Government to consistently undershoot borrowing forecasts drawn up in the Spring, when the Covid-19 vaccination programme was still in its relatively early stages. In turn, The Debt Management Office cut its planned Government bond sales for 2021/22 to £198.4bn — or £57.8bn less than its April forecast.

It is anticipated, however, that inflation could reach 5% by April 2022. Three major factors contributing toward this upward spike are:

- Supply shortages. The pandemic and extreme weather events have been highly disruptive of extended worldwide supply chains. At the current time there are major queues of ships unable to unload their goods at ports in New York, California and China. Such issues have led to mis-distribution of shipping containers around the world and have contributed to a huge increase in the cost of shipping.
- Labour shortages. Many western countries are experiencing difficulties in filling job vacancies, which is leading to upward pressure on wage growth
- Rising energy prices. There has been a worldwide squeeze on gas and energy supplies, caused by a significant drop in stored gas levels resulting from a cold winter in Europe last year, and an increased demand from Asia, especially China, for liquefied natural gas. These factors have pushed up wholesale gas prices by 250% since January 2021, which is feeding through into considerable rises in retail gas prices.

It is likely that the Bank of England will raise interest rates in the coming months in order to return CPI inflation sustainably to the Bank's 2% target

Interest rate forecasts

These forecasts have been supplied by Link Asset Services, the Council's treasury management advisers:

	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%
PWLB Rates										
- 5 years	1.40%	1.40%	1.50%	1.50%	1.60%	1.60%	1.60%	1.70%	1.70%	1.70%
- 10 years	1.80%	1.80%	1.90%	1.90%	2.00%	2.00%	2.00%	2.10%	2.10%	2.10%
- 25 years	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%
- 50 years	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%

Bank Rate is expected to increase gradually in the period to March 2024, ending at 0.75%. There is a high level of uncertainty prevailing on several different fronts, however, and these forecasts are subject to change over the short to medium term.

There is also likely to be a steady rise in PWLB rates over the forecast period, though it is also likely that there will be exceptional short-term volatility in rates during the period. This volatility may provide opportunities to lock into long-term borrowing at favourable interest rates.

A review of the Treasury Management Strategy and Annual Investment Strategy

These strategies were approved by Council on 24th February 2021 as part of the Capital & Investment Strategy for 2021/22. Officers are satisfied that the strategies remain fit for purpose. Some of the prudential indicators set out in the treasury management strategy, however, require updating in the light of the forecast capital outturn for 2021/22 and forecast slippage into 2021/22.

The following table sets out the updated prudential indicators. Members are asked to approve these indicators.

Table 1: Updated Prudential Indicators

Prudential Indicator 2021/22	2021/22 original estimate £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000
Capital Expenditure	33,236	20,133	26,390	16,297
Capital Financing Requirement	262,394	250,503	271,724	282,965
Gross External Borrowing	237,559	233,343	255,880	268,437
Operational Boundary	245,000	245,000	260,000	275,000
Authorised Limit	293,000	293,000	300,000	315,000

The following paragraphs explain these indicators in more detail:

Capital Expenditure

The following table shows the original and revised estimates for capital expenditure for the period 2021/22 to 2023/24 split between General Fund and HRA expenditure. The reduction in forecast expenditure in 2021/22 is due to slippage, which has been incorporated into the 2022/23 estimate.

Table 2: Capital Expenditure Estimates 2020/21 to 2022/23

Capital Expenditure	2021/22 original estimate £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000
General Fund	18,066	11,140	8,460	2,480
HRA	15,170	8,993	17,930	13,817
Total	33,236	20,133	26,390	16,297

This table shows how the above expenditure will be financed:

Table 3: Revised Estimates for Financing of Capital Expenditure

Capital Financing	2021/22 original estimate £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000
Capital receipts	(2,147)	(400)	(400)	(400)
Capital grants & contributions	(250)	(250)	(250)	(250)
Revenue contributions	0	0	0	0
Major repairs reserve	(7,528)	(6,408)	(3,203)	(3,090)
Borrowing requirements	(23,311)	(13,075)	(22,537)	(12,557)
Total	(33,236)	(20,133)	(26,390)	(16,297)

Capital Financing Requirement

The table below shows the forecast Capital Financing Requirement (CFR) up to 2023/24. The CFR represents the Council's underlying need to borrow in order to finance its capital expenditure. The increase in 2022/23 and 2023/24 represents the new borrowing required in those years, less funds set aside for repay borrowing when it matures.

Table 4: Capital Financing Requirement

	2021/22 original estimate £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000
General Fund	193,108	186,697	193,391	194,105
HRA	69,286	63,806	78,333	88,860
Total	262,394	250,503	271,724	282,965

Gross External Borrowing

The table below shows the Council's forecast external borrowing up to 2023/24. The table also tracks the external borrowing against the capital financing requirement. It shows that the Council expects to maintain an under borrowed position, meaning that external borrowing is lower than the capital financing requirement. This demonstrates compliance with the Prudential Code requirement that over the medium term, borrowing will only be for a capital purpose.

Table 5: External Borrowing and the Capital Financing Requirement

	2021/22 original estimate £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000
External Borrowing	237,559	233,343	255,880	268,437
Capital financing requirement	262,394	250,503	271,724	282,965
Under borrowing	24,835	17,160	15,844	14,528

Operational Boundary and Authorised Limit for External Debt

The operational boundary is the level above which external debt is not normally expected to rise. It is set at the level of expected external borrowing plus some headroom for any unexpected short-term borrowing needs.

The authorised limit controls the overall level of borrowing. It is a statutory limit determined under section 3 (1) of the Local Government Act 2003, representing the limit beyond which any borrowing would be unlawful.

Table 6: Operational Boundary and Authorised Limit for External Debt

	2021/22 original estimate £000	2021/22 revised estimate £000	2022/23 estimate £000	2023/24 estimate £000
Operational Boundary for External Debt	245,000	245,000	260,000	275,000
Borrowing	290,000	290,000	297,000	312,000
Other long-term liabilities	3,000	3,000	3,000	3,000
Authorised limit for external debt	293,000	293,000	300,000	315,000

No prudential indicators have been breached in the period April 2021 to October 2020.

External borrowing activity 2021/22

The following table summarises the external borrowing activity to date during the year and the borrowing position as at 31 October 2021.

Table 7: External Borrowings April – October 2021

	Short - Term £000	PWLB £000	Transferred Debt £000	Total £000
Borrowing at 1 April 2021	124,500	108,166	177	232,843
Maturing borrowings repaid	(114,500)	0	0	(114,500)
New borrowings	58,000	66,000	0	124,000
Borrowing at 31 October 2021	68,000	174,166	177	242,343
Average interest rate	0.14%	2.38%	8.62%	
Proportion of total borrowing	28%	72%	0%	

During the year officers have looked for opportune times, when long-term interest rates have dipped, to replace maturing short- term loans from other local authorities with long-term borrowing from the PWLB. To date a total of £66m has been borrowed from the PWLB, at an average interest rate of 1.6%. The proportion of short-term borrowing as a total of overall borrowing has consequently fallen to 28%.

Officers will continue to look for such opportunities over the remainder of the year. Locking into long-term borrowing at low interest rates puts the Council's borrowing on a more sustainable footing over the long term.

A schedule of long-term borrowings is shown below.

Table 8: Long Term Borrowings

Service	Start date	Maturity date	Principal	Interest rate
HRA	28-Mar-12	28-Mar-22	5,000,000	2.40%
HRA	28-Mar-12	28-Mar-27	10,000,000	3.01%
HRA	28-Mar-12	28-Mar-32	15,000,000	3.30%
HRA	28-Mar-12	28-Mar-37	15,000,000	3.44%
HRA	28-Mar-12	28-Mar-42	14,166,000	3.50%
		Total HRA	59,166,000	

Service	Start date	Maturity date	Principal	Interest rate
GF	08-Jan-03	08-Jan-28	400,000	4.88%
GF	24-Apr-95	24-Feb-55	800,000	8.88%
GF	30-Apr-95	30-Apr-55	800,000	8.88%
GF	16-Sep-20	16-Sep-50	7,000,000	2.57%
GF	27-Nov-20	27-Nov-30	10,000,000	2.16%
GF	27-Nov-20	27-Nov-50	10,000,000	2.71%
GF	26-Mar-21	26-Mar-71	20,000,000	1.89%
		Sub Total	49,000,000	
	Borrowings in 21/22			
GF	27-Apr-21	27-Apr-71	30,000,000	1.87%
GF	19-Jul-21	19-Jul-31	7,000,000	1.48%
GF	22-Jul-21	22-Jul-34	10,000,000	1.55%
GF	22-Jul-21	22-Jan-68	9,000,000	1.67%
GF	22-Jul-21	22-Jul-69	10,000,000	1.65%
		Sub Total	66,000,000	
		Total General Fund	115,000,000	
		Grand Total	174,166,000	

Transferred debt represents historic debt transferred to Brentwood from Chelmsford Borough Council during the local government reorganisation in 1974.

Investments

The Council held £33m of investments as at 31st October 2021 (nil at 31st March 2021). Interest earnings for the year are forecast to be £0.036m..

Investments during the year have been short-term investments with UK bank and building societies, and deposits into call accounts with Lloyds and Santander banks. The security of funds continues to be the priority when making investments.