



Audit, Risk & Assurance Committee

Date	2 November 2021
Report title	Treasury Management Mid-Year Report 2021/22
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Report has been considered by	Not Applicable

Recommendation(s) for action or decision:

To note the contents of the report.

1. Introduction

1.1 The 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 Authority's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Authority will seek to achieve those policies and objectives.
3. Receipt by the full Board 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 Authority 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 Authority of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Authority the delegated body is the Audit, Risk, and Assurance Committee:

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

- A review of the Authority's investment portfolio for 2021/22;
- A review of the Authority's borrowing strategy for 2021/22;
- A review of any debt rescheduling undertaken during 2021/22;
- A review of compliance with Treasury and Prudential Limits for 2021/22;
- Outlook for remainder of 2021/22

2. Treasury Management Mid-Year Review 2021/22

2.1 Table 1 shows WMCA borrowing and investments held at 1 April 2021 and 30 September 2021. It shows that net borrowing has decreased by £144.7m mostly as a result of grants being received in advance of need as documented below.

	April 2021 £m	Change	Sept 2021 £m	Notes
Borrowing	(124.0)	(49.9)	(173.9)	Increase following uptake of £50m PWLB Local Infrastructure Rate EIP loan (August 2021)
Investments	245.8	194.6	440.4	Increase due to receipt of grants in advance of need including AEB, Investment Programme, Transforming Cities Fund and All Electric Bus Town
Net	121.8	144.7	266.5	

3 Borrowing Activity

3.1 Effective cash flow management and the use of grants received in advance have negated the majority of WMCA's potential requirement to borrow during the first 6 months of the 2021/22 financial year. Following a fall in the price of Public Works Loan Board (PWLB) lending rates during July/August 2021 however, WMCA took a £50m tranche of funding using its Local Infrastructure Rate facility previously agreed with Her Majesty's Treasury (HMT). The facility provides a 0.40% discount on standard terms from the PWLB. The WMCA cash flow forecast is updated daily and latest versions suggest – beyond the incentive to take out up to a further £105m of loans at preferential rates (via the HMT facility mentioned above prior to expiry on 31st March 2022) - there will be no further requirement to borrow in 2021/22.

4 Historic Borrowing

- 4.1 The main source of historic borrowing for WMCA has been the PWLB. The Director of Finance continues to review the opportunities to reschedule debt and works closely with specialist treasury advisors to explore alternative best value borrowing options. The penalty costs associated with early repayment to the PWLB in current market conditions are too onerous to be beneficial.
- 4.2 Table 2 shows borrowing held at 1st April 2021 and 30th September 2021. It shows that borrowing has increased by £49.9m due to the uptake of £50m PWLB loan (see 3.1) offset by annuity principal repayments during the year.

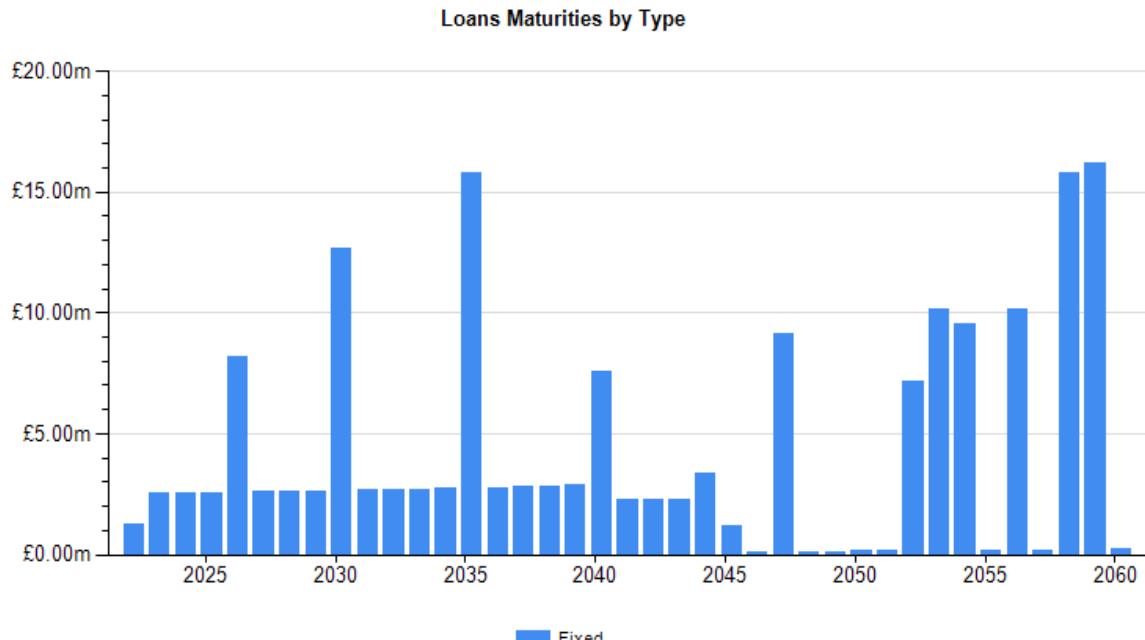
	Balance at 1 April 2020 £m	Repaid in Year £m	Raised in Year £m	Balance at 30 Sept 2020 £m
PWLB	108.4	(0.1)	50.0	158.3
Barclays	10.0	-	-	10.0
Ex WM County Council	5.6	-	-	5.6
Total Long-Term Borrowing	124.0	49.9	-	173.9

- 4.3 The £50m PWLB loan was an Equal Instalment of Principal (EIP) structure, offering the lowest total financing cost in comparison to other structures available from PWLB. It is linked specifically to service existing capital financing requirements of the Investment Programme.

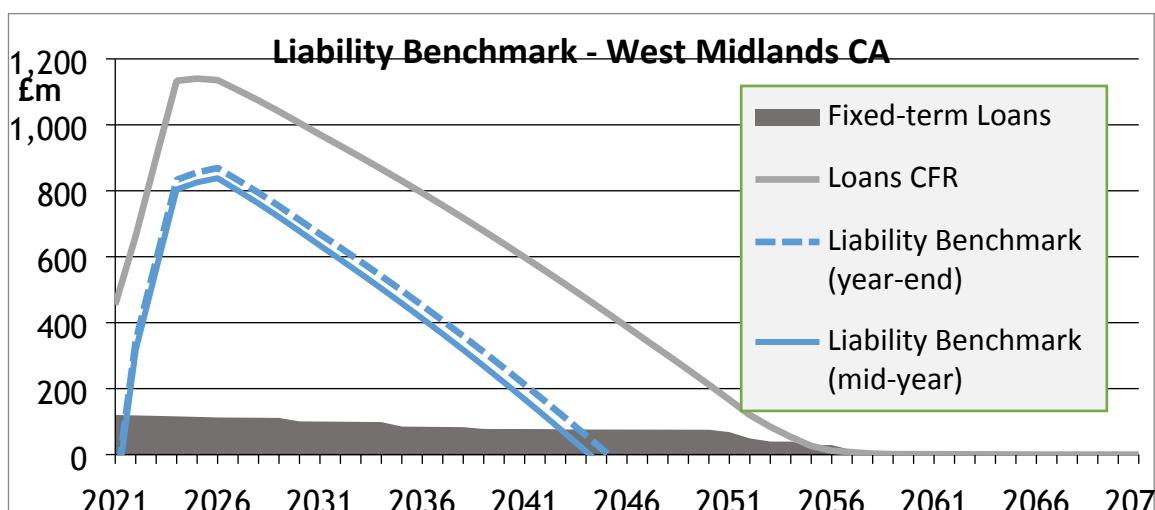
5 Long Term Debt Profile and Liability Benchmark

- 5.1 The chart below outlines the maturity profile of existing WMCA debt. The next significant single maturity will occur in 2025/26 with sporadic maturities from that point onwards. The maturity profile is important for WMCA to monitor refinancing risk – that is, to ensure when new debt is taken out sufficient gaps are maintained between maturities to aid cash planning. It is possible that upon maturing, WMCA will need to re-finance the debt

but these decisions will be taken at the point of maturity, influenced by available cash levels and the prevailing rates of interest at the time.



- 5.2 In consideration of its borrowing strategy WMCA also has regard to its **liability benchmark**. This plots the expected path of its Capital Financing Requirement (CFR or, underlying need to borrow) over time and then overlays with minimum revenue provision (sums set aside for the repayment of debt), cash backed balances and the existing debt profile. The outcome produces a benchmark for new borrowing/refinancing which can be assessed against interest rate forecasts for sensitivity. It is anticipated that the revised Treasury Management Code of Practice (2021) currently undergoing consultation by CIPFA, will mandate the inclusion of the liability benchmark in future treasury management strategies. The chart below shows WMCA's revised benchmark for 2021/22 onwards which is heavily influenced by the borrowing need arising from the WMCA Investment Programme as per the first devolution deal in 2016:



6. Investment Activity

- 6.1 As at the 30th September 2021, all short-term investments have given a return to the Authority of **£0.403m**. All treasury management activities undertaken during the year

complied fully with the Annual Investment Strategy (contained within the Treasury Management Strategy Statement) approved by WMCA Board in February 2021. Investments are placed directly with financial institutions, or using various brokers: IdealTrade.net, ITS, Tradition, Tullet Prebon, Martin Brokers, BGC and King & Shaxson.

- 6.2 Table 3 shows investments held as at the 30 September 2021 totalled £429.6m, split into the following categories:

Class	Principal Outstanding £m	Average Return %
Fixed Term Deposits	320.0	0.10
Money Market Funds	55.0	0.01
Bank Call Accounts	49.6	0.01
Strategic Investments (>364 days)	5.0	3.00
Total Investments	429.6	

A detailed list of all investments is included at Appendix A.

- 6.1 The interest rate environment has been severely depressed since the onset of the pandemic in 2020. Interest for short-term, secure investments have remained marginally above zero. Investments with HMT are currently offering a yield of 0.01% for durations up to 6 months. As such, the total forecast investment income for the second half of 2021/22 remains subdued and is factored into WMCA forecasting and medium-term financial plans.
- 6.2 Within the Annual Investment Strategy set out to Board in February 2021 it was noted that “WMCA will continue to diversify into more secure and/or higher yielding asset classes during 2021/22. This is especially the case for the estimated £10m that is available for longer-term investment to ensure MiFID compliance.” Following evaluation of applicable investment products, WMCA has placed two strategic investments totalling £5m in year with the CCLA Local Authority Property Fund (LAPF) and Fundamentum Social Housing REIT. Dividend yields are c3.5% and c2.5% respectively. The investment horizon for these funds is set at a minimum of five years.

7 Performance measurement and Treasury Indicators

- 7.1 The WMCA treasury management function participates in benchmarking which compares WMCA’s treasury management performance with other Local Authorities, to ensure that relative to other local authorities the Authority is achieving a fair investment return without any undue risk. Performance is also regularly reviewed at the monthly Treasury Management Group.
- 7.2 The Treasury Management Strategy approved by WMCA Board in February agreed a number of Treasury Management Indicators which as at the mid-year point have all been complied with as follows:

Indicator	Target	Status
Credit Risk	A Minus	Green
Liquidity Risk	£20m Minimum	Green
Price Risk	< £10m invested longer than 1 year	Green
Refinancing Risk	Under 1 year 75% Max 1 to 2 Years 50% Max 2 to 5 years 70% Max 5 to 10 Years 70% Max 10 Years and Over 70% Max	Green

- 7.3 In addition to the above, compliance with the debt limit is confirmed. WMCA debt stands at £173.9m following the uptake of a £50m PWLB Local Infrastructure Rate loan during the financial year. For clarity, the published operational and authorised limits for debt are £657m and £697m respectively. WMCA has approval from HMT and MHCLG to borrow for all its functions subject to operating within an agreed debt cap. The cap (set at £1,042m) runs co-terminus with the 5-year gateway review period and will be renegotiated with HMT in the latter half of 2021/22.
- 7.4 In summary, the Section 151 Officer can confirm that all treasury management activities undertaken during the first half year complied fully with the CIPFA Code of Practice and the WMCA Treasury Management Strategy.

8 Borrowing Update

- 8.1 WMCA are closely monitoring external debt markets and developing appropriate debt strategies in light of the need to fund the Investment Programme over the Medium-Term Financial Plan term. The anticipated debt requirement published within the 2021/22 Treasury Management Strategy were as follows:

2021/22 TM Strategy	2021/22 £m	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m
Forecast New Debt	294.0	254.0	115.0	10.0	10.0

- 8.2 Following re-forecasting of the capital programme in 2021/22 and in combination with the significant level of grants received in advance, it is likely that the quantum of debt undertaken in 2021/22 will be lower. Consequently, WMCA will only look to borrow to fulfil the criteria associated with its Local Infrastructure Rate capacity agreed by HMT and where there is a clear and obvious need; affordability and the “cost of carry” remain important influences on WMCA’s borrowing strategy
- 8.3 In November 2020, after consultation with the sector, HM Treasury reversed a prior year rise in the cost of its headline borrowing rate by 1.0% with the caveat that it will not lend to authorities planning to buy investment assets held primarily for yield; WMCA intends to avoid this activity in order to retain its access to PWLB loans.
- 8.4 Market debt alternatives remain available to WMCA; however, the financial strength of individual authorities will be scrutinised by investors and commercial lenders.

8.4 As part of the Chancellor's budget announcement in the Spring, a new UK Infrastructure Bank has been established with c£4bn lending capacity to the local authority sector for projects meeting its mandate criteria. Indicative pricing suggests loans will be available at the same level as those obtained previously by WMCA via the Local Infrastructure Rate. Following an invitation for expressions of interest, WMCA has presented initial business case proposals to the Bank for discussion. This may in turn lead to formal applications subject to criteria and pricing.

9. **Outlook for the remainder of 2021/22 and Medium Term**

9.1 The most recent economic forecast from our independent treasury advisors, Link Group, now includes 3 base rate rises over the medium term: in quarter 2 2022 (to 0.25%) quarter 2 2023 (to 0.50%) and finally quarter 1 2024 to 0.75%.

9.2 Whilst this forecast marks a change from predictions as recently as July, the level and pace of the change is still modest in comparison with recoveries from historical recessions. Minutes from the last MPC meeting suggest there has been a marked change in concern over price inflation, particularly relating to gas and electricity. Nonetheless, it should be remembered that the rate cut to 0.10% at the beginning of the pandemic was an emergency measure and so could be taken away at any time as a signal of a return to normalisation. In addition, any Bank Rate below 1% remains highly unusual and highly supportive of economic growth.

9.3 Upside and downside risks to this forecast can be found in the following:

- Increasing grounds for viewing the post lockdown economic recovery as running out of steam during autumn leading to stagflation;
- Current key supply shortages (petrol/diesel) spill over to causing an economic hit in some sectors;
- Rising utility prices / other price inflation / taxation rises in near term deflate consumer spending power meaning MPC does not have to act;
- Consumers sitting on £200bn pandemic related savings – when will this be spent?
- End of furlough scheme mitigates labour shortages and acts to deflate current wage spiral;
- Return of COVID lockdown measures / impact of more aggressive winter flu season

9.4 In summary, forecasts are subject to volatility because of the high level of uncertainty on many fronts and may be subject to change again before the end of the financial year.

Appendix A

Investments held as at 30 September 2021

Type	Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
Fixed	16/12/20	15/12/21	West Dunbartonshire Council	0.2700%	-5,000,000.00
Fixed	06/04/21	25/11/21	North East Lincolnshire Council	0.2000%	-5,000,000.00
Fixed	16/07/21	15/07/22	Rotherham Metropolitan Borough Council	0.2500%	-10,000,000.00
Fixed	06/01/21	06/10/21	Aberdeen City Council	0.1200%	-5,000,000.00
Fixed	22/01/21	22/11/21	East Dunbartonshire Council	0.1100%	-5,000,000.00
Fixed	12/01/21	13/12/21	Aberdeenshire Council	0.1700%	-5,000,000.00
Fixed	14/05/21	14/02/22	Cherwell District Council	0.1000%	-10,000,000.00
Fixed	01/04/21	30/11/21	Gloucester City Council	0.1000%	-7,800,000.00
Fixed	14/05/21	14/02/22	Isle of Wight Council	0.1000%	-5,000,000.00
Fixed	21/05/21	22/11/21	Monmouthshire County Council	0.0700%	-5,000,000.00
Fixed	21/05/21	21/01/22	Guildford Borough Council	0.0700%	-10,000,000.00
Fixed	29/04/21	06/01/22	Slough Borough Council	0.0900%	-5,000,000.00
Fixed	28/05/21	28/02/22	Aberdeen City Council	0.1000%	-5,000,000.00
Fixed	04/05/21	04/11/21	Eastleigh Borough Council	0.0500%	-5,000,000.00
Fixed	16/04/21	18/10/21	Eastleigh Borough Council	0.0500%	-5,000,000.00
Fixed	20/04/21	20/01/22	Lancashire Police and Crime Commissioner	0.1000%	-10,000,000.00
Fixed	19/04/21	19/01/22	Monmouthshire County Council	0.0700%	-5,000,000.00
Fixed	28/05/21	30/11/21	Blaenau Gwent County Borough Council	0.0400%	-5,000,000.00
Fixed	28/04/21	28/01/22	Surrey County Council	0.1000%	-5,000,000.00
Fixed	29/04/21	28/01/22	Blackpool Council	0.0700%	-5,000,000.00
Fixed	19/05/21	19/01/22	Wokingham Borough Council	0.0600%	-10,000,000.00
Fixed	24/05/21	23/12/21	Cornwall Council	0.0500%	-10,000,000.00
Fixed	08/04/21	08/10/21	Isle of Wight Council	0.0500%	-5,000,000.00
Fixed	05/05/21	05/11/21	Surrey County Council	0.0500%	-5,000,000.00
Fixed	21/05/21	21/01/22	Eastbourne Borough Council	0.0700%	-10,000,000.00
Fixed	21/04/21	21/10/21	Telford and Wrekin Borough Council	0.0600%	-5,000,000.00
Fixed	06/04/21	06/10/21	London Borough of Islington	0.0600%	-10,000,000.00
Fixed	14/09/21	13/09/22	Uttlesford District Council	0.2000%	-10,000,000.00
Fixed	28/05/21	29/10/21	Kingston upon Hull City Council	0.0600%	-5,000,000.00
Fixed	19/04/21	19/10/21	Ashford Borough Council	0.0600%	-5,000,000.00
Fixed	21/04/21	21/10/21	Watford Borough Council	0.0600%	-10,000,000.00
Fixed	22/04/21	22/10/21	Ashford Borough Council	0.0600%	-5,000,000.00
Fixed	30/04/21	29/10/21	Kingston upon Hull City Council	0.0600%	-5,000,000.00
Fixed	30/04/21	29/10/21	Places for People	0.5000%	-5,000,000.00
Fixed	31/03/21	29/10/21	West Dunbartonshire Council	0.0600%	-5,000,000.00
Fixed	31/03/21	07/01/22	Brentwood Borough Council	0.1000%	-10,000,000.00
Fixed	31/03/21	31/12/21	Liverpool City Council	0.0700%	-10,000,000.00
Fixed	31/08/21	28/02/22	London Borough of Croydon	0.2000%	-10,000,000.00
Fixed	23/04/21	25/10/21	South Staffordshire Council	0.0300%	-3,000,000.00
Fixed	18/05/21	05/11/21	Aberdeenshire Council	0.0300%	-5,000,000.00
Fixed	20/05/21	20/01/22	Blaenau Gwent County Borough Council	0.0700%	-5,000,000.00
Fixed	21/07/21	21/10/21	Cheshire East Council	0.0200%	-5,000,000.00
Fixed	20/08/21	22/11/21	Cheshire East Council	0.0200%	-5,000,000.00
Fixed	31/08/21	30/08/22	Plymouth City Council	0.0600%	-5,000,000.00

Fixed	20/09/21	20/09/22	Rushmoor Borough Council	0.1000%	-5,000,000.00
Fixed	31/08/21	30/08/22	Blackpool Council	0.0600%	-5,000,000.00
Fixed	31/08/21	30/08/22	Stockport Metropolitan Borough Council	0.0600%	-10,000,000.00
Fixed	18/08/21	19/10/21	Wirral Metropolitan Borough Council	0.0200%	-5,000,000.00
Fixed	06/09/21	06/06/22	Canterbury City Council	0.0500%	-5,000,000.00
Fixed	30/09/21	31/03/22	Epping Forest District Council	0.1000%	-5,000,000.00
				0.0962%	-320,800,000.00
Call	24/09/21		HSBC Bank plc	0.0100%	-14,600,000.00
Call	22/05/20		Santander UK plc	0.0200%	-20,000,000.00
Call	29/10/20		Lloyds Bank plc	0.0100%	-15,000,000.00
				0.0140%	-49,600,000.00
MMF	16/04/20		CCLA The Public Sector Deposit 4	0.0228%	-20,000,000.00
MMF	16/11/20		Federated Prime Rate Sterling Liquidity 3	0.0100%	-20,000,000.00
MMF	16/11/20		HSBC Global Liquidity Sterling G	0.0100%	-15,000,000.00
				0.0147%	-55,000,000.00
VNAV Fund	22/06/21		Fundamentum Social Housing REIT	2.5000%	-2,500,000.00
VNAV Fund	28/05/21		CCLA Local Authorities Property Fund	3.5000%	-2,500,000.00
				3.0000%	-5,000,000.00
					-429,600,000.00