


Decision maker and date of Leadership Team meeting or (in the case of individual Lead Member or Executive Director decisions) the earliest date the decision will be taken	Leadership Team - 8 December 2021 Forward Plan ref: KD05950	 THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA
Report title	Annual Treasury Strategy Mid-Year Review 2021-22	
Reporting officer	Mike Curtis, Executive Director of Resources	
Key decision	Yes	
Access to information classification	Public	
Wards	All	

1. Executive Summary

- 1.1 This is the Treasury Management Monitoring Report for the period to 30 September 2021.
- 1.2 The purpose of this Report is to present the Council's treasury management activity to 30 September 2021 (Q2).
- 1.3 The treasury management activity report covers:
 - The economic background
 - Treasury position as at 30 September 2021
 - The Treasury Management Strategy for 2021/22
 - Treasury borrowing
 - Capital expenditure and borrowing limits
 - Compliance with treasury limits

2. Recommendations

- 2.1 That Leadership Team recommends to Full Council that the Treasury Management Strategy Mid-Year Review 2021/22 is approved and adopted.

3. Reason for decision

- 3.1 The Council's treasury management practices require a report to be made to the Lead Member for Finance and Customer Delivery and to the Audit and Transparency Committee. The latter is the body identified as being responsible for the scrutiny of treasury management. The report must also be presented to the Leadership Team for endorsement and referral to Full Council for decision.

4. External Context

Economic Background

- 4.1 The Bank of England (BoE) Monetary Policy Committee held the Bank Rate at 0.1% throughout the reporting period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 MPC meeting. In its September 2021 policy announcement, the BoE noted that it now expects the UK economy to grow at a slower pace than was predicted in August 2021, as the pace of the global recovery had shown signs of slowing and there were concerns that inflationary pressures may be more persistent.
- 4.2 Government initiatives continued to support the economy, but these came to an end on 30 September 2021. The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%.
- 4.3 Annual CPI inflation rose by 3.1% in the 12 months to September 2021, with a large upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4.0% by the end of the calendar year, owing largely to developments in energy and goods prices.
- 4.4 The easing of Covid restrictions boosted economic activity in the second quarter of the calendar year, helping push GDP up by 5.5% quarter on quarter. Bank expectations for GDP growth for the third (calendar) quarter have been revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions.

Financial Market

- 4.5 Monetary and fiscal stimulus, together with rising economic growth and the ongoing vaccine rollout programmes, continued to support equity markets over most of the period, albeit with increased volatility.
- 4.6 Inflation worries continued during the period. Declining bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, than was previously thought.
- 4.7 The five-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September 2021. Over the same period the ten-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.
- 4.8 The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

4.9 Long-term borrowing rates rose materially in September 2021. The rate forecasts for the period to September 2023 show that 20-year PWLB rates could vary between 2.10% and 2.20%.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23
Bank Rate	0.10%	0.10%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%
5 yr PWLB Rate	1.45%	1.45%	1.45%	1.45%	1.45%	1.40%	1.40%	1.40%
10 yr PWLB Rate	1.85%	1.85%	1.85%	1.85%	1.85%	1.85%	1.80%	1.75%
20 yr PWLB Rate	2.20%	2.20%	2.20%	2.20%	2.15%	2.15%	2.10%	2.10%
50 yr PWLB Rate	2.10%	2.10%	2.10%	2.10%	2.05%	2.05%	2.00%	2.00%

The table above is for PWLB Certainty Rates for non-HRA borrowing (currently gilt yield plus 80 basis points).

Credit Review

4.10 Credit default swap spreads were flat over most of the period and are broadly in line with their pre-pandemic levels.

4.11 The institutions and durations on the council’s counterparty list, recommended by treasury management advisor, Arlingclose, remain under constant review.

5. Treasury Position as at 30 September 2021

5.1 The Council's debt and investment positions as at 31 March 2021 and 30 September 2021 were as follows:

£m	Principal	Rate	Principal	Rate
	30-Sep-21 £m	30-Sep-21	31-Mar-21 £m	31-Mar-21
Fixed Rate Borrowing				
Public Works Loan Board	244.24	3.58%	252.25	3.77%
Total Weighted Average	244.24	3.58%	252.25	3.77%
Investments				
Fixed Term Deposits	45.00	0.10%	72.50	0.23%
Call -95 days notice	20.00	0.05%	10.00	0.05%
Money Market Funds	107.15	0.04%	78.07	0.08%
Total Weighted Average	172.15	0.05%	160.57	0.15%
Net Cash Balance	-72.09		-91.68	

5.2 The following table shows a summary of how the portfolio was invested as of 30 September 2021:

Counterparty Name	Investment Type	Amount £m	Percentage of Total Investment	Weighted Average Rate
Banks	Fixed Deposit	35.00	20.33%	0.06%
Banks	Call - 95 days' notice	20.00	11.62%	0.05%
Other Local Authorities	Fixed Deposit	10.00	5.81%	0.23%
Money Market Funds	MMF	107.15	62.24%	0.04%
Total		172.15	100.00%	0.05%

5.3 **Appendix B** shows the volume and value of investments made with approved lending list counterparties.

6. Treasury Management Strategy for 2021/22

6.1 The Treasury Management Strategy Statement (TMSS) for 2021/22, approved by the Council on 10 February 2021, was based on the expectation that the bank base rate would remain at 10 basis points for a period until economic growth recovers to the pre-pandemic level.

- 6.2 The Council has continued with its strategy, especially since the COVID-19 outset, to keep investments short-term and invest with only highly rated or UK Government backed institutions, resulting in capital preservation.
- 6.3 Benchmark rates remained flat during first half year of 2021/22, with the Council's returns comfortably exceeding the Average Seven-Day Rate. The following table shows the weekly average of the Council's performance against the Seven-Day London Interbank Bid (LIBID) rate.

Period	Average Balance £m	Weighted Average Rate	Average 7-Day Rate
To Jun-21	183.24	0.09%	-0.08%
To Sep-21	180.59	0.08%	-0.08%
Average	181.91	0.08%	-0.08%

- 6.4 The Council's budgeted investment income for the year on external investments is £130,000. Investment income achieved for the year to 30 September 2021 is £70,000, with an additional £70,000 interest projected for the year 2021/22, totalling £140,000. The Council is also investing funds with an external UK gilts/bonds investment manager which should result in additional earnings.
- 6.5 While most local authority counterparties are not independently credit rated, they are considered to offer very high security and liquidity. No UK local authority or joint authority has ever defaulted on a loan repayment. Under section 13 of the Local Government Act 2003, 'all money borrowed by a local authority, together with any interest on money borrowed, shall be charged indifferently on all the revenues of the authority'.
- 6.6 This means that any loan which is not paid back on the due date becomes a charge on future revenues until such time as it is discharged in full. The Council, along with its Tri-Borough authorities, operates a rating methodology for determining the financial robustness and resilience of the authorities to which it will lend. This is reviewed on a regular basis.
- 6.7 The level of cash equivalents and deposit balances held by the Council was £172.15m as at 30 September 2021.
- 6.8 As a footnote to the above commentary, on 4 November 2021, the BoE MPC voted 7-2 to maintain the official Bank Rate at 0.1% and also voted unanimously to maintain the corporate bond purchase at £20bn. The MPC also voted by a majority of 6-3 to maintain the UK government bond purchases at £875bn, leaving the total target stock of asset purchases at £895bn.

7. Treasury Borrowing

- 7.1 The Council has an increasing capital financing requirement (CFR). Officers will continue to monitor long-term interest rates for future suitable borrowing opportunities. Long-term borrowing rates have been stable. The council plans to use its internal cash resources to support the HRA's projects.

- 7.2 Following the implementation of the self-financing initiative, the HRA has continued to be partly funded, using the Council's general fund cash reserves. The HRA has paid interest to the general fund for the use of this money. This is charged, based on PWLB three-month variable rates, and will decrease as HRA internal borrowing decreases.
- 7.3 It is not anticipated that the Council will undertake external borrowing in the near future from the PWLB to fund its capital programme.

8. Capital Expenditure and Borrowing Limits

- 8.1 The total original budget figure for capital expenditure in 2021/22 is £276.7m. At Q2, an actual spend of £101.0m was recorded and budgets were updated according to the current revised plan of £191.0m. An update on Quarter 2 will be reported to Leadership meeting.

9. Compliance with Treasury Limits

- 9.1 During the financial year, the Council operated within the set treasury limits. The detailed outturn for Treasury Management Prudential Indicators is shown in **Appendix A**.
- 9.2 Other non-Treasury related Prudential Indicators are set and monitored as part of the Council's Budget process.

Mike Curtis
Executive Director of Resources

Background papers:

- CIPFA Code of Practice on Treasury Management for the Public Sector
- MHCLG Guidance on Local Government Investments

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APPENDIX A

**RBKC
TREASURY MANAGEMENT PRUDENTIAL INDICATORS
2021/22**

Indicator	Approved Limit £m	Actual Debt at 30 September 2021 £m	No. of days Limit Exceeded
Authorised Limit ¹	415.0	244.2	None
Operational Boundary ²	395.0	244.2	None
Interest Rate Exposure	Lower Limit	Upper Limit	Actual at of 30 September 2021
Fixed Rate Debt	0%	100% of total debt	100% total debt
Variable Rate Debt	0%	50% of total debt	0
Maturity Structure of Borrowing	Lower Limit	Upper Limit	Actual at of 30 September 2021
Under 1 year	0%	30%	4.10%
1 year to 2 years	0%	30%	2.05%
2 years to 5 years	0%	30%	9.31%
5 years to 10 years	0%	60%	10.45%
Over 10 years	0%	100%	74.09%

¹ The Authorised Limit is the maximum requirement for borrowing taking into account maturing debt, capital programme financing requirements and the ability to borrow in advance of need for up to two years ahead.

² The Operational Boundary is the expected normal upper requirement for borrowing in the year.

Principal Outstanding

Royal Borough of Kensington and Chelsea (Accounts: GENERAL FUND, HRA)

As at 30
September
2021

Start / Purchase Date	Maturity Date	Counterparty	Rate	Principal O/S (£)
05/01/21	04/01/22	Derbyshire County Council	0.2500%	5,000,000.00
27/11/20	26/11/21	North Lanarkshire Council	0.2100%	5,000,000.00

Local Authorities Total **10,000,000.00**

17/05/21	17/11/21	National Bank of Canada	0.0900%	10,000,000.00
21/09/21	26/10/21	Santander UK plc	0.0100%	10,000,000.00
30/09/21	04/11/21	DBS Bank Ltd	0.0700%	15,000,000.00

Banks Total **35,000,000.00**

13/11/20		Standard Chartered Bank	0.0493%	10,000,000.00
16/06/21		Lloyds Bank plc	0.0500%	10,000,000.00

Banks Notice Account Total **20,000,000.00**

22/12/17		Federated Prime Rate Sterling Liquidity 3	0.0100%	29,050,000.00
02/01/18		JPM Liq Sterling Liquidity Institutional Dis NAV GBP	0.1100%	30,000,000.00
18/04/19		Aberdeen Sterling Fund Flexible Income F130 Fund	0.0100%	18,100,000.00
24/05/19		BNP Paribas InstiCash GBP I Dis GBP	0.0105%	30,000,000.00

MMF Total **107,150,000.00**

Deposit Total **172,150,000.00**