Annual Treasury Management Review
2021/22

Contents

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Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 11/02/2021)
- a mid-year, (minimum), treasury update report (Council 21/12/2021)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, Cabinet and the Finance, Audit and Risk (FAR) Committee have received quarterly treasury management update reports.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Finance, Audit and Risk Committee before they were reported to the full Council.

Executive Summary

During 2021/22, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	31.3.21 Actual £m	2021/22 Budget £m	31.3.22 Actual £m
Capital expenditure	1.883	14.718	1.434
Capital Financing Requirement:	-5.255	5.100	-4.608
Gross borrowing	0.405	5.248	0.387
External debt	0.405	5.248	0.387
Investments	42.500	24.181	57.500
Net borrowing	-42.905	-18.933	-57.113

Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;

1. The Council's Capital Expenditure and Financing

The Council incurs capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m General Fund	31.3.21 Actual	2021/22 Budget	31.3.22 Actual
Capital expenditure	**1.833**	**2.424**	**1.434**
Financed in year	1.466	1.377	0.787
Unfinanced capital expenditure	**0.417**	**1.047**	**0.647**

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

CFR (£m): General Fund	31.3.21 Actual	2021/22 Budget	31.3.22 Actual
Opening balance	-5.672	-5.255*	-5.255
Add unfinanced capital expenditure (as above)	0.417	10.355	0.647
Closing balance	-5.255	5.100	**-4.608**

*The 21/22 Original Budget was prepared before the final outturn figures for 20/21 were complete. The Actual figure is considerably less due to the removal from the capital programme of the £20M Acquisition of Property Investments capital scheme and slippage on the Capital Programme in 21/22 resulting in less expenditure to finance.

The negative closing balances mean that the Council does not have a need to borrow.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator as all borrowing is historic and it is not economical to repay it.

	31.3.21 Actual £m	2021/22 Budget £m	31.3.22 Actual £m
Gross borrowing position	0.405	5.248	0.387
CFR	-5.255	5.100	-4.608

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2021/22 £m
Authorised limit	9.000
Maximum gross borrowing position during the year	0.405
Operational boundary	3.200
Average gross borrowing position	0.397
Financing costs as a proportion of net revenue stream	-0.21%

3. Treasury Position as at 31st March 2022

The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2021/22 the Council's treasury position was as follows:

DEBT PORTFOLIO £m	31.3.21 Principal	Rate/ Return	31.3.22 Principal	Rate/ Return
Fixed rate funding:				
-PWLB	0.405	9.96%	0.387	10.11%
-Market	0		0	
Variable rate funding:				
-PWLB	0		0	
-Market	0		0	
Total debt	**0.405**	**9.96%**	**0.387**	**10.11%**
CFR	**-5.255**		**-4.608**	
Over / (under) borrowing	**5.660**		**4.995**	
Total investments	**42.5**	**0.41%**	**57.5**	**0.33%**
Net debt	**-42.095**		**-57.113**	

The maturity structure of the debt portfolio was as follows:

£'000	31.3.21 Actual	31.3.22 actual
Under 12 months	18	19
12 months and within 24 months	19	21
24 months and within 5 years	63	57
5 years and within 10 years	55	40
10 years and above	250	250

INVESTMENT PORTFOLIO	31.3.21 Actual £m	31.3.21 Actual %	31.3.22 Actual £m	31.3.22 Actual %
Treasury investments				
Banks	0	0	6.0	10
Building Societies - rated	6.0	14	4.0	7
Building Societies – unrated	4.5	11	1.5	3
Local authorities	20.0	47	25.0	43
DMADF (H M Treasury)	12.0	28	21.0	37
TOTAL TREASURY INVESTMENTS	42.5	100%	57.5	100%

The above excludes the balance held in the Council's current account. At 31st March 2022 this were £2m.

The maturity structure of the investment portfolio was as follows:

	31.3.21 Actual £m	31.3.22 Actual £m
Investments Longer than 1 Year	0	0
Investments Up to1 Year	42.5	57.5

The increase in cash balances as at the end of 2021/22 (compared with 2020/21) is partly due to the balances that the Council was holding in relation to the Council Tax Rebate Grant.

4. The Strategy for 2021/22

The strategy in 2021/22 was to continue lending to UK banks, building societies, money market funds and Local Authorities and allow investments with non-UK banks with a credit rating greater than AA- with a AAA Country rating. Only UK banks that met credit rating criteria (“BBB” or above for longer term deals, and F3 or above for short term deals) were on the Council’s lending list. (These are Fitch definitions of ratings). Not all building societies are credit rated but this did not preclude them from the lending list as lending to a building society was dependant on their asset size. Where a society did have a rating, this was considered at the time of the deal taking into account the amount of investment and the length of the deal.

4.1 Investment strategy and control of interest rate risk

Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessary.

The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the calendar year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

4.2 Borrowing strategy and control of interest rate risk

The policy of avoiding new borrowing by running down spare cash balances which has served well over the last few years continued during 21/22.

5. Borrowing Outturn

Borrowing
No new borrowing was undertaken during the year.

Borrowing in advance of need
The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Rescheduling
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Repayments
£18K of PWLB loans were repaid during the year, as they became due.

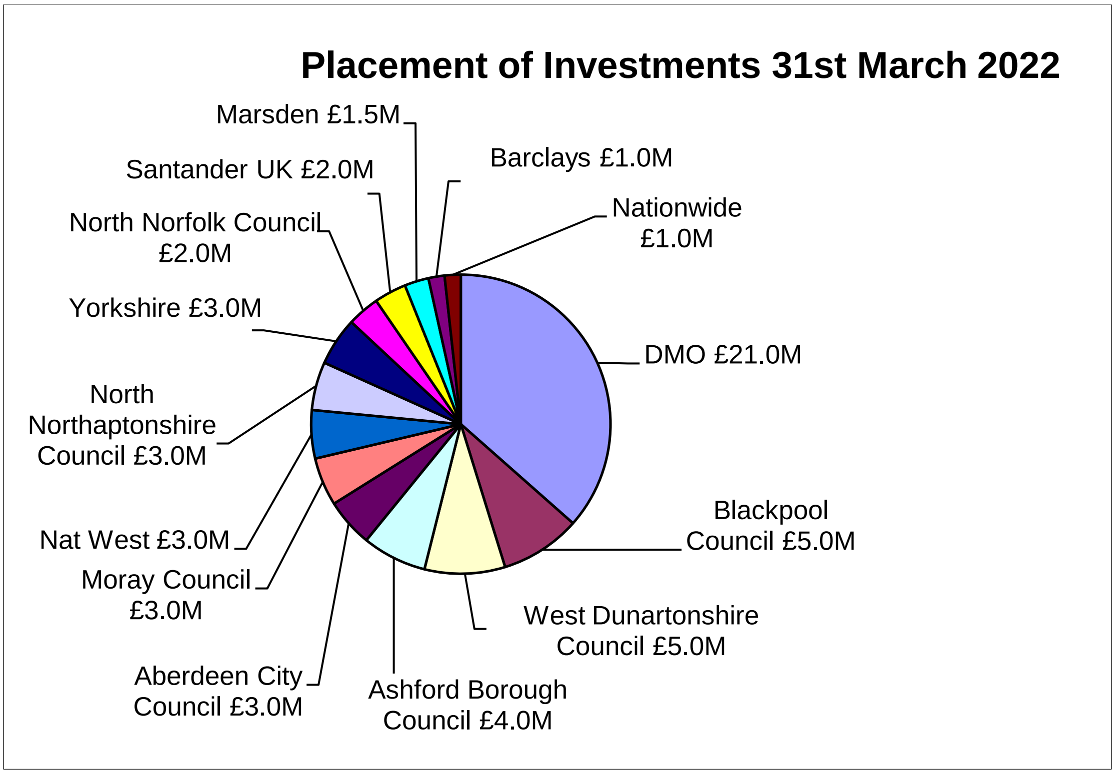
6. Investment Outturn

Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 11/02/21. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the Fitch credit rating agency for banks and asset size for building societies.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. However, the £5M limit on the Council's Current Account was exceeded on 9th December for one day. The balance was £15M. This happened because the whole of the Council's IT systems were down for the majority of the day. When the systems were operational in the afternoon, the cut off times for placing investments had passed. As we thought that the unavailability would only be for a short period, we did not look at alternative options for moving the funds.

Investments placed by Cash Managers – the Council used an external cash manager to invest some of its longer term cash balances, where the rate achieved (after fees) was better than could be obtained by the Council directly. At the start of the year, Tradition had £4.5m of outstanding investments. This reduced to £3.5m by the end of the year. These investments generated £10.3K of interest.

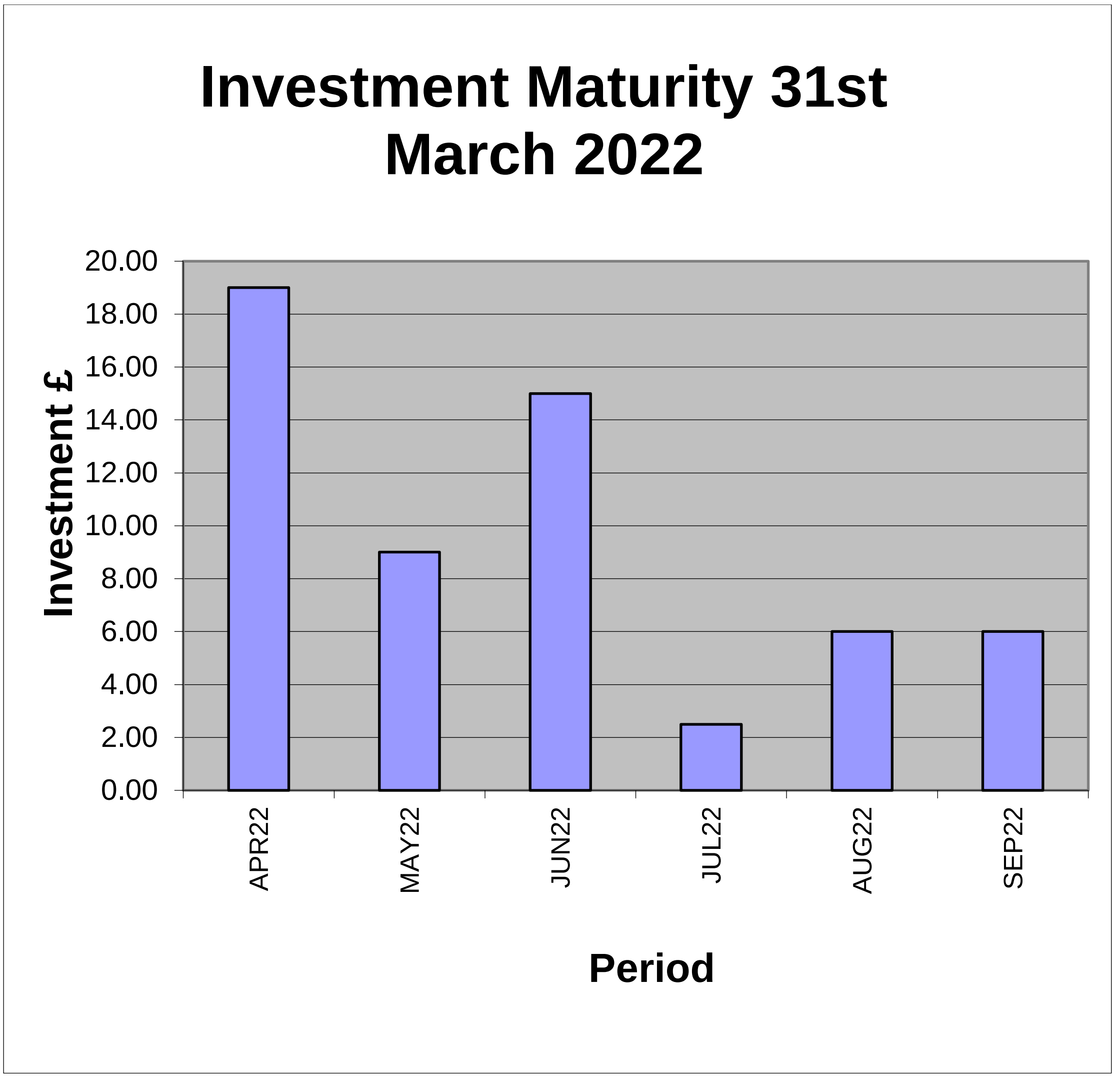
The pie chart below shows the spread of investment balances as at 31 March 2022. This is a snapshot in time that demonstrates the diversification of investments.



The average daily balance of investments was £60.9m with balances varying between £45.5m and £76.0m.

£0.075m of interest was generated from investments during the year. This is slightly more than the estimated interest of £0.066m (as per Quarter 3 forecast).

The graph below shows the maturity profile of investments at 31st March 2022.



The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31 March. The most risky investment still has a risk of default of only around 0.04%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if it took on less risk. All investments have been made in accordance with the Investment Strategy.

Borrower	Interest Rate %	Principal	Days to Maturity from 31/03/22	Historic Risk of Default %	Risk of Default %
DMO	0.55	3,000,000	3	0.02	0.000
DMO	0.55	4,000,000	5	0.02	0.000
DMO	0.55	6,000,000	5	0.02	0.000
DMO	0.205	1,000,000	18	0.02	0.001
DMO	0.465	3,000,000	18	0.02	0.001
BARCLAYS	0.29	1,000,000	27	0.05	0.004
SANTANDER UK	0.34	1,000,000	28	0.05	0.004
ABERDEEN CITY COUNCIL	0.26	3,000,000	48	0.02	0.003
DMO	0.495	4,000,000	48	0.02	0.003
NAT WEST	0.46	2,000,000	60	0.05	0.008
YORKSHIRE BUILDING SOCIETY	0.22	3,000,000	61	0.05	0.008
WEST DUNBARTONSHIRE COUNCIL	0.05	5,000,000	77	0.02	0.005
ASHFORD BOROUGH COUNCIL	0.48	4,000,000	80	0.02	0.005
NORTH NORTHAMPTONSHIRE COUNCIL	0.60	3,000,000	80	0.02	0.005
MARSDEN BUILDING SOCIETY	0.25	1,500,000	101	0.14	0.039
NATIONWIDE BUILDING SOCIETY	0.24	1,000,000	109	0.05	0.014
SANTANDER UK	1.00	1,000,000	139	0.05	0.018
MORAY COUNCIL	0.2	3,000,000	143	0.02	0.009
NORTH NORFOLK COUNCIL	0.95	2,000,000	152	0.02	0.010
BLACKPOOL COUNCIL	0.35	5,000,000	164	0.02	0.010
NAT WEST	0.39	1,000,000	167	0.05	0.021