Cabinet

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Report for:	Cabinet
Title of report:	Treasury Management Outturn and Performance Indicators 2021/22
Date:	18/10/2022
Report on behalf of:	Cllr Graeme Elliot, Portfolio Holder for Corporate Services
Part:	I
If Part II, reason:	N/A
Appendices:	
Background papers:	Cabinet 9 February 2021 – Treasury Management Strategy (Appendix K to Budget 2021/22 Report)
Glossary of acronyms and any other abbreviations used in this report:	CIPFA-The Chartered Institute of Public Finance and Accountancy MPC- Bank of England Monetary Policy Committee CFR- Capital Financing Requirement

Report Author / Responsible Officer

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Corporate Priorities	A clean, safe and enjoyable environment Building strong and vibrant communities Ensuring economic growth and prosperity Providing good quality affordable homes, in particular for those most in need

	Ensuring efficient, effective and modern service delivery Climate and ecological emergency
Wards affected	All
Purpose of the report:	1. To report upon the outturn performance for treasury management in 2021/22.
Recommendation (s) to the decision maker (s):	1. That Cabinet recommends to Council acceptance of the report on Treasury Management performance in 2021/22 and the Prudential Indicators for 2021/22.
Period for post policy/project review:	Period post policy review not applicable.

1 Introduction/Background:

The 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 in the Public Services (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities.

For 2021/22, the minimum reporting requirements were that Full Council should receive the following reports:

- an annual Treasury Management Strategy Statement in advance of the year;
- a mid-year Treasury Management update report;
- an annual review following the end of the year describing the activity compared to the strategy (this report).

This report provides the outturn position for the Council's treasury activities and highlights compliance with policies previously approved by Members.

2 Key Issues/proposals/main body of the report:

<u>The Economy and Interest Rates</u>

2.1 Over the last two years, the coronavirus outbreak has caused significant economic damage to the UK and to economies around the world. After the Bank of England monetary policy (MPC) took emergency action in March 2020 to cut the Bank Rate to 0.10%, it remained unchanged until December 2021 when it was raised to 0.25%, then to 0.50% in February 2022, and to 0.75% in March 2022. The UK economy has now opened up and the MPC is focussed on tackling inflation caused by utility prices, labour and supply shortages and the impact of Russia's invasion of Ukraine.

2.2 To help businesses recover from the pandemic, the Bank of England and the Government maintained various monetary and fiscal measures. The Government also provided financial support 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 end of 2021/22 when inflation concerns led the Bank of England and central banks around the world to increase interest rates.

<u>Treasury Position as at 31 March 2022</u>

2.3 The Council's underlying need to borrow to finance 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.

2.4 The Council's CFR was £345.1m at the end of the year. This includes the borrowing from the Public Works Loan Board following the introduction of HRA Self-Financing and borrowing taken in 2015/16 for General Fund capital expenditure. HRA self-financing involved the transfer of national housing debt from central government to local authorities with HRA responsibilities. No rescheduling of debt or new loans were undertaken during the year.

2.5 The table below shows an increase in balances available for investment as at 31 March 2022 compared to as at 31 March 2021 due to the Government providing significant levels of grant payments to the Council during 2021/22 relating to the Covid pandemic.

	31-Mar-21	*Rate/ Return*	**Average Life**	**31-Mar-22**	*Rate/ Return*	**Average Life**
HRA and GF COMBINED	**£m**	*%*	**Years**	**£m**	*%*	**Years**
Capital Financing Requirement	348.9			345.1		
Total external debt*	353.7			349.9		
Total investments	112.5	*0.25*	0.29	139.1	*0.11*	0.41
Net external debt	241.2			210.8		

*including finance lease obligations

General Fund

2.6 The General Fund CFR (its need to borrow) was £12.6m at 31 March 2022. The General Fund has borrowed in advance of need £4.8m. This borrowing has utilised the lower interest rates that have been available in recent years and will be used to fund the ongoing capital programme expenditure.

	31-Mar-21	*Rate/ Return*	**Average Life**	**31-Mar-22**	*Rate/ Return*	**Average Life**
GENERAL FUND (GF)	**£m**	*%*	**Years**	**£m**	*%*	**Years**
Total external debt	17.6	*3.15%*	20	17.2	*3.16%*	19
Finance leases	0.2			0.2		
Capital Financing Requirement	12.9			12.6		
Over / (under) borrowing	**4.8**			**4.8**		

Housing Revenue Account

2.7 The HRA's CFR and external borrowing is £332.4m at 31 March 2022. During 2021/22 £3.5m of external borrowing was repaid in year.

HOUSING REVENUE ACCOUNT (HRA)	**31-Mar-21**	*Rate/ Return*	**Average Life**	**31-Mar-22**	*Rate/ Return*	**Average Life**
	£m	*%*	**Years**	**£m**	*%*	**Years**
Total external debt	335.9	*3.39%*	16	332.4	*3.40%*	15

Capital Financing Requirement	335.9			332.4		
Over / (under) borrowing	**0.0**			**0**		

Investment Outturn

2.8 The Council's 2021/22 investment policy is governed by DLUHC investment guidance, and is contained in its Treasury Management Strategy approved by Council in February 2021, which sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc) provided by Link Asset Services, the Council's treasury management advisors.

2.9 The Council maintained an average balance of £141.8m of internally managed funds throughout 2021/22, earning an average rate of return of 0.11% compared with the previous year of 0.25%. The reduction in return between years is attributable to interest rate reductions described in 2.2.

2.10 The weighted average maturity for investments held by the Council at 31 March 2022 was 79 days. (81 days at 31st March 2021).

2.11 Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Prudential and Treasury Indicators

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

Actual prudential and treasury indicators	**2020/21 Actual**	**2021/22 Original Budget Estimate**	**2021/22 Actual**
	£'000	**£'000**	**£'000**
Capital expenditure			
· General Fund	9,373	9,490	8,248
· HRA	17,027	41,360	17,400
· **Total**	**26,400**	**50,850**	**25,648**
Capital Financing Requirement:			
· General Fund	12,945	18,571	12,603
· HRA	335,928	332,448	332,448
· **Total**	**348,873**	**351,019**	**345,051**
External debt excluding finance leases	**353,502**	**349,680**	**349,680**
Investments- balance at year end			
· Longer than 1 year	0	0	0
· Under 1 year	112,467	72,191	139,090
· Total	**112,467**	**72,191**	**139,090**

2.13 In order to ensure borrowing levels are prudent over the medium term, Local Authority external borrowing can only be for capital purposes, i.e. it cannot be used to support revenue expenditure. Gross borrowing should not, except in the short term, exceed its CFR i.e. the Council's need to borrow. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. As explained in 2.6, the advance borrowing on the General Fund is due to taking advantage of historically low interest rates and the impact of slippage in the capital programme.

2.14 The **Authorised Limit** - the authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. During 2021/22, the Council has maintained gross borrowing within its authorised limit.

2.15 The **Operational Boundary** – the operational boundary reflects the current borrowing position with an allowance for additional borrowing for cash flow purposes during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2021/22
Authorised limit	£410.00m
Operational boundary	£353.69m

2.16 **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.

Ratio of financing costs to net revenue stream	**31-Mar-21 Actual**	**2021/22 Original Limits**	**31-Mar-22 Actual**
General Fund	1.11%	0.84%	0.83%
HRA	20.78%	20.20%	19.32%

2.17 The decrease on HRA and General Fund ratio since the original estimate reflects higher interest rates than assumed in the original estimate, and therefore higher interest received.

2.18 The following table shows the **net debt position for the Council**. There has been no material change in debt year on year but the net debt has decreased by £30m due to an increase in investments held as at 31 March 2022. Cash balances were higher at this date than at 31 March 2021 due to additional Government grant funding received during 2021/22.

	31 March 2021	*Rate/ Return*	**Average Life**	**31 March 2022**	*Rate/ Return*	**Average Life**
Fixed rate funding:	**£m**	*%*	**Years**	**£m**	*%*	**Years**
PWLB and Finance Leases	353.7	*3.38%*	16	349.9	*3.39%*	15
Total external debt	**353.7**	*3.38%*	**16**	**349.9**	*3.39%*	**15**
CFR	**348.9**			**345.1**		
Over/ (under) borrowing	**4.8**			**4.8**		
Total investments	**112.5**	*0.25*	**0.29**	**139.1**	*0.11*	**0.41**
Net debt	**241.2**			**210.8**		

2.19 The following table shows the **maturity structure of the debt portfolio:**

	31-Mar-21 actual	31-Mar-22 actual
Under 12 months	£3.9m	£1.8m
12 months and within 24 months	£1.7m	£2.6m
24 months and within 5 years	£11.1m	£14.4m
5 years and within 10 years	£35.7m	£40.7m
10 years and above	£301.2m	£290.2m

3 Options and alternatives considered

None. An annual treasury management review is a statutory requirement.

4 Consultation

The Council has liaised with Link Asset Services, its Treasury advisors.

5 Financial and value for money implications:

In accordance with the CIPFA Treasury Management in the Public Services Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector**.**

6 Legal Implications:

There are no direct legal implications arising from this report.

7 Risk implications:

A prudent approach to investment is required to minimise the risk to the Council of investment losses, as outlined in the Council's Treasury Management Strategy 2021/22. This report provides an update on the delivery of that strategy.

8 Equalities, Community Impact and Human Rights:

A Community Impact Assessment is not required. There are no Human Rights Implications.

9 Sustainability implications (including climate change, health and wellbeing, community safety):

Not applicable

10 Council infrastructure (including Health and Safety, HR/OD, assets and other resources):

Not applicable

11 Statutory Comments

Monitoring Officer:

No comments to add to the report.

Deputy S151 Officer:

This is a Deputy S151 Officer report. Comments are contained within the body of the report.

12 Conclusion:

The Annual Treasury Management Outturn Report for 2021-22 provides the outturn position for the Council's 2021-22 treasury activities and highlights compliance with policies previously approved by Members. Its approval is required for the Council to meet its statutory obligations in respect of Treasury Management activities.