Part 1: Open to the Public – Item No.

REPORT OF THE LEAD MEMBER FOR FINANCE AND SUPPORT SERVICES

To: OVERVIEW AND SCRUTINY BOARD 7 SEPTEMBER 2022

To: COUNCIL 21 SEPTEMBER 2022

TITLE: TREASURY MANAGEMENT ANNUAL REPORT 2021/22

RECOMMENDATIONS: Members are requested to consider the outturn position and performance of Treasury Management

EXECUTIVE SUMMARY:

This report provides details of treasury management activity in 2021/22. The key highlights are:

- During the year short-term loans from other local authorities were repaid in order to manage the council's cash position.
- There was a favourable variance relating to interest costs for temporary borrowing due to the repayment of short term loans and no additional short term loans were taken out during the year.
- All treasury management activity was within the performance boundaries set in the approved strategy for the year.
- The overall level of capital financing costs was contained within budget provision as a result of the borrowing strategy adopted.

BACKGROUND DOCUMENTS:

Various working papers in the Finance Division including: -

- T.M. strategy 2021/22 reported to Council on 24 February 2021.
- Revisions to the strategy reported to council at the mid-year update reported to council on the 17 November 2021.
- T.M.P's 1 to 12 and supporting schedules
- T.M. Code of Practice (CIPFA)

KEY DECISION: ~~YES~~ / NO

DETAILS:

TREASURY MANAGEMENT ANNUAL REPORT 2021/22

1. Introduction

1.1 The council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities following year end. 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).

1.2 During 2021/22 reporting requirements were fulfilled in line with the approved Treasury Management Strategy and the following reports were received:

- an annual treasury strategy statement in advance of the year was received at Council 24 February 2021
- a mid-year treasury update report was received at Council on 17 November 2021
- an annual review following the end of the year describing the activity compared to the strategy to be received at Council on 21 September 2022 (this report).

1.3 The regulatory environment places responsibility on the City Mayor and 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 Council.

1.4 The council uses Link Asset Services as its external treasury management advisors but recognises that responsibility for treasury management decisions remains with the organisation at all times and will ensure that undue reliance is not placed upon our external service providers. It also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources.

1.5 This annual report provides a review of 2021/22 and covers the following major areas:

- the council's treasury position as at 31 March 2022
- the outturn for 2021/22
- compliance with treasury limits
- investment strategy and outturn for 2021/22

2. The Councils capital expenditure and financing

2.1 The Council undertakes 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.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed. The budgeted figure for 2021/22 was as reported in the mid-year update report to council 17 November and includes the effect of profiling from 2020/21.

	2020/21 actual £m	2021/22 budget £m	2021/22 actual £m
Capital expenditure	86.0	156.1	82.6
Financed in year	50.3	82.5	70.2
Unfinanced capital expenditure	**35.7**	**73.6**	**12.4**

3. The Borrowing Requirement and Debt

3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (including borrowing by PFI and finance leases).

	31/03/2021 Actual £m	31/03/2022 Budget £m	31/03/2022 Actual £m
Capital Financing Requirement	673.0	719.6	657.8

4. Overall Treasury Position as at 31 March 2022

4.1 As at 31 March 2022 the council's treasury position for 2021/22 (excluding borrowing by PFI and finance leases and transferred debt) was as follows:

DEBT PORTFOLIO	31 March 2021 Principal	Rate/ Return	31 March 2022 Principal	Rate/ Return	Average Life in years
Fixed rate funding:					
-PWLB	107.6	2.53%	107.6	2.53%	39.31
-Market	225.2	4.73%	225.2	4.73%	36.07
- Temporary borrowing	27.0	0.23%	0.0	0.00%	0.00
Variable rate funding:					
-PWLB	0.0	0.0	0.0	0.0	
-Market	0.0	0.0	0.0	0.0	
Total debt	**359.8**	**3.91%**	**332.8**	**4.02%**	**37.12**
CFR (excluding PFI)	**502.4**		**492.9**		
Over / (under) borrowing	**-142.6**		**-160.1**		
Total investments	**36.3**	**0.15%**	**107.6**	**0.08%**	**0.07**
Net debt	**323.6**		**225.2**		

4.2 Over the year the capital financing requirement (excluding PFI) decreased by £9.6m.

4.3 The overall CFR including (PFI) decreased by £15.2m. This reflected an increase in the CFR due to unsupported borrowing of £12.4m net of capital receipts set aside to reduce debt, that was more than offset by the Minimum Revenue Provision (MRP) and other debt repayments of £27.6m.

4.4 As indicated within the table above the CFR has decreased compared to last year and it is lower than that originally budgeted due to reprofiling of spend on the capital programme to 2022/23.

4.5 The Council’s gross borrowing for the year was £497.7m as detailed in appendix 1 (debt £332.8m and PFI liabilities £164.9m). This was less than the CFR and resulted in the Council being under-borrowed by £160.1m. This means that the council has used cash balances to fund capital expenditure and repay temporary borrowing.

5. The strategy for 2021/22

5.1 The Council’s performance indicators were set out in the annual Treasury Management Strategy Statement. The 2021/22 indicators were revised at the council meeting in November 2021 when the Treasury management strategy mid-year review update was approved, in line with best practice the indicators were revised to reflect changes to the capital expenditure forecast, the strategy should be updated as new information becomes available.

5.2 The treasury management activities carried out in the year were all within the performance boundaries, indicating that the Council’s activities were prudent and sustainable. Full details are shown in appendix 1.

5.3 Interest rate forecasts expected only gradual rises in medium- and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Variable, or short-term rates, were expected to be the cheaper form of borrowing until well into the second half of 2021/22. However, bank rates were increased during the year as set out in paragraph 8 below.

Link Group Interest Rate View 29.9.21	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
3 month ave earnings	0.10	0.10	0.20	0.20	0.30	0.40	0.50	0.50	0.60	0.70
6 month ave earnings	0.20	0.20	0.30	0.30	0.40	0.50	0.60	0.60	0.70	0.80
12 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.70	0.80	0.90	1.00
5 yr PWLB	1.40	1.40	1.50	1.50	1.60	1.60	1.60	1.70	1.70	1.70
10 yr PWLB	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10
25 yr PWLB	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.60
50 yr PWLB	2.00	2.00	2.10	2.20	2.20	2.20	2.20	2.30	2.30	2.40

5.4 Investment returns remained low during the first half of 2021/22 while the bank rate remained low. The Council has a cautious approach to investing and maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

5.5 Investment Policy – the Council’s investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 24 February 2021. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

5.6 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

5.7 No additional long-term borrowing was taken during the year.

6. Borrowing Outturn for 2021/22

6.1 The council repaid all its temporary borrowing during the year as it had the cash balances to do this. This reduces the counterparty risk on investments and saves on interest costs. During the year, 7 temporary loans matured and there were no new loans taken.

6.2 This compares with a budget assumption of £44.0m of temporary borrowing at an average rate of 0.1%. Temporary borrowing interest costs were £0.015m compared to an original budget of £0.074m.

7. Investment outturn for 2021/22

7.1 Shorter term investment interest rates were flat during the first half of the year following the two cuts in Bank Rate in March 2020. But the second half of the year there was three 0.25% increases causing investment rates to rise.

7.2 With the market generally, COVID 19 and the war in Ukraine has promoted a cautious approach whereby investments would continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. Temporary borrowing was repaid and not renewed to reduce the number of counterparties for investments.

7.3 Investments held by the Council - the Council maintained an average balance of £70.8m of internally managed funds. The internally managed funds earned an average rate of return of 0.08% (£55.8m at 0.15% for 2020/21). This compares with a budget assumption of £56.0m of investment balances being available earning an average rate of 0.10%. Total investment income was £0.063m compared to an original budget of £0.056m.

8. Interest Rates

8.1 After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

8.2 CPI inflation rose by 7.0% in the 12 months to March 2022.

9. IFRS 16

9.1 The implementation of IFRS 16 bringing currently off-balance sheet leased assets onto the balance sheet, has been delayed further to 2024/25 following CIPFA LASAAC's consultation on time limited changes to the code to help alleviate delays to the publication of audited financial statements. The impact of this change will be an increase in the councils' CFR when it is introduced.

10. Conclusion

Members are asked to consider the outturn position and performance of Treasury Management

Appendix 1

Prudential and Treasury Indicators

Prudential Indicators	2021/22	2021/22
	Revised forecast £m	Actual £m
Capital Expenditure	156.1	82.6
Gross borrowing requirement		
Borrowing	369.0	332.8
Other long-term liabilities	165.5	164.9
Total	534.5	497.7
Capital financing requirement (CFR)	719.6	657.8
Annual Change in CFR		
Non-HRA	73.6	12.4
Debt repayment provision MRP	-27.0	-27.6
Total	46.6	-15.2

Treasury Indicators	2021/22	2021/22
	Estimate £m	Actual £m
Operational boundary for external debt		
Borrowing	594.1	332.8
Other long-term liabilities	195.5	164.9
Total	789.6	497.7

Treasury Indicators	2021/22	2021/22
	Estimate £m	Actual £m
Authorised limit for external debt		
Borrowing	614.1	332.8
Other long-term liabilities	225.5	164.9
Total	839.6	497.7

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 (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure but allows it some flexibility to borrow in advance of its immediate capital needs.

At the 31 March 2022 gross borrowing of £497.7m which was within this indicator (£974.29m). The capital financing requirement as at 31 March 2022 was £657.8m, therefore the council under-borrowed by £160.1m.

The operational boundary limits for external debt reflect the estimate of the most likely, prudent, but not worst case, scenario without the additional headroom included within the authorised limit.

Upper limit on variable interest rate exposure

Maturity structure for fixed rate borrowing	Upper Limit	Lower Limit	Outturn
Under 12 months	75%	0%	18%
12 and within 24 months	50%	0%	13%
24 months and within 5 years	50%	0%	20%
5 years and within 10 years	50%	0%	8%
10 years and above	100%	25%	41%

Maturity structure of investments during 2020/21	£40m		0%

In the table above, LOBOs are shown as maturing at the point the next lender option arises, although in practice it is unlikely that LOBO loans will be called over the next few years as the LOBO interest rates already exceed current market rates and the option to change lies with the banks.

KEY COUNCIL POLICIES: Treasury Management Strategy and Budget Strategy.

EQUALITY IMPACT ASSESSMENT AND IMPLICATIONS:

ASSESSMENT OF RISK: Low

The monitoring and control of risk underpins all treasury management activities. The main risks are of adverse or unforeseen fluctuations in interest rates and security of capital sums.

LEGAL IMPLICATIONS Supplied by: Tony Hatton, Principal Solicitor, tel. 219 6323

Regulations issued under the Local Government Act 2003 require the Council to provide a review of its treasury management activities each year for the previous year. Additional requirements are contained within the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities, which are both taken into account for compliance as outlined in the report, which covers particularly the Council's current treasury position, compliance with treasury limits and the Council's investment strategy and outturn for the financial year.

The Act therefore requires the Council to set out its Treasury Management Strategy at the start of each new financial year and to prepare an Annual Investment Strategy (as required by Investment Guidance subsequent to the Act); this sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

FINANCIAL IMPLICATIONS Supplied by: May Sung – Finance Manager Ext. 2851

Financial implications are included within the report.

PROCUREMENT IMPLICATIONS

There are no Procurement Implications in this report.

HR IMPLICATIONS

There are no HR implications arising from this report

OTHER DIRECTORATES CONSULTED:

CONTACT OFFICERS:

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WARDS TO WHICH REPORT RELATES: None specifically