

## TREASURY MANAGEMENT ANNUAL REPORT 2021/22

### 1 INTRODUCTION

- 1.1 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).
- 1.2 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 Feb 2021)
  - a mid-year (minimum) treasury update report (Council Feb 2021)
  - an annual review following the end of the year describing the activity compared to the strategy (this report)

### 2 SUPPORTING INFORMATION

#### Current Treasury Position

- 2.1 At the beginning and the end of 2021/22 the Council's treasury position (excluding borrowing by PFI and finance leases) was as follows:

Table 1 – Treasury Position 31/03/21				
Treasury Position	At 31 March 2022		At 31 March 2021	
	Principal	Average Rate	Principal	Average Rate
Fixed Interest Borrowing				
Short Term Market Loans	£0.000m	0%	£0.000m	0.00%
Long-Term PWLB	£80.000m	2.30%	£80.000m	2.30%
Variable Interest Borrowing	-		-	
<b>Total Borrowing</b>	<b>£80.000m</b>		<b>£80.000m</b>	
Fixed Interest Investments	-		-	
Variable Interest Investments (MMF)	£43.488m	0.01%	£20.244m	0.12%
<b>Total Investments</b>	<b>£43.488m</b>		<b>£20.244m</b>	
<b>Net borrowing position</b>	<b>£36.512m</b>		<b>£59.756m</b>	

## **Capital Expenditure and Financing**

- 2.2 The Council undertakes capital expenditure on long term assets. These activities may either be funded immediately through capital receipts or capital grants or contributions, or if insufficient financing is available financed through borrowing. The actual capital expenditure forms one of the required prudential indicators and the table below shows how this was financed in 2012/22. The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources and is shown below in Table 2

<i>Table 2 Financing of Capital Programme 2021/22 and 2020/21</i>		
	<b>2021/22</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>
<b>Expenditure</b>		
Capital Programme	<b>27,221</b>	<b>26,883</b>
<b>Financed by</b>		
Capital Receipts	3,710	5,222
Government Grants/Contributions	21,951	16,327
Change in Capital Financing Requirement	1,560	5,334
<b>Total</b>	<b>27,221</b>	<b>26,883</b>

## **The Strategy for 2021/22**

### **Investment Strategy and control of interest rate risk**

- 2.3 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates. 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 necessitated.
- 2.4 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 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).
- 2.5 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.

- 2.6 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

### **Borrowing Strategy and control of interest rate risk**

- 2.7 During 2021/22, the Council 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 very low and minimising counterparty risk on placing investments also needed to be considered.
- 2.8 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy.

### **Investment Outturn**

- 2.9 The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council. 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.).
- 2.10 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties. Given the net borrowing position of the Council investments are managed through the use of AAA Money Market Funds (MMF) offering immediate liquidity and the highest security whilst offering a yield equivalent to 7-day rates. The Council also invests in MMF that offers a slightly higher return with the proviso that funds are available on a +1 day basis – i.e. funds withdrawn today will be received tomorrow – this has enabled the Council to increase its investment yield without adding any security or liquidity risk. The average rate on investments was 0.01% on an average balance of £32.9m. This was in line with the Benchmark given that interest rates across the time period were close to zero and as such there was little opportunity to increase the yield without taking undue risk.

### **Borrowing Outturn**

- 2.11 No new loans were entered into during the financial year.

### **Net Treasury Outturn**

- 2.12 The Council budget for net borrowing costs of £1.970m – reflects the borrowing costs for the Council's historical Capital Programmes in past years alongside the 2021/22 Capital Programme and the use of reserves to balance the revenue budget. In order to minimise costs, internally generated cash flows were used before borrowing which resulted in lower borrowing costs than envisaged.

- 2.13 Furthermore, higher than anticipated cash balances at the beginning of the year enabled the Council to pre-pay pension contributions enabling the Council to once again take benefit from the discount offered by the Pension Authority. This generated additional savings of £300k.
- 2.14 Largely as a result of a greater than anticipated delayed cash-outflow on the major capital schemes due to COVID and positive cash-flow from government support, the level of borrowing is below that estimated in the budget. The Council has benefited from inclusion in the Business Rates Pilot scheme in previous years and the continued delay in the change to the Central Rating Lists which bolstered the Council's reserves and the impact of COVID has seen both significant financial support from the Government (primarily in the timing of cash flows) and a slow catch-up in many of the Council's major capital schemes. Taken together with maximising the use of grants and other internal cash flow the actual level of borrowing costs in 2020/21 was £1.18m less than anticipated. This level will not be sustained in future years.

### **Compliance with Treasury Limits**

- 2.15 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement.
- 2.16 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR) and is set out below. The CFR is simply the total outstanding capital expenditure which has not yet been paid for from either revenue or capital resources This includes PFI and finance lease schemes on the balance sheet, which increases the Council's borrowing need however no borrowing is actually required against these schemes as a borrowing facility is included in the contract.

2.17

	<b>2021/22</b>	<b>2020/21</b>
	<b>£'000</b>	<b>£'000</b>
<b>Opening Capital Financing Requirement</b>	<b>214,602</b>	<b>211,589</b>
<b>Capital Investment</b>		
Gross Capital Expenditure	27,221	26,883
<b>Sources of Finance</b>		
Capital Receipts	-3,710	-1,356
Government Grants and Other Contributions	-21,962	-20,180
Waste PFI Donated Asset Account	-89	-89
MRP	-2,337	-2,245
	<b>-28,098</b>	<b>-23,870</b>
<b>Closing Capital Financing Requirement</b>	<b>213,725</b>	<b>214,602</b>

2.18 The outturn for the remaining Prudential Indicators are as follows

<b>Authorised limit</b>	<b>2021/22 Estimate</b>	<b>2021/22 Out-turn</b>
Borrowing	£209m	£209m
Other long term liabilities	£18m	£18m
Total	£227m	£227m

<b>Operational Boundary</b>	<b>2021/22 Estimate</b>	<b>2021/22 Out-turn</b>
Borrowing	£223m	£223m
Other long term liabilities	£18m	£18m
Total	£241m	£241m

The Council has complied with all the relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its treasury management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means both that its capital expenditure is prudent, affordable and sustainable, and its treasury practices demonstrate a low risk approach.