

# Treasury Management Outturn Report 2021/22

## 1. Introduction

1.1 In February 2011 this Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

1.2 The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

1.3 UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality that were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series.

1.4 Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

## 2. Main Points

2.1 Investment and borrowing interest for 2021/22 have produced a net surplus of £25,361 against the revised budget.

2.2 Pooled Funds have returned dividends that were budgeted at the start of the financial year, and starting against lower capital values returned 3.67% against the £7m invested in this area.

2.3 The capital values of the Pooled Funds realised gains of over £732k for 2021/22.

2.4 The Council had debt of £176.073m as at 31<sup>st</sup> March 2022 at an average rate of 2.20%.

2.5 All treasury prudential indicators were within their permitted limits for 2021/22.

## 3. Local Context

3.1 On 31<sup>st</sup> March 2022, the Authority had net borrowing of £152.866m arising from its revenue and capital income and expenditure, a decrease on 2020/21 of £4.066m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.2 The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31<sup>st</sup> March 2022 and the year-on-year change is shown in table 1 below.

Table 1: Treasury Management Summary

|                           | 31.3.21<br>Balance<br>£m | 2021/22<br>Movement<br>£m | 31.3.22<br>Balance<br>£m | 31.3.22<br>Rate<br>% |
|---------------------------|--------------------------|---------------------------|--------------------------|----------------------|
| Long-term borrowing       | 115.220                  | 4.466                     | 119.686                  | 3.17                 |
| Short-term borrowing      | 58.500                   | (2.500)                   | 56.000                   | 0.15                 |
| <b>Total borrowing</b>    | <b>173.720</b>           | <b>1.966</b>              | <b>175.686</b>           | <b>2.20</b>          |
| Long-term investments     | 8.633                    | 3.767                     | 12.400                   | 2.64                 |
| Short-term investments    | 1.215                    | (1.215)                   | 0                        | -                    |
| Cash and cash equivalents | 6.940                    | 3.480                     | 10.420                   | 0.48                 |
| <b>Total investments</b>  | <b>16.788</b>            | <b>6.032</b>              | <b>22.820</b>            | <b>1.74</b>          |
| <b>Net borrowing</b>      | <b>156.932</b>           | <b>(4.066)</b>            | <b>152.866</b>           |                      |

3.3 Borrowing Activity as at 31<sup>st</sup> March 2022, the Authority held £175.686m of loans, an increase of £1.966m on the previous year. The Council back in February 2021 was forecasting to borrow up to £6.7mm in respect of asset purchases for the Housing Revenue Account (HRA) and new build. £6m was borrowed from the PWLB in July 2021 to fund this.

Table 2: Borrowing Position

|                                | 31.3.21<br>Balance<br>£m | 2021/22<br>Movement<br>£m | 31.3.22<br>Balance<br>£m | 31.3.22<br>Rate<br>% |
|--------------------------------|--------------------------|---------------------------|--------------------------|----------------------|
| Public Works Loan Board        | 99.320                   | 4.466                     | 103.786                  | 3.09                 |
| Banks (LOBO)                   | 7.000                    | 0                         | 7.000                    | 4.24                 |
| Banks (fixed-term)             | 8.900                    | 0                         | 8.900                    | 3.82                 |
| Local authorities (short-term) | 58.500                   | (2.500)                   | 56.000                   | 0.15                 |
| <b>Total borrowing</b>         | <b>173.720</b>           | <b>1.966</b>              | <b>175.686</b>           | <b>2.20</b>          |

3.4 The council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

#### 4. Investment Activity

4.1 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Authority's investment balance ranged between £8.5m and £34m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 3 below.

Table 3: Investment Position (Treasury Investments)

|                                     | 31.3.21<br>Balance<br>£m | 2021/22<br>Movement<br>£m | 31.3.22<br>Balance<br>£m | Interest<br>Rate<br>% |
|-------------------------------------|--------------------------|---------------------------|--------------------------|-----------------------|
| Banks & Building Societies          | 0                        | 0                         | 0                        | -                     |
| Government (inc. Local Authorities) | 0                        | 0                         | 0                        | -                     |
| MMF's/Call Accounts                 | 6.940                    | 3.480                     | 10.420                   | 0.48                  |
| Pooled Funds                        | 7.000                    | 0                         | 7.000                    | 2.64                  |
| Other Investments                   | 2.848                    | 2.6305                    | 5.478                    | 2.18                  |
| <b>Total Investments</b>            | <b>34.034</b>            | <b>(17.246)</b>           | <b>22.898</b>            | <b>1.74</b>           |

4.2 £7m of the Authority's investments are held in externally managed strategic pooled (bond, equity, multi-asset and property) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £257,050 ([3.67%]), and gained in capital value by £732,791, which is treated as an unrealised capital gain.

4.3 In the nine months to December 2021, improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Authority's property, equity and multi-asset income funds in the Authority's portfolio. In the January-March quarter in 2022, the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

4.4 In light of Russia's invasion, Arlingclose contacted the fund managers of our MMF's and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified.

Table 4: Current Pooled Funds

| Fund Manager                          | Investment<br>£  | Capital<br>Value as at<br>31 <sup>st</sup> March<br>2021<br>£ | Capital<br>Value as at<br>31 <sup>st</sup> March<br>2022<br>£ | Dividends<br>Received<br>2021/22<br>£ | 2021/22<br>Gain/(Loss)<br>£ | Gain/(Loss) v<br>Original<br>Investment<br>£ |
|---------------------------------------|------------------|---|---|---------------------------------------|-----------------------------|--|
| CCLA Property<br>Fund                 | 3,000,000        | 2,754,951   | 3,238,505   | 103,860                               | 483,554                     | 238,505                                      |
| Schroders<br>Income<br>Maximiser Fund | 2,000,000        | 1,457,039   | 1,614,650   | 103,805                               | 157,611                     | (385,350)                                    |
| CCLA Diversified<br>Income Fund       | 2,000,000        | 1,977,147   | 2,068,773   | 49,386                                | 91,626                      | 68,773                                       |
| <b>Total –current<br/>Funds</b>       | <b>7,000,000</b> | <b>6,189,137</b>  | <b>6,921,928</b>  | <b>276,175</b>                        | <b>732,791</b>              | <b>(78,072)</b>                              |

4.5 The nature of these funds is that values can fluctuate from one year to another. Their performance and suitability in meeting the Authority's investment objectives are monitored and discussed with Arlingclose on a regular basis. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

## 5. Financial Implications

5.1 The outturn for debt interest paid in 2021/22 was £3.832 million (2.37%) on an average debt portfolio of £162.013 million against a budgeted £3.843 million. A surplus of £3,095 was recorded for the financial year after taking into account the re-imburement of £1.862m for the debt associated to the HRA for 2021/22.

5.2 The outturn for investment income received in 2021/22 was £300k which equates to a 1.67% return (20/21 – 1.78%) on an average investment portfolio of £20.413 million against a budgeted £292k on an average investment portfolio of £16.728 million at an average interest rate of 1.95%. The General Fund reimbursed the HRA £24k for revenue balances held within investment balances during 2021/22. A General Fund surplus of £11,804 was made for investment income.

5.3 Net loans and investments budget for 2021/22 which also includes leasing and third party loans repayments, was a budgeted cost of £1.359m but made an actual cost return of £1.332m, a surplus of £25k. See table 5 below for a breakdown.

**Table 5 – Borrowing and Investment Costs**

| <b>Borrowing Costs</b>      | 2021/22 Original<br>£ | 2021/22 Revised<br>£ | 2021/22 Actual<br>£ | Variance<br>(surplus)/loss<br>£ |
|-----------------------------|-----------------------|----------------------|---------------------|---------------------------------|
| Temp Borrowing              | 123,200               | 70,000               | 48,824              | (21,176)                        |
| LT Borrowing                | 3,702,900             | 3,773,160            | 3,783,581           | 10,421                          |
| HRA Share                   | (1,776,800)           | (1,869,960)          | (1,862,300)         | 7,660                           |
| <b>Total GF Cost</b>        | <b>2,049,300</b>      | <b>1,973,200</b>     | <b>1,970,105</b>    | <b>(3,095)</b>                  |
|                             |                       |                      |                     |                                 |
| <b>Investment Income</b>    | 2021/22 Original<br>£ | 2021/22 Revised<br>£ | 2021/22 Actual<br>£ | Variance (Act v Rev)<br>£       |
| Pooled Funds                | 260,700               | 260,700              | 257,051             | 3,649                           |
| Short term/call             | 28,500                | 31,554               | 42,057              | (10,503)                        |
| 3 <sup>rd</sup> Party Loans | 304,300               | 301,246              | 312,158             | (10,912)                        |
| HRA Share                   | (23,300)              | (29,300)             | (24,800)            | (4,500)                         |
| <b>Total GF Income</b>      | <b>570,200</b>        | <b>564,200</b>       | <b>586,466</b>      | <b>(22,266)</b>                 |
|                             |                       |                      |                     |                                 |
| <b>NET COST (Saving)</b>    | <b>1,479,100</b>      | <b>1,462,200</b>     | <b>1,383,190</b>    | <b>(25,361)</b>                 |

## 6. Compliance Report

6.1 The Council can confirm that it has complied with its Prudential Indicators for 2021/22, which was set in March 2021 as part of the Council's Treasury Management Strategy and Capital Strategy. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2021/22. None of the Prudential Indicators have been breached and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

The Prudential Indicators include:

- Authorised and Operational Boundary for External Debt
- Average Credit rating
- Upper limits for fixed interest rate exposure and variable interest rate exposure
- Upper limit for total principal sums invested over 364 days.

Table 6: Debt Limits

|           | 2021/22<br>Maximum<br>£m | 31.3.22<br>Actual £m | 2021/22<br>Operational<br>Boundary<br>£m | 2021/22<br>Authorised<br>Limit<br>£m | Complied |
|-----------|--------------------------|----------------------|--|--------------------------------------|----------|
| Borrowing | 179.684                  | 175.686              | 307                                      | 317                                  | ✓        |

6.2 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2020/21.

## 7. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

### 7.1 Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

Table 7 Maturity structure of borrowing

|                                | 31.3.22<br>Actual | Actual<br>Debt Due | Upper<br>Limit | Lower<br>Limit | Complied |
|--------------------------------|-------------------|--------------------|----------------|----------------|----------|
| Under 12 months                | 34.17%            | £60.041m           | 50%            | 0%             | ✓        |
| 12 months and within 24 months | 2.85%             | £5.012m            | 50%            | 0%             | ✓        |

|                              |        |          |      |    |   |
|------------------------------|--------|----------|------|----|---|
| 24 months and within 5 years | 2.45%  | £4.312m  | 100% | 0% | ✓ |
| 5 years and within 10 years  | 11.17% | £19.632m | 100% | 0% | ✓ |
| 10 years and above           | 49.36% | £86.689m | 100% | 0% | ✓ |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The actual maturity percentages for 31<sup>st</sup> March 2022 are calculated on the debt outstanding of £175.686m.

### 11.3 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 8 Principal invested over 364 days

|   | 2020/21 | 2021/22 | 2022/23 |
|---|---------|---------|---------|
| Actual principal invested beyond year end   | 7m      | 7m      | 7m      |
| Limit on principal invested beyond year end | 10m     | 10m     | 10m     |
| Complied                                    | ✓       | ✓       | ✓       |