| Report of: | Meeting | Date |
| --- | --- | --- |
| Councillor Michael Vincent, Resources Portfolio Holder and Clare James, Corporate Director Resources and S.151 Officer | Council | 7 July 2022 |

# Treasury management activity 2021/22

## 1. Purpose of report

**1.1** To report on the overall position and activities in respect of Treasury Management for the financial year 2021/22.

## 2. Outcomes

**2.1** An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

## 3. Recommendation

**3.1** That the Annual report on Treasury Management Activity for the 2021/22 financial year be approved.

## 4. Background

**4.1** 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 Chartered Institute of Public Finance and Accounting (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

**4.2** 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 (reviewed by Cabinet 24/03/2021) and recommended to Council.

- A mid-year (minimum) treasury update report (Council 28/10/2021).
- An annual review following the end of the year describing the activity compared to the strategy (this report).

**4.3** 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. On 24 February 2022 all members were offered Treasury Management Training from Link Asset Services; this included members of the Overview and Scrutiny Committee. Prior to this, training was given on 18 January 2021 to the Overview and Scrutiny Committee.

## 5. Key issues and proposals

### 5.1 The Council's Capital Expenditure and Financing

**5.1.1** 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.

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

| Description | 2020/21 Actual* (£000) | 2021/22 Budget** (£000) | 2021/22 Actual*** (£000) |
|---|---|---|---|
| Capital expenditure | 6,789 | 15,043 | 4,537 |
| Financed in year | 6,789 | 15,043 | 4,537 |
| Unfinanced capital expenditure | 0 | 0 | 0 |

All capital expenditure undertaken during 2021/22 has been fully financed in the year. *2020/21 Actual is as per the draft Statement of Accounts. **2021/22 Budget figures are as per the report to Cabinet on 12 January 2022. ***2021/22 Actual are draft pending completion of the Statement of Accounts for 2021/22. These caveats apply to all figures in the report.

## 5.2 Overall Treasury Position as at 31 March 2022

**5.2.1** The council's treasury position, at the beginning and end of the 2021/22 financial year, was as follows:

| | 31/03/21 Principal (£000) | Rate/ Return (%) | Avg Life (Yrs) | 31/03/22 Principal (£000) | Rate/ Return (%) | Avg Life (Yrs) |
|---|---|---|---|---|---|---|
| **Total Debt** | 1,563 | 4.43 | 26 | 1,563 | 4.43 | 25 |
| **Total Investments** | (33,124) | 0.16 | 0 | (51,784) | 0.15 | 0 |
| **Net debt / (investment)** | **(31,561)** | **-** | **-** | **(50,221)** | **-** | **-** |
| | | | | | | |
| **Total Debt** | 1,563 | 4.43 | 26 | 1,563 | 4.43 | 25 |
| **Capital Financing Requirement (CFR)** | (11,166) | - | - | (11,068) | - | - |
| **Over / (under) borrowing** | **(9,603)** | **-** | **-** | **(9,505)** | **-** | **-** |

## 5.3 The Treasury Management Strategy for 2021/22

**5.3.1** 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 necessitated.

**5.3.2** 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 that 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 2022).

**5.3.3** Whilst 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.

## 5.4 The Borrowing Requirement and Debt

**5.4.1** The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which exists at 31 March. This gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing, so the table gives an indication of the minimum borrowing requirement through this method.

| | **31/03/21 Actual (£000)** | **31/03/22 Budget (£000)** | **31/03/22 Actual (£000)** |
|---|---|---|---|
| CFR | 11,165 | 11,068 | 11,068 |
| Less external borrowing | 1,552 | 1,552 | 1,552 |
| **Borrowing requirement** | **9,613** | **9,516** | **9,516** |
| Reserves and Balances | 34,161 | 27,320 | 27,320* |
| **Borrowing / (investment) need** | **(24,548)** | **(17,804)** | **(17,804)** |

*Please note the outturn position in both years is still an estimate prior to the sign off of the accounts expected by November 2022.

## 5.5 Borrowing Rates and Borrowing Outturn in 2021/22

**5.5.1** PWLB rates are based on gilt (UK Government bonds) yields through H.M. Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably owing to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

**5.5.2** Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

**5.5.3** There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

**5.5.4** No new borrowing was undertaken during the 2021/22 year. Capital schemes budgeted for in 2021/22 were funded by grants and contributions, capital receipts and the Capital Investment Reserve. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable. There were no short-term borrowing transactions (i.e. less than 365 days) during 2021/22.

The council has external borrowing with the Public Works Loan Board. The maturity structure of the debt is as follows:

| | **31/03/21 Actual (£000)** | **31/03/22 Actual (£000)** |
|---|---:|---:|
| Under 12 months | - | - |
| 12 months and over and within 20 years | 552 | 552 |
| 20 years and over and within 30 years | - | - |
| 30 years and over and within 50 years | 1,000 | 1,000 |

**5.5.5** Interest payments in respect of long-term borrowing for the 2021/22 financial year totalled £68,830, which was in line with the full year budget of £68,830. The actual interest payments, including miscellaneous payments for the year to 31 March is £68,830 compared to the full year budget of £69,850.

**5.5.6** The council incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. The council's net bank account position was not overdrawn during the financial year 2021/22.

## 5.6 Investments

**5.6.1** **Investment Policy** – the council's investment policy is governed by the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance, which has been implemented in the annual investment strategy approved by the Council on 22 April 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, (Standard and Poor's (S&P), Moody's and Fitch Ratings), supplemented by additional market data, (such as ratings outlooks, credit default swaps, bank share prices etc.).

**5.6.2** The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

**5.6.3** Investments held by the council – internally managed funds earned an average of 0.15%. The comparable performance indicator is the average 7 day LIBID (London Interbank Bid Rate) which was -0.07%. The equated investments are analysed in the table below:

| | **Equated Investment Principal (£)** | **Interest Due (£)** | **Rate of Return (%)** | **Bench-mark Return (%)** |
|---|---|---|---|---|
| Santander 35 Day Corp Notice | 7,106,850 | 22,578 | 0.32 | -0.07 |
| Qatar 3 month | 2,821,918 | 7,821 | 0.28 | -0.07 |
| Qatar 6 month | 4,602,740 | 22,342 | 0.49 | -0.07 |
| Handelsbanken I.A Account | 6,456,165 | 321 | 0.00 | -0.07 |
| Bank of Scotland (Call Acc) | 3,119,589 | 310 | 0.01 | -0.07 |
| Nat West - Liquid Select | 4,073,484 | 403 | 0.01 | -0.07 |
| LGIM | 5,626,576 | 4,495 | 0.08 | -0.07 |
| Insight | 5,897,261 | 4,625 | 0.08 | -0.07 |
| Deutsche | 186,302 | 345 | 0.19 | -0.07 |
| Prime Rate | 6,249,316 | 4,434 | 0.07 | -0.07 |
| **Total** | **46,140,201** | **67,676** | **0.15** | **-0.07** |

**5.6.4** Interest receivable from investments for the 2021/22 financial year totals £67,676 compared to the full year budget of £50,000. Interest overall including miscellaneous items, received in the year totalled £68,001 compared to a budgeted figure of £50,320.

**5.6.5** There have been no occasions of funds over £100,000 remaining in the council's overnight general account since February 2018 when the NatWest roll up facility and control account was activated.

**5.6.6** On one occasion during the year council breached its counterparty investment limits, which are in place to manage interest rate exposure risk. This was addressed and reported to the Director of Resources (s.151 Officer).

**5.7 Other Issues / Updates**

**5.7.1** Following the consultation undertaken by MHCLG (now known as DLUHC) on IFRS9, the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. To date Wyre Council have not been required to make any adjustments/disclosures in relation to this.

**5.7.2** The implementation of IFRS16, bringing currently off balance sheet leased assets onto the balance sheet, has been delayed again until 1 April 2024.

**5.7.3** This report has been prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code. Both of these Codes were updated late in December 2021 and although they took effect immediately, the new guidance allowed for a period of transition towards achieving full compliance and the council is currently working towards this with our treasury management consultants.

| **Financial and legal implications** | |
|---|---|
| Finance | Considered in detail in the report above. |
| Legal | The approval of the recommendation will ensure that the statutory requirements have been complied with. |

## Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

| **risks/implications** | **✓ / x** |
|---|---|
| community safety | **x** |
| equality and diversity | **x** |
| sustainability | **x** |
| health and safety | **x** |

| **risks/implications** | **✓ / x** |
|---|---|
| asset management | **x** |
| climate change | **x** |
| ICT | **x** |
| data protection | **x** |

## Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

| report author | telephone no. | email | date |
|---|---|---|---|
| Ben Ralphs | 01253 887309 | ben.ralphs@wyre.gov.uk | 17/06/2022 |

| **List of background papers:** | | |
|---|---|---|
| name of document | date | where available for inspection |
| None | | |

**List of appendices**

Appendix 1 – Prudential and Treasury Indicators

**Appendix 1 – Prudential and Treasury Indicators**

| **1. Prudential Indicators** | **2020/21 Actual (£000)** | **2021/22 Estimate (£000)** | **2021/22 Actual (£000)** | **2022/23 Estimate (£000)** |
|---|---|---|---|---|
| Capital Expenditure | 6,789 | 15,043 | 4,537 | 10,095 |
| | | | | |
| Ratio of financing costs to net revenue stream | 0.50% | 0.50% | 0.50% | 0.50% |
| | | | | |
| Gross Borrowing requirement General Fund | 1,559 | 1,602 | 1,563 | 1,602 |
| | | | | |
| Gross debt | 1,559 | 1,602 | 1,563 | 1,602 |
| | | | | |
| CFR | 11,261 | 11,165 | 11,069 | 10,973 |
| | | | | |
| Annual change in CFR | -96 | -96 | -96 | -96 |
| | | | | |
| **2. Treasury Management Indicators** | **2020/21 Actual (£000)** | **2021/22 Estimate (£000)** | **2021/22 Actual (£000)** | **2022/23 Estimate (£000)** |
| Authorised Limit for external debt borrowing | 20,000 | 20,000 | 20,000 | 20,000 |
| Other long term liabilities | 0 | 100 | 100 | 100 |
| Total | **20,000** | **20,100** | **20,100** | **20,100** |
| | | | | |
| Operational Boundary for external debt borrowing | 13,452 | 13,452 | 13,452 | 13,452 |
| Other long term liabilities | 7 | 50 | 11 | 50 |
| Total | **13,459** | **13,502** | **13,463** | **13,502** |
| | | | | |
| Actual external debt | 1,559 | 1,602 | 1,563 | 1,602 |

| **Maturity structure of fixed rate borrowing during 2021/22** | **upper limit** | **lower limit** |
|---|---|---|
| Under 12 month | 100% | 0% |
| 12 months and within 24 months | 45% | 0% |
| 24 months and within 5 year | 75% | 0% |
| 5 years and within 10 years | 75% | 0% |
| 10 years and above | 100% | 0% |

These gross limits are set to avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.