Appendix C

Annual Treasury Management Report 2021/22

1. Introduction

1.1. The council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management. Before the start of every year the Code requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement detailing the policies and objectives of the council's treasury management activities for the forthcoming year. This outturn report compares actual activity to those policies and objectives.

1.2. The council borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of these risks are central to the treasury management strategy.

2. Economic Background

2.1. **Growth:** The financial year 2021/22 has seen us slowly make our way out of the pandemic, delayed slightly in late November following the emergence of a new variant of the Covid-19 virus named Omicron, which resulted in the implementation of the Government's 'Plan B' for England, with the reintroduction of face coverings being required by law in most indoor settings, working from home and the requirement for proof of vaccination. Despite this, the economy started to open up, fuel shortages from September are now a distant memory, but record high wholesale gas and electricity prices saw many smaller utility companies go out of business.

2.2. **UK Monetary Policy**: The Monetary Policy Committee (MPC) raised Bank Rate from 0.10% to 0.25% in December 2021 and then made two further increases of 0.25% each in February and March 2022 to bring the rate to 0.75%. The most recent increase was felt warranted due to the tightness of the labour market, containing signs of robust domestic cost and price pressures and the risk that those pressures would persist.

2.3. **Inflation:** The UK inflation rate rose to 7% in the year to March 2022, the highest rate since 1992 and up from 6.2% in February. The cost of living is expected to rise further after the energy price cap was increased resulting in higher gas and electricity bills. Fuel had the biggest impact on the inflation rate, with average petrol prices rising by 12.6p per litre between February and March, the largest monthly rise since records began in 1990, by comparison it was a 3.5p per litre between the same months of 2021. The Bank of England's main monetary policy aim remains an inflation target of 2%. Their February report stated that they expected the inflation rate to fall back from the middle of 2022, that energy prices will continue to rise as fast and the shortages that are currently making it difficult for businesses to make their products should ease. They expect inflation to be close to the 2% target in around two years' time. The Bank of England have stated that they may need to raise their interest rates somewhat further to ensure inflation returns to their target in a sustainable way.

3. Borrowing

3.1. The council continues to choose to utilise accessing lower cost short-term loans from other local authorities, should it need to, rather than more expensive longer term debt due to the differential between short and longer-term interest rates. This policy is expected to continue in 2022/23 but should this differential decrease and short term borrowing costs increase, the council will begin securing additional fixed long term debt to fund its borrowing requirements.

3.2. In 2021/22 the council undertook one new PWLB loan in November of £5m at a rate of 1.72%. This is to be repaid on an equal instalment of principal basis over 15 years. The weighted average interest rate paid on council borrowing remained at 4.00% (4.00% in 2020/21) reflecting the higher cost of older long term borrowing.

3.3. It is council strategy to maintain borrowing and investments below their underlying levels by using "internal borrowing", utilising usable reserves. This maintains borrowing and investment balances to a minimum level, reducing interest cost and counterparty exposure risk.

3.4. In February the Bank of England decided to not only start reversing Quantitative Easing (QE) by no longer reinvesting the proceeds from its maturing gilts in line with its previous guidance, but also said it will sell its £20bn holding of corporate bonds.

3.5. The premium charged by the PWLB for the early repayment of PWLB debt remained too expensive for existing loans in the council's portfolio to be repaid and rescheduled. No rescheduling activity was undertaken in 2021/22, this option will continue to be constantly considered.

3.6. Borrowing activity during the year is summarised below:

Borrowing Activity in 2021/22	01/04/21 Balance £m	New Borrowing £m	Debt Maturing £m	31/03/22 Balance £m
Short-term borrowing	0.0	0.0	0.0	0.0
Long-term borrowing	126.8	5.0	(2.4)	129.4
TOTAL BORROWING	**126.8**	**5.0**	**(2.4)**	**129.4**
Other long-term liabilities*	48.4	0.3	(2.8)	45.9
TOTAL EXTERNAL DEBT	**175.2**	**5.3**	**(5.2)**	**175.3**
**Other long term liabilities represent existing commitments under PFI arrangements included in the medium term financial strategy*				

3.7. Total borrowing decreased by £2.4m representing repayments made during the year. £5.0m of new external borrowing was undertaken during 2021/22.

3.8. The council's underlying need to borrow is measured by the Capital Financing Requirement (CFR). As at 31/03/2022 this totalled £324.9m. The difference of £149.6m between the CFR and total external debt shown in the table above represents internal borrowing from usable reserves, working capital balances and the outstanding loan balance with Mercia waste of £32.9m.

3.9. The council's capital financing costs in 2021/22 were as follows;

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Capital financing costs for 2021/22:	Budget	Outturn	Over / (under) spend
	£m	£m	£m
Minimum Revenue Provision (provision for repayment of loan principal)	8.4	7.8	(0.6)
Interest payable on all loans	5.4	5.1	(0.3)
TOTAL	13.8	12.9	(0.9)

3.10 The underspend has arisen from a slippage in the capital investment budgeted spend in 2021/22. The delay to new borrowing being required to fund capital spend delivered an underspend in expected interest payable.

4. Investments

4.1. The council invests significant funds, representing income received in advance of expenditure plus balances and reserves. During 2021/22 the council's investment balances averaged at £92m and ranged from £59m in April 2021 to £121m in January 2022. Much of this increased cash balance reflected the receipt of central government grant funding in advance of spend in response to Covid 19.

4.2. Security of capital remained the council's primary objective. Investment income remained low due to the continued low interest rate environment.

4.3. Investments held at the start and end of the year were as follows:

Investments	31/03/21 Balance £m	Investments Made £m	Maturities/ Withdrawals £m	31/03/22 Balance £m
Instant Access Accounts	17.55	384.04	(364.90)	36.69
Notice Accounts	13.88	-	(0.88)	13.00
Fixed Term Deposits	30.00	55.00	(55.00)	30.00
Total	**61.43**	**439.04**	**(420.78)**	**79.69**
Increase in investments				**18.26**

4.4. There are a growing number of financial institutions promoting environmental, social and governance (ESG) issues. The council invested in the following ESG 'green' deposits during 2021/22:

Start Date	Counterparty	Investments Made £m	Interest Rate %	Term
	Barclays Green Deposit	5.0	0.15-0.55	95 day notice Account
04/10/2021	Standard Chartered Sustainable Deposit	5.0	0.19	182 days

4.5. Interest received during the year was as follows:

Month	Average amount invested		Average rate of interest earned		Budget	Interest earned	(Surplus) /deficit
	Actual £m	Budget £m	Actual %	Budget %	£000	£000	£000
Apr-21	69.0	40	0.11	0.01	6	-	(6)
May-21	76.4	40	0.09	0.01	6	-	(6)
Jun-21	83.3	40	0.08	0.01	5	-	(5)
Jul-21	90.6	40	0.07	0.01	5	-	(5)
Aug-21	93.2	40	0.06	0.01	5	-	(5)
Sep-21	94.1	40	0.06	0.01	4	-	(4)
Oct-21	96.1	40	0.06	0.01	5	-	(5)
Nov-21	104.2	40	0.06	0.01	5	-	(5)
Dec-21	97.4	40	0.08	0.01	7	-	(7)
Jan-22	109.8	40	0.10	0.01	11	-	(11)
Feb-22	105.53	40	0.27	0.01	22	-	(22)
Mar-22	80.0	40	0.39	0.01	27	-	(27)
Outturn					**108**	**-**	**(108)**

4.6. The interest received in the year was lower than the budget because, despite having high balances invested, the interest rates dropped in response to the Covid-19 pandemic. Interest rates have risen following the Bank of England rate increases, the first being in December 2021

4.7. The average interest rate achieved during 2021/22 was 0.12%, higher than budgeted.

4.8. In addition to interest earned on balances interest has been accrued in relation to the energy from waste plant loan to Mercia waste. This totalled £2.3m, the net loan position is set aside to fund increased waste disposal costs in future years.

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5. Compliance with Prudential Indicators

5.1 The Council complied with its Prudential Indicators, Treasury Management Policy Statement and Treasury Management Practices for 2021/22 as detailed in Annex 1. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

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Annex 1

Performance Indicators

1. Treasury Management Indicators

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

1.1 Maturity Structure of Fixed Rate Borrowing

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

Maturity Structure of Fixed Rate Borrowing	Lower Limit %	Upper Limit %	Actual Fixed Rate Borrowing 31/03/22 £m	% Fixed Rate Borrowing 31/03/22
Under 12 months	0%	10%	**6.86**	**4%**
12 months and within 24 months	0%	10%	**3.09**	**3%**
24 months and within 5 years	0%	25%	**19.55**	**15%**
5 years and within 10 years	0%	35%	**26.64**	**21%**
10 years and above	0%	80%	**73.29**	**57%**
Total			**129.43**	**100%**

Two LOBO ("Lenders Option then Borrowers Option") bank loans of £6m each are repayable in 2054 however if the lenders seek to increase the interest rate charged, currently 4.50%, the council has the opportunity to repay the loans.

1.2 Upper Limit for Total Principal Sums Invested Over 364 Days

The purpose of this limit is to contain exposure to the possibility of financial loss that may arise as a result of the council having to seek early repayment of the sums invested.

Upper Limit for Total Principal Sums Invested Over 364 Days	2021/22 Approved £m	2021/22 Actual £m	2022/23 Estimate £m	2023/24 Estimate £m
Total	**5**	**0**	**5**	**5**

During 2021/22 no long-term investments were made for a period exceeding 364 days.

2. Prudential Indicators

2.1 Estimates of Capital Expenditure

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

Capital expenditure has been and is expected to be financed or funded as follows:

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Capital Financing	2021/22 Estimate £000	2021/22 Actual £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital grants	42,386	22,310	57,937	53,036	37,941
Capital receipts	5,005	3,248	13,430	14,883	-
Prudential borrowing	21,706	12,049	61,881	35,810	11,534
Total	**69,097**	**37,607**	**133,248**	**103,729**	**49,475**

Generally prudential borrowing finance is provided where the return on the investment exceeds the debt financing cost.

3. Capital Financing Requirement (CFR)

Estimates of the council's cumulative maximum external borrowing requirement for 2021/22 to 2023/24 are shown in the table below:

Capital Financing Requirement	2021/22 Estimate Approved £000	**2021/22 Actual £000**	2022/23 Estimate £000	2023/24 Estimate £000
Total CFR	**367,534**	**324,909**	**376,222**	**400,602**

Total debt is expected to remain at or below the CFR during the forecast period.

4. Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit or Authorised Limit. This is a statutory limit which should not be breached.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst-case scenario without the additional headroom included within the Authorised Limit.

	2021/22 Approved Operational Boundary £m	2021/22 Approved Authorised Limit £m	Actual External Debt as at 31/03/22 £m
Borrowing	340.0	350.0	129.4
Other Long-term Liabilities	60.0	70.0	45.9
Total	**400.0**	**400.0**	**175.3**

5. Ratio of Financing Costs to Net Revenue Stream

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	2021/22 Approved %	2021/22 Actual %
Net Revenue Stream	160,996	165,756

Financing Costs	13,974	12,908
Percentage	**8.7%**	**7.8%**

6. Adoption of the CIPFA Treasury Management Code

This indicator demonstrates that the council has adopted the principles of best practice.

The council has incorporated the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice 2017 Edition* into its treasury policies, procedures and practices.