TRAFFORD COUNCIL

Report to:	**Accounts & Audit Committee 20th July 2022** **Executive 25th July 2022** **Council Meeting 27th July 2022**
Report for:	**Information**
Report of:	**The Executive Member for Finance and Governance and the Director of Finance and Systems**

Treasury Management Annual Performance 2021/22 Report

Summary

This report outlines the main treasury management activities undertaken during 2021/22 as follows:

- All legislative and regulatory requirements, including all treasury management prudential indicators have been complied with;
- The average level of external debt and interest rate payable for 2021/22 was £332.8m and 2.82% and this compares to £385.5m & 2.57% in 2020/21;
- The average level of treasury investments for 2021/22 was £122.0m with a rate of return of 0.35% compared with 2020/21 when the equivalent figures was £76.9m and 0.76% respectively;
- The outturn position for the Council's Treasury Management function is a net overspend of £927k and more detail is included in Section 10 of the report. The key variances relate mainly to the levels of income the Council received from Manchester Airport Holdings Ltd (MAH) due to the ongoing impacts of the Covid-19 pandemic. .

Recommendations

That the Accounts & Audit Committee note the treasury management activities undertaken in 2021/22 and recommend that both Executive and Council also note the report.

Contact person for background papers:
Mark Hughes – Finance and Treasury Manager - Extension: 2072

Background papers: None

Relationship Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The net outturn for treasury management was an adverse movement of £0.93m and details of this are provided at paragraph 10.1.
Legal Implications:	Treasury Management activities are subject to requirements detailed in legislation, Department for Levelling Up, Housing and Communities (DLUHC), Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice. The report sets out details of compliance in respect of these requirements.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury Management activity is without risk and the Council's in-house team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Executive Summary

During 2021/22, the Council achieved compliance of its legislative and regulatory requirements via the following activities:

Economic position (Section 2)

- Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut the Bank Rate to 0.10%, it remained 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. Since the end of 2021/22, the rate has risen to 1.25%, following 0.25% increases in both May and June 2022.
- Huge financial support to businesses was given by Government in the form of cheap loans, grants, rate reliefs and furlough payments.

Debt (Section 5)

- Total loan debt fell from £380.1m as at 31.03.2021 to £322.4m by 31.03.2022, the decrease of £57.7m comprises of:
    - ➢ Repayment of loans of which £26.7m was short term, £0.5m Salix and £30.5m PWLB (£27.8m of that being early repayments)
    - ➢ Statutory borrowing limits(the authorised limit and operational boundary), were not breached.
- Loan interest totalling £9.3m was paid of which £4.5m was wholly funded from rental income received from the Council's regeneration programme.
- Average rate of interest payable was 2.82% in 2021/22 and compared to 2.57% in 2020/21 a rise of 0.25%.
- Level of under-borrowing was £53.9m at 31.03.2022 which represents an increase of £10.5m from the 31.03.2021 closing position of £43.4m.

Investments (Section 6)

- 2021/22 continued the challenging investment environment of previous years, namely low investment returns.
- Total level of investments rose from £97.3m at 31.03.2021 to £130.6m at 31.03.2022 a movement of £33.3m due to grant monies being received in advance of spend.
- The rate of return for all investments in 2021/22 was 0.35% which is £0.1m above budget and 0.39% or £0.5m above the recognised performance indicator of 7-day LIBID which was -0.04%.
- Weighted average life of investments at 31.03.2022 was 101 days or 3.32 months excluding all long-term investments.
- All investments were repaid on time without issue and undertaken in accordance with the approved strategy.

Prudential Indicators and limits (Section 8 and Appendix E)

- No breaches to any of these limits occurred.

1. BACKGROUND

1.1 The 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 For the financial year 2021/22, the Accounts & Audit Committee together with the Executive and Council received the following three reports:

- annual treasury management strategy for the year ahead (issued February 2021);
- mid-year update report (issued November / December 2021);
- annual outturn report describing the activity undertaken (July 2022 this report).

1.3 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.

1.4 It is confirmed that in accordance with the requirement of the Code, prior scrutiny of all the above treasury management reports has been undertaken by the Accounts & Audit Committee before they were reported to the Executive and Council.

1.5 Figures in this report are based on the actual amounts borrowed and invested and as such will differ from those stated in the final accounts which are shown in compliance with International Financial Reporting Standards.

1.6 For reference a list of abbreviations used within the report has been provided and can be found in Appendix F.

1.7 This report comprises of the following sections:

- Major Economic Headlines (Section 2);
- Interest Rates (Section 3);
- Treasury Position (Section 4);
- Borrowing Position (Section 5);
- Investment Position (Section 6);
- Related Treasury Issues (Section 7);
- Prudential and Performance indicators (Section 8);
- Outlook 2022/23 (Section 9);
- 2021/22 Summary Outturn position (Section 10);
- Appendices including details of abbreviations used in the report.

2. MAJOR ECONOMIC HEADLINES

2.1 A brief summary of the main events which occurred during 2021/22 are highlighted below for reference;

General

- During 2021 the continuing impact of the COVID-19 pandemic compounded by the outbreak of Russian hostilities in Ukraine has meant that world growth has not recovered from the 2020 levels. Increases in government debt levels have been incurred as a result of massive fiscal support being provided to their respective economies. It remains, therefore, very important that bond yields (interest rates) stay low while debt to GDP ratios slowly subside under the impact of economic growth thereby ensuring that debt servicing costs remain manageable.
- As a result of the conflict in the Ukraine and the sanctions placed on Russia the effect on western economies, which rely predominantly on Russia for their oil and gas supplies, all point to inflation being at elevated levels until well into 2023.
- In order to try to control inflation the Bank of England raised the Bank Rate three times during 2021/22 from 0.10% to 0.75%.
- World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

UK

- Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England Monetary Policy Committee (MPC) took emergency action in March 2020 to cut Bank Rate to 0.10%, it left the runchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16 December 2021, 0.50% at its meeting of 4 February 2022 and then to 0.75% in March 2022. Since the end of 2021/22, the rate has risen to 1.25%, following 0.25% increases in both May and June 2022.
- The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) which is sufficient enough for the MPC to focus on tackling the second-round effects of inflation, as the CPI measure has risen to 6.2% by the end of 2021/22, and has exceeded 9% since.
- Gilt yields fell towards the back end of 2021 but, despite the war in Ukraine, have risen in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.
- The squeeze on real household disposable incomes arising from the 54% increase in utilities prices in April, as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1 April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will have a bigger impact on real incomes in 2022 than in any year since records began in 1955.

3. INTEREST RATES

3.1 Within the 2021/22 Treasury Management Strategy, a forecast for interest rates was provided which indicated that minor increases in rates would occur during the year. Actual interest rates seen in the period have risen above this forecast, with the growth in the rates seen across all markers from April 2021 to March 2022, as shown in the table below.

	2021/22	**1 April 2021**	**31 March 2022**	**2021/22**
	Forecast Average	**Actual**	**Actual**	**Actual Average**
	%	**%**	**%**	**%**
Bank Rate	0.10	0.10	0.75	0.26
Investment Rates				
3 month	0.10	0.03	0.14	0.02
1 Year	0.20	0.12	0.69	0.34
Loan Rates				
5 Year	0.80	1.20	2.25	1.45
25 Year	1.60	2.22	2.64	2.10
50 Year	1.40	2.03	2.39	1.85

3.2 The expectation for interest rates within the treasury management strategy for 2021/22 was that the 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 required. The Bank Rate remained unchanged until the MPC raised it to 0.25% at its meeting on 16 December 2021, to counter rising inflation. The rate was increased again to 0.50% at the MPC's meeting of 4 February 2022 and then to 0.75% in March 2022. Since the end of 2021/22, the rate has risen to 1.25%, following 0.25% raises in both May and June 2022. Further rate rises are expected in 2022/23, potentially to a rate of 2.75% by March 2023.

3.3 During 2021/22, the Bank of England and the Government maintained various monetary and fiscal measures, supplying the banking system and the economy with large amounts of cheap credit to support the economy. The Government also supplied large 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.

4. TREASURY POSITION

4.1 The Council's Treasury Management in-house team actively ensure that:

- All transactions are carried out in accordance with the current Scheme of Delegation,
- All borrowing has been carried out in accordance with the Council's current Debt Strategy and Prudential Indicators,
- All investments placed have been done so in accordance with the criteria stipulated within the current Investment strategy,
- Security for investments and the management of risks within all treasury management activities is maintained,
- Access to funds is available at all times enabling all payments to be made on time preserving the Council's reputation and
- Procedures and controls to achieve these objectives are in place and that these are reported to members as detailed in the background section and through officer activity as highlighted in the annual Audit and Assurance report.

4.2 The table below shows the loan and investment positions at the beginning and end of 2021/22 for reference:

	31 March 2022		31 March 2021	
	Principal (£m)	**Avg. Int. Rate %**	**Principal (£m)**	**Avg. Int. Rate %**
DEBT				
- PWLB	286.2	2.44	316.6	2.51
- Government Loans - Salix	0.2	0.0	0.8	0.0
- Market	36.0	4.56	62.7	2.65
Total debt	***322.4***	**2.68**	***380.1***	**2.53**
CFR (to finance past capital expenditure)	376.3		423.5	
Over/ (under) borrowing	***(53.9)***		***(43.4)***	
INVESTMENTS				
- Instant access	30.7	0.52	25.0	0.03
- Call account	0.4	0.10	10.4	0.03
- Term deposit	76.2	0.75	39.5	0.17
- CCLA	5.7	4.33	4.8	4.51
- Asset Investment Programme (AIP)	17.6	n/a	17.6	**n/a**
Total investments	***130.6***	**1.24**	***97.3***	**0.99**

4.3 Whilst the table at paragraph 4.2 details the position as at the beginning and end of 2021/22 the average position for 2021/22 and 2020/21 was as follows:

	2021/22		2020/21	
	Principal	**Interest Rate**	**Principal**	**Interest Rate**
Average Debt	£332.8m	2.82%	£385.5m	2.57%
Average Investment *	£122.0m	0.35%	£76.9m	0.76%

* Excludes Strategic Asset Investments

5. BORROWING POSITION

5.1 As highlighted in paragraph 4.1 above, part of the Council's treasury management remit is to address any potential borrowing needed to be taken in order to fund the capital expenditure programme. This may result in funds being borrowed by the in-house treasury management team from external bodies, such as the Government, through the PWLB, the money markets or utilising temporary cash resources which the Council may have.

5.2 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents capital spend, not yet paid for by revenue or other capital resources, incurred from current and prior years' activities reflecting the level of the Council's indebtedness.

5.3 During 2021/22, the Council maintained an under-borrowed position as highlighted in the table at paragraph 4.2 which means that the capital borrowing needed was not fully funded with new 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 maintained low levels, and minimising counterparty risk on placing investments also needed to be considered.

5.4 To safeguard the Council's finances, the level of CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that any borrowing costs incurred are charged to revenue over the useful life of the asset. The Council is required to make an annual revenue charge called the Minimum Revenue Provision (MRP) and this reduces the CFR and effectively is a repayment of borrowing. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.5 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts) or
- charging more than the statutory revenue charge MRP each year through a Voluntary Repayment Provision (VRP).

5.6 The Council's 2021/22 MRP Policy, (as required by DLUHC Guidance), was approved by Members as part of the Treasury Management Strategy report for 2021/22 in February 2021.

5.7 The Council's CFR includes PFI and any leasing schemes held on the balance sheet, which increase the overall borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

5.8 During 2021/22 the Council did not undertake any new borrowing. During the year the Council undertook early repayment of loans to ensure that it was not in an over-borrowing position. On 31 March 2022 the Council repaid three PWLB Loans totalling £27.8m at an average rate of 2.55% with breakage costs of £5.76m.

5.9 As at 1 April 2021 short term debt of £26.7m was outstanding, this was fully repaid by the due date of 30 September 2021. Whilst the use of an overdraft facility provided by the Council's bank is available this is an expensive form of borrowing at 4% over bank rate and would have resulted in interest costs of £1.18m, an increase of £1.02m, had this option been used instead of short-term borrowing.

5.10 As a result of the action outlined in paragraphs 5.8 and 5.9, the policy adopted in previous years of applying cash supporting the Council's reserves, balances and cash flow was also applied in 2021/22 and as a consequence of this, the level of under borrowing rose from £43.4m as at 31 March 2021 to £53.9m at 31 March 2022. This action was undertaken in conjunction with advice obtained from LG, the treasury management advisors, and offers a prudent approach due to the low level of investment returns available when compared to borrowing rates.

5.11 The Director of Finance and Systems can confirm that during 2021/22 the Council's level of gross external borrowing did not exceed its CFR thereby ensuring its long term borrowing levels are prudent, only taken for capital purposes and not used to support revenue expenditure.

5.12 From the table at paragraph 4.2 it can be seen that the level of external debt decreased during 2021/22 from the opening position of £380.1m to close at £322.4m and this was as a result of the following transactions;-

Lender	Principal – New	Principal – (Repayment)	Average Interest rate	Notes
Long Term				
PWLB		£(27.8m)	2.55%	Early Repayment
PWLB		£(2.7)m	9.13%	Natural maturity
SALIX Finance		£(0.5)m	0.00%	Loan used to part fund the LED Street Lighting Programme.
Sub total	**£0m**	**£(31.0)m**		
Short Term				
Various Local Authorities		£(26.7)m	0.07%	Natural maturity
Sub total	**£0m**	**£(26.7)m**		
Grand total	**£0m**	**£(57.7)m**		

5.13 From the total debt outstanding of £322.4m, £0.6m is administered on behalf of Greater Manchester Probation Service which leaves £321.8m in respect of the Council's own long term requirement and a maturity profile of the Council's debt can be found at Appendix B & C for reference.

5.14 Gross loan interest paid during 2021/22 totalled £9.3m and of this £4.5m was funded from applying a proportion of the Council's regeneration programme rental income. The balance of £4.8m was incurred within the MTFP budget provision.

5.15 During 2021/22 the Director of Finance and Systems continued to monitor interest rate movements in the financial markets and caution was adopted with the treasury operations.

5.16 At the end of November 2021 the DLUHC published a consultation document on proposed changes to the Minimum Revenue Provision (MRP) concerning the application of future potential capital receipts instead of setting aside annual MRP on any Council investment asset or capital loan which it may hold. This consultation has now concluded, with changes to be made to ensure that Local Authorities make adequate MRP payments in regard to property acquisitions. The updated regulations will not apply to capital loans, which Local Authorities can continue not to apply MRP to if they consider it prudent.

6. INVESTMENT POSITION

6.1 The Council's investment policy is governed by the DLUHC guidance which has been implemented within the annual investment strategy approved by Council in February 2022. 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.).

6.2 Using this information the Council's in-house treasury management team is able to produce an approved lending list in order to ensure investments are only placed with low risk institutions. Funds are invested for a range of periods reflecting cash flow requirements together with counterparty limits as set out in the approved investment strategy ensuring that an excessive level of funds are not placed in a single counterparty.

6.3 The Director of Finance and Systems can confirm that;

- during the year all investment activity conformed to the approved strategy,
- the approved limits within the Annual Investment Strategy were not breached,
- the Council had no liquidity difficulties and
- in-line with previous years, security and liquidity of its investments remained the overall priorities followed by optimum return (yield) consummate with this approach.

6.4 In 2021/22 the Council maintained an average balance of £116.8m of internally managed funds (this figure excludes £5m placed in the Property Fund managed externally by CCLA group) earning an average rate of return of 0.16% which generated £205k in investment interest. This return was £153k above the agreed budget figure of £52k and 0.21% or £249k above the performance indicator of the average 7-day LIBID rate of -0.04%.

6.5 With regards to the Council's long term investments, in 2015, £5m was placed into the CCLA Property Fund for a minimum period of 5 years which after entry costs had been deducted of £0.3m, enabled 1,643,872 units to be purchased in the fund. At 31 March 2021 the value of these units, were £4.83m due to the impact COVID-19 had on the UK commercial property market. Since this the fund has seen a steady recovery over the last 12 months with a value of £5.67m at 31 March 2022.

6.6 The outlook for this fund is that the steady growth in value is set to continue in 2022/23. The commercial property sector has had a strong start to the year with transaction volumes significantly above trend levels and yields across the majority of sub-sectors lower than at the same time in 2021, with the biggest gains in industrial and distribution properties. There is concern, however, around the impact rising inflation may have.

6.7 In response to the implementation in 2018/19 of IFRS 9 into the CIPFA Code of Practice on Local Authority Accounting, any movement in valuation would normally have to be taken and reflected in full to the Council's revenue account. As a consequence of this change to the CIPFA Code of Practice DLUHC put in place a 5 year statutory override effective from 1 April 2018. The Council will use this override facility to account for any changes in the value of this investment during this period thereby avoiding any adverse movements being taken to the revenue account in full during the year they occurred.

6.8 After the expiry of this override any fall in valuation beneath £5m could place a burden on the Council's revenue account. The value of this investment will be closely monitored to ensure that the likelihood of this happening is minimised.

6.9 Annualised returns generated from the CCLA property fund in 2021/22 (gross of fees on the original value invested) were 4.35% and this compares with that achieved in 2020/21 of 4.71%.

6.10 When the rates of return for both short and long term investments are combined, this produces an average level invested of £122.0m, generating a rate of return of 0.35% worth £0.42m which is £0.1m above budget and 0.39% or £0.5m above the performance indicator of the average 7-day LIBID rate of -0.04%.

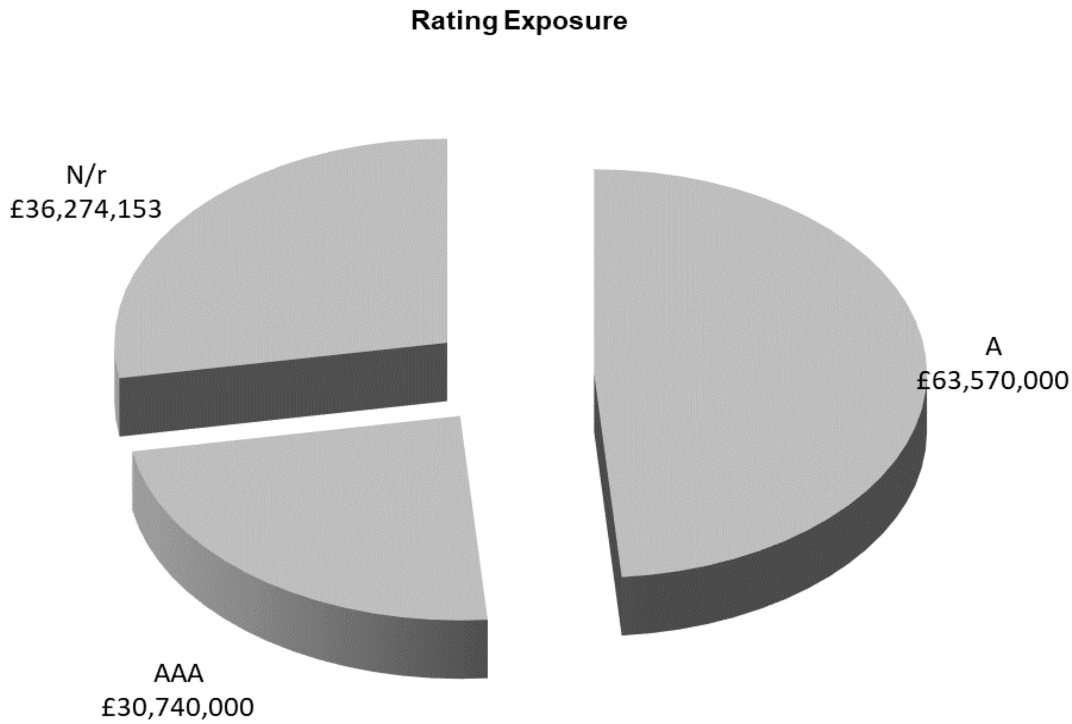
6.11 In addition to the £5m CCLA investment, the Council in August 2019 undertook a further long term investment when it entered into a £17.6m 5 year loan facility agreement with Queens Holding Limited secured on 4 prominent income producing properties known as Albert Estate within Manchester City Centre. A sale of part of the estate resulted in a partial early repayment to the Council of £5.6m, reducing the facility to £12.0m. This repayment occurred in April 2022, and so did have an impact on the figures reported in the 2021/22 financial year.

6.12 During the climate of extremely low investment interest rates the ability to generate a significant level of return without exposing the Council's funds to high levels of risk remains challenging. Whenever new opportunities to generate additional investment income become known, these are thoroughly investigated in order to ensure that they will be suitable for the Council to pursue without committing it to any unnecessary risk.

6.13 The Council's main bank account with Barclays, is non-interest bearing and consequently if no investments were undertaken by the in-house team, the Council would lose the opportunity to generate £205k of income.

6.14 Levels of funds available to be invested on a daily temporary basis are subject to a number of factors such as timing in the form of monies being received ahead of spend requirements and progress on the Capital Programme.

6.15 The graph below provides a breakdown of the Council's investments placed as at 31 March 2022 by long term credit rating and further information detailing the make-up of this can be found at Appendix C & D



7. RELATED TREASURY ISSUES

7.1 Member training – In accordance with the Code, Members are responsible for ensuring effective scrutiny of the treasury management strategy and policies takes place. In order to be able to do so effectively a member training session was provided by the Council's advisors LG and in-house staff to members of the Accounts and Audit Committee on 27 January 2022 via the Teams facility.

7.2 Greater Manchester Pension Fund (GMPF) - During April 2020, the Council along with several other Greater Manchester councils paid over to GMPF a discounted advance equivalent to 3 years of employer pension contributions in order to take advantage of the pension fund's wider investment powers. This initial payment will have run its course by 31 March 2023. A further payment is planned to be made in April 2023.

7.3 Asset Investment Strategy - During 2017/18 the Council introduced a programme to acquire and invest in suitable assets which will help deliver corporate objectives and priorities. Any transactions made under this strategy are made to support policy related activities. These transactions are therefore considered outside the treasury management of purely financial investments however their implementation will have an impact on the Council's cash flow.

8. PRUDENTIAL AND PERFORMANCE INDICATORS

8.1 It is a statutory duty for the Council to determine and keep under review the Council's Prudential Indicators as approved within the Treasury Management Strategy for 2021/22.

8.2 During the year ended 31 March 2022, the Council operated within these indicators and these are shown in Appendix E for reference.

9. OUTLOOK 2022/23

9.1 The economic impact of the COVID-19 pandemic and the conflict in Ukraine will continue to be felt for a while as the increased costs of oil and gas impacts on prices for goods and services across the world and pushes inflation up to levels not seen for many years. In the UK, real economic growth is slowing rather than collapsing in the face of the twin drags of higher inflation and higher interest rates, the OECD projects UK GDP to increase by 3.6% in 2022 but would fall to nil in 2023.

9.2 The conflict in the Ukraine and the sanctions imposed on Russia has seen a sharp rise in the costs of goods as a result of an increase in oil and gas prices, and the need to find alternative supply. This has increased inflation levels in the UK to above 9% and as a result the Bank Rate is forecast to rise from 1.25% in June 2022 to 2.75% by March 2023.

9.3 The growth in the Bank Rate will push-up interest rates which will in turn will increase the cost to the Council to borrow but will also increase the return on any investments undertaken. The Treasury team will look to manage cash flows to minimise the need for borrowing and maximise any investment return.

10. 2021/22 SUMMARY OUTTURN POSITION

10.1 Activities undertaken as part of the treasury management function are subject to many factors beyond the control of the Council impacting on actual performance e.g. worldwide economic, political and health (COVID-19) events and interest rate movements. The table below reflects the summarised outturn position compared to that originally forecasted for reference;

Treasury	Budget £000	Outturn £000	Variance £000
DEBT			
Loan Interest	4,791	4,773	(18)
MRP	5,834	5,620	(214)
PFI Interest & Premium	907	908	1
Other Costs (see Note)		175	175
Sub-total	**11,532**	**11,476**	**(56)**
INVESTMENTS			
Investment Interest & other net interest receipts	(293)	(470)	(177)
MAH Ltd – Main Share dividend Loan interest and car park dividend	 0 (3,528)	 0 (3,290)	 0 238
Sub-total	**(3,821)**	**(3,760)**	**61**
RESERVES			
Contribution to / (from) Interest Smoothing Reserve	(729)	193	922
Sub-total	**(729)**	**193**	**922**
TOTAL	**6,982**	**7,908**	**927**

Non-Treasury items	Budget £000	Outturn £000	Variance £000
EXPENDITURE			
Loan Interest	4.654	4,525	-129
Loss of Investment interest	51	99	48
MRP	2,124	2,252	128
Sub-total	**6,829**	**6,877**	**48**
RECHARGES			
Sub-total	**(6,829)**	**(6,877)**	**(48)**
TOTAL	**0**	**0**	**0**

Note: The above figures reflect;

- All associated debt servicing costs in respect to the Council's Asset Investment Programme are self-financing i.e. paid for from the income stream generated from the investment;
- Other Costs relate to an accrual for fees relating to technical advice from our treasury management advisers.

10.2 The application of the Interest Smoothing Reserve will, should it be needed over the forthcoming years, be applied to finance future cash implications arising from:-

- Potential adverse changes in investment interest rates,
- Short term temporary borrowing funding requirements and
- Non-treasury management activities which have an impact on cash flows.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Regulations and relevant legislation and provides an overview of transactions undertaken during 2021/22. There are no other options to consider.

Consultation

There are no consultation requirements in respect of this report.

Reasons for Recommendation

The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

Finance Officer Clearance PC

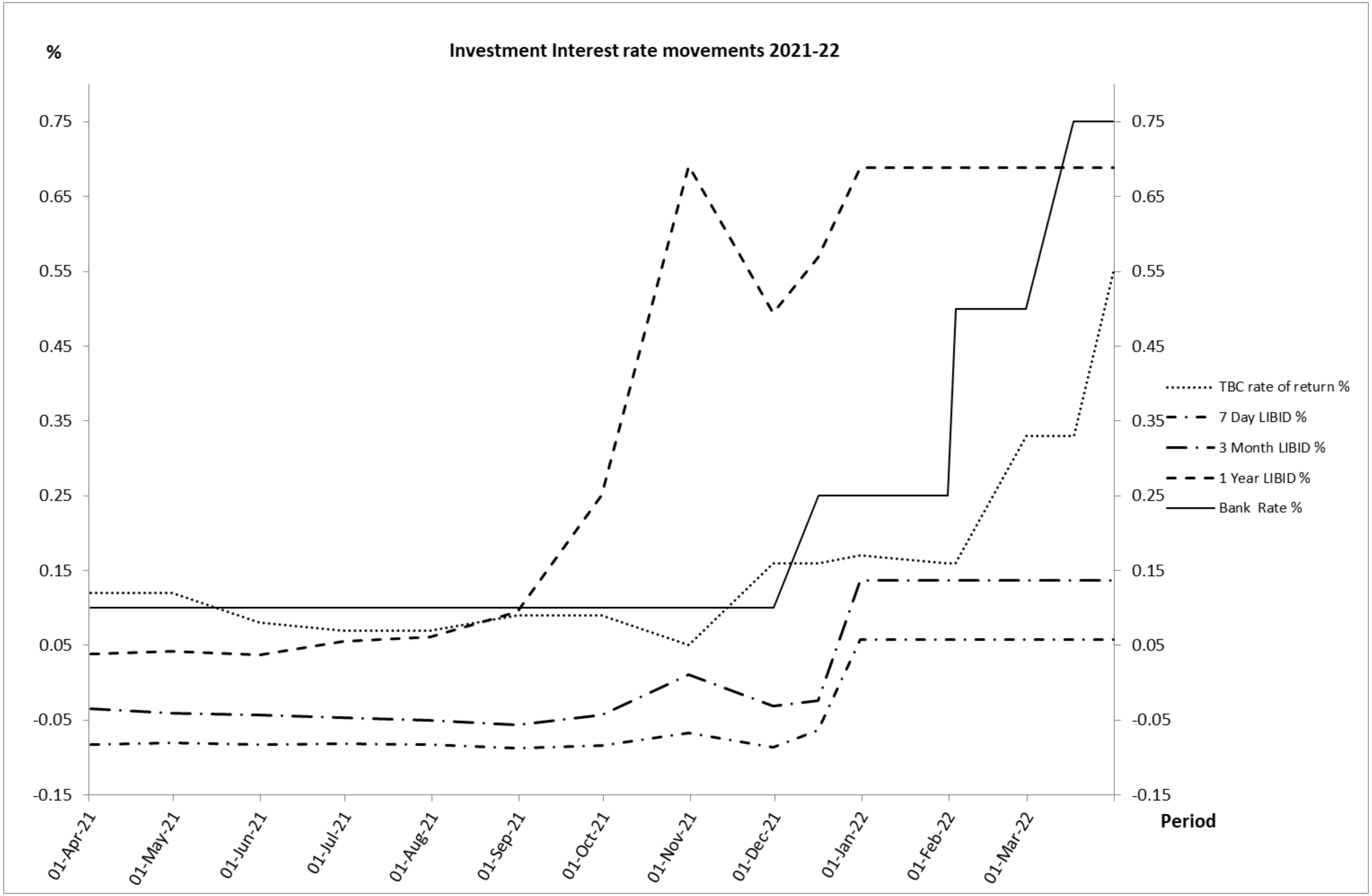
Legal Officer Clearance

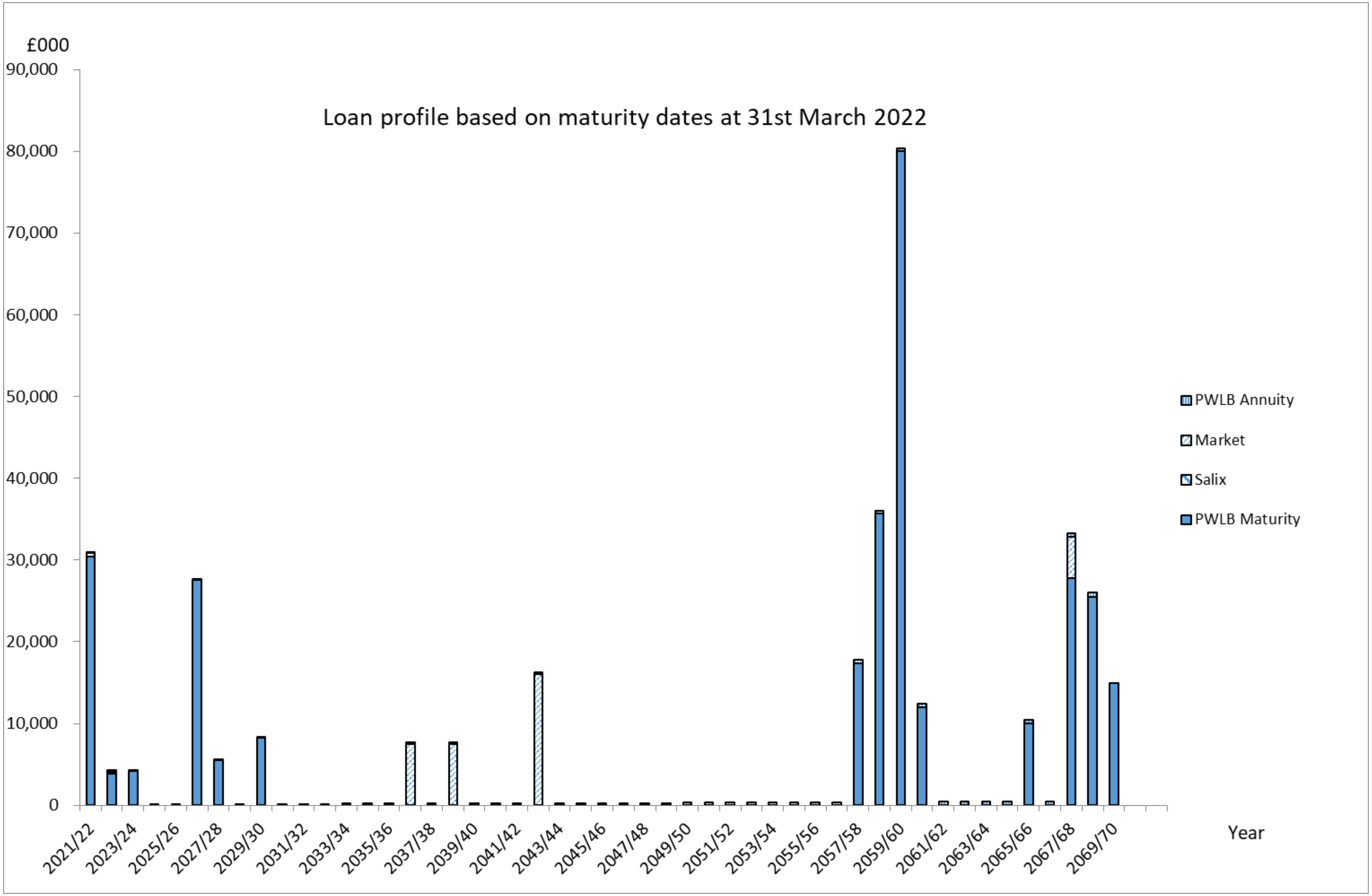
G. Bentley

DIRECTOR'S SIGNATURE

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.

Appendix A


%
Investment Interest rate movements 2021-22
0.75
0.65
0.55
0.45
0.35
0.25
0.15
0.05
-0.05
-0.15
01-Apr-21
01-May-21
01-Jun-21
01-Jul-21
01-Aug-21
01-Sep-21
01-Oct-21
01-Nov-21
01-Dec-21
01-Jan-22
01-Feb-22
01-Mar-22
Period
TBC rate of return %
7 Day LIBID %
3 Month LIBID %
1 Year LIBID %
Bank Rate %


£000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Loan profile based on maturity dates at 31st March 2022
PWLB Annuity
Market
Salix
PWLB Maturity
Year
2021/22
2023/24
2025/26
2027/28
2029/30
2031/32
2033/34
2035/36
2037/38
2039/40
2041/42
2043/44
2045/46
2047/48
2049/50
2051/52
2053/54
2055/56
2057/58
2059/60
2061/62
2063/64
2065/66
2067/68
2069/70

Appendix B

Maturity Profile

Debt portfolio:

	31 March 2022 (£m)	31 March 2021 (£m)
Under 12 months	19.2	29.9
12 months and within 24 months	4.3	4.3
24 months and within 5 years	28.0	21.6
5 years and within 10 years	14.6	42.1
10 years and above	256.3	282.2
Total	**322.4**	**380.1**

Investment portfolio:

	31 March 2022 (£m)	31 March 2021 (£m)
Instant Access	30.7	25.0
Up to 3 Months	22.7	31.5
3 to 6 Months	27.9	13.4
6 to 9 Months	18.5	0
9 to 12 months	7.5	5.0
Over 1 year	23.3	22.4
Total	**130.6**	**97.3**

Appendix D

Breakdown of Investments

Counterparty	Amount (30 Sept 2021) £	Amount (31 March 2022) £	Long Term Credit Rating
Money Market Fund			
Aberdeen	2,550,000	5,000,000	AAA
CCLA	5,000,000	6,000,000	AAA
Federated Investors	14,010,000	4,800,000	AAA
Insight	0	4,500,000	AAA
Invesco Aim	2,850,000	4,900,000	AAA
Morgan Stanley	6,000,000	5,540,000	AAA
Sub total	*20,410,000*	*30,740,000*	
Notice Accounts			
Lloyds 95	370,000	370,000	A
Federated T+1	10,000,000	0	
Abu Dhabi T+1	10,000,000	0	
ANZ 31	10,000,000	0	
Sub total	*30,370,000*	*370,000*	
Term Deposit			
Australia and New Zealand Bank	10,500,000	20,500,000	A
Brentwood Council	5,000,000	0	AA
Monmouthshire County Council	5,000,000	0	AA
Development Bank of Singapore	5,200,000	5,200,000	A
First Abu Dhabi Bank	5,000,000	16,000,000	A
National Bank of Kuwait	10,000,000	10,000,000	A
West Bromwich Building Society	5,000,000	0	Not rated
Newcastle Building Society	3,000,000	3,000,000	Not rated
Principality Building Society	5,000,000	5,000,000	Not rated
Yorkshire Building Society	0	5,000,000	Not rated
Nationwide Building Society	0	3,000,000	A
Santander	0	8,500,000	A
Sub total	*53,700,000*	*76,200,000*	
Property Funds			
Church Commissioners Local Authority	5,163,566	5,674,153	Not rated
Sub total	*5,163,566*	*5,674,153*	
Other			
Asset Investment Programme	17,600,000	17,600,000	Not rated
Sub total	*17,600,000*	*17,600,000*	
Total	**127,243,566**	**130,584,153**	

The above table shows the level of investments placed as at 31 March 2022 and 30 September 2021, the last time Members were provided with this information.

Appendix E

Prudential Indicators for 2021/22

Indicator	Indicator set by Council	Actual
Authorised Borrowing Limit Maximum level of external debt, including other long term liabilities (PFI & leases) undertaken by the authority including any temporary borrowing - this is a statutory limit under Section 3(1) of the Local Government Act 2003.	£629.5m	£326.3m
Operational Boundary Calculated on a similar basis as the authorised limit but represents the expected level of external debt & other long term liabilities (PFI & leases) excluding any temporary borrowing – this is not a limit.	£609.5m	£326.3m
Upper limits on fixed interest rates **Maximum** limit of net fixed interest rate exposure - debt less investment	£9.5m	£8.5m
Upper limits on variable interest rates **Maximum** limit of net variable interest rate exposure – debt less investment	£1.0m	£0.6m
Gross Debt and the Capital Financing Requirement – this reflects that over the medium term, debt will only be taken for capital purposes. During 2020/21 the Director of Finance and Systems can confirm that this indicator was complied with.		
Maturity structure of fixed rate borrowing These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.		
Under 1 year (this includes the next call date for Market loans)	40%	6%
1 year to 2 years	40%	1%
2 years to 5 years	40%	9%
5 years to 10 years	40%	5%
10 years to 20 years	40%	1%
20 years to 30 years	40%	6%
30 years to 40 years	70%	46%
40 years and above	90%	27%
Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment.	£100m	£60.3m

Performance Indicators for 2021/22

Indicator	Target	Actual
Security – potential default rate of the Council's investment portfolio based on default rates from the 3 main credit rating agencies – inclusion is recommended by CIPFA.	Max 0.05%	Max 0.018% (31 March 2022)
Liquidity – investments available within 1 week notice	£5m min.	Achieved
Liquidity – Weighted Average Life of investments	6 months	3.32 months (31 March 2022)
Yield – Investment interest return to exceed 7 day **L**ondon **I**nterbank **BID** rate (exclude CCLA)	Average 7 day LIBID -0.04%	Average rate of return for 2021/22 was 0.17%
Origin of investments placed - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	Min 63% Max 37%

APPENDIX F

ABBREVIATIONS USED IN THIS REPORT

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CCLA: Church Commissioners Local Authority - manage investments for charities, religious organisations and the public sector

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies which meet annually to discuss issues such as global economic governance, international security and energy policy consisting of United States, Canada, France, Germany, Italy, Japan and the United Kingdom.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets.

IFRS 9: is an International Financial Reporting Standard (**IFRS**) published by the International Accounting Standards Board (IASB). It addresses the accounting for financial instruments and contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

LG: Link Group – independent organisation which provides advice and guidance on all treasury matters including government legislation.

LIBID: the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MAH Ltd: Manchester Airport Holdings Limited - is a holding company which is owned by the ten metropolitan borough councils of Greater Manchester and an Australian investment fund IFM Investors.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

MTFP: A Medium Term Financial Plan is a key part of the Council's Policy and Budget Framework and sets out the strategic approach to the management of its finances.

OBR: Office for Budget Responsibility is a non-departmental public body funded by the UK Treasury that the UK government established to provide independent economic forecasts and independent analysis of the public finances

OECD: Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade

PEPP: Pandemic emergency purchase programme is the ECB's monetary policy measure initiated in March 2020 which is a temporary asset purchase programme of private and public sector securities.

PFI: Private Finance Initiative is a way of financing public sector projects through the private sector.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: Quantitative Easing - is a monetary policy whereby a central bank (e.g. Bank of England) buys government bonds or other financial assets in order to inject money into the economy to expand economic activity.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

UK: United Kingdom.

US: United States of America.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition)