



PART A:	MATTERS DEALT WITH UNDER DELEGATED POWERS
REPORT TO:	OVERVIEW AND SCRUTINY COMMITTEE
DATE:	28 SEPTEMBER 2022
REPORT OF THE:	CHIEF FINANCE OFFICER (s151) – ANTON HODGE
TITLE OF REPORT:	TREASURY MANAGEMENT ANNUAL REPORT 2021-22
WARDS AFFECTED:	ALL

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

- 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).

2.0 RECOMMENDATIONS

- 2.1 That Council is recommended to:
- (i) Note the annual treasury management report for 2021-22; and
 - (ii) Approve the actual 2021-22 prudential and treasury indicators in this report.

3.0 REASON FOR RECOMMENDATIONS

- 3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

- 4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

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- 5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.
- 5.2 The Council uses the services of Link Asset Services – Treasury Solutions (Link) to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

- 6.1 During 2021-22 the minimum reporting requirements were that the full Council should receive the following reports:
- An annual treasury strategy in advance of the year (Council 17 February 2021)
 - A mid year (minimum) treasury update report (Audit, Overview & Scrutiny Committee 18 November 2021)
 - An annual review following the end of the year describing the activity compared to the strategy (this report).
- 6.2 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.
- 6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.
- 6.4 This report summarises:
- Capital activity during the year;
 - Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
 - Reporting of the required prudential and treasury indicators;
 - Summary of interest rate movement in the year;
 - Detailed borrowing activity;
 - Detailed investment activity.

The Council's Capital Expenditure and Financing 2021-22.

- 6.5 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.

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

	2021-22 Actual (£)	2020-21 Actual (£)
Total Capital Expenditure	2,763,430	1,014,618
Resourced by:		
Capital receipts	48,670	70,527
Capital grants and contributions	837,981	523,036
Reserves	1,003,030	236,891
S106 Commuted Sums	520,789	164,164
External Borrowing	219,000	-
Internal Borrowing	134,000	
Total	2,763,430	1,014,618

The Economy and Interest rates

6.7 The Council's treasury advisors Link Asset Services – Treasury Solutions (Link) summarised the key points associated with economic activity in 2021/22 up to 31 March 2022:

- Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and world economies. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it remained unchanged until raising to 0.25% in December 2021, 0.50% in February 2022 and then to 0.75% in March 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) and sufficient for the Monetary Policy Committee to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.
- Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher 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.

Overall Treasury Position as at 31 March 2022

- 6.10 The Council's opening and closing treasury position for the financial year was as follows (excluding finance leases):

	31 March 2022	31 March 2021
Total Debt	£1,474m	£1,513m
CFR	£2.213m	£2.069m
Over/(Under) borrowing	-£0.739m	-£0.566m
Total Investments	£35,155m	£28,901m
Net Debt	-£34,416m	-£28,335m

The Strategy for 2021-22

- 6.11 The Treasury Management Strategy for 2021-22 was approved by members at full Council on 17 February 2021.
- 6.12 The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2021-22 was based on officers' views at that time, prepared with assistance from the Council's Treasury Management Advisor (Link Asset Services) and supported by a selection of City forecasts.
- 6.13 The interest rates for the UK were expected to be as follows:

Bank Base Rate following the impact of the Covid-19 Pandemic rates were at an exceptional low of 0.1% heading into the financial year. It was not expected that base rates would rise again for some considerable time, with forecast returns in investment no higher than 0.25% by the end of the financial year.

PWLB Borrowing rates were forecast to rise marginally throughout the next three years in all periods. Variable and short term rates were expected to be the cheaper form of borrowing over the period.

- 6.14 Based on the above, the Strategy adopted by the Council for 2021-22 was as follows:

a) Long Term Debt to Finance Capital Expenditure (borrowing strategy 2021-22)

2021-22 was expected to remain as a year of low bank interest rates, with low returns expected from the Council's investments. This situation extends the current opportunity for the Council to utilise an internal borrowing strategy. Borrowing in advance of need within the constraints of the Prudential Code and approved Prudential Indicators would only be considered in exceptional circumstances.

Consideration would be given to financing capital expenditure by taking borrowing from PWLB/money markets, but the key treasury strategy was to maintain an under borrowed position to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

In considering this option however, day to day cash flow constraints and the loss of longer term interest stability would also be taken into account together with the possibility of having to replace the internal borrowing with external borrowing in a subsequent year at higher interest rates.

b) Investment of Surplus cash (investment strategy 2021-22)

The Council's investment priorities are firstly the security of capital and secondly the liquidity of its investments. The highest return would then be sought provided that proper levels of security and liquidity are achieved. The investment risk appetite of the Council is low in order to give priority to the security of investments.

The Borrowing Requirement and Debt

6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2021 Actual	31 March 2022 Budget	31 March 2022 Actual
Total CFR	£1.513m	£1.474m	£1.474m

Borrowing Rates in 2021-22

6.14 The movement in relevant UK market interest rates for the year was as follows:

a) For Bank Rate

Period	%
1 April 2021 – 15 December 2021	0.10
16 December 2021 – 02 February 2022	0.25
03 February 2022 – 16 March 2022	0.50
17 March 2022 – 31 March 2022	0.75

b) For PWLB rates (Inclusive of the 0.20% discount rate)

Item	Range during Year	Start of Year	End of Year	Average In Year
	%	%	%	%
Fixed Interest Maturity				
1 year	0.78 - 2.03	0.80	1.91	1.13
5 years	1.08 – 2.38	1.26	2.26	1.49
10 years	1.42 – 2.55	1.77	2.45	1.81
25 years	1.66 – 2.75	2.22	2.63	2.10
50 years	1.25 – 2.48	2.02	2.38	1.84

Borrowing Outturn for 2021-22

6.15 No new borrowing was undertaken during the year and scheduled repayments were made. At the end of the financial year the debt portfolio was as follows:

Lender	Principal	Type	Interest Rate	Borrowing term at inception	Remaining Term length
PWLB	£1.00m	Maturity	3.69%	50 years	42 years
PWLB	£0.51m	EIP	2.99%	19 years	11 years

Investment Rates in 2021-22

6.16 Deposit rates continued into the start of 2021-22 at previously depressed levels following the cuts to the base rate in March 2020.

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.25	0.06	0.06	0.14	0.36	0.73
High Date	17/12/2021	29/12/2021	31/12/2021	31/12/2021	30/12/2021	28/10/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.04
Low Date	01/07/2021	27/08/2021	17/09/2021	08/09/2021	27/07/2021	08/07/2021
Average	0.11	-0.07	-0.05	-0.01	0.09	0.31
Spread	0.15	0.15	0.14	0.20	0.40	0.68

Investment Outturn for 2021-22

6.17 The Council's investment policy is governed by MHCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 17 February 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 supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

6.18 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

6.19 The following table shows the result of the investment strategy undertaken by the Council and the relative performance of the internally managed funds against the 7day LIBID un-compounded rate bench mark:

	Average Total Investment (£)	Average Rate of Return (%)	Net Rate of Return	Benchmark Return
Internally Managed:				
Temporary & On-Call Investments	£7.436m	0.00%	n/a	n/a
Fixed Term Deposits	£26.192m	0.195%	n/a	-0.07%

6.19 **The interest received by the Council from investments in 2021-22 totalled £50k; this compares to a budgeted estimate of £55k.**

6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. The opening and closing investments position for 2021-22 was as follows:

	31 March 2022 (£)	31 March 2021 (£)
Internally Managed Investments	35,155,031	28,901,486

6.21 The maturity of the investment portfolio was as follows;

	31 March 2022 (£)	31 March 2021 (£)
On-call Investments	5,155,031	1,401,486
Fixed Term Deposits: Repayable within 1 month	0	3,000,000
Repayable 1 month to 3 months	7,000,000	9,500,000
Repayable 3 months to 6 months	16,000,000	10,000,000
Repayable 6 months to 12 months	7,000,000	5,000,000
Repayable 12 months to 24 months	0	0
Total	35,155,031	28,901,486

6.22 Investments were placed with the following institutions:

Type of Institution	31 March 2022 (£)	31 March 2021 (£)
UK Clearing Banks	17,155,031	8,901,486
Foreign Banks	-	-
Building Societies	-	-
Local Authorities	18,000,000	20,000,000
Total	35,155,031	28,901,486

Compliance with Treasury Limits

6.23 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

7.0 IMPLICATIONS

7.1 The following implications have been identified:

a) Financial

The results of the investment strategy effect the funding of the capital programme.

b) Legal

There are no legal implications within this report

- c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder, Climate Change)
There are no additional implications within this report.

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Background Papers: None