

18 October 2022

**Report of** Chief Operating Officer

**Author** Paul Cook  
☎ 505861  
Zoey Latham  
☎ 505843

**Title** Treasury Management – Annual Review 2021/22  
**Wards affected** Not applicable

## 1 Executive Summary

- 1.1 This report is part of the cycle of monitoring treasury management and covers all the borrowing and investment activities of the Council.
- 1.2 Where internal funds were available, treasury strategy during 2021/22 was to borrow internally. This was influenced by the low investment rates on offer during 2021/22.
- 1.3 The investment policy reflected the Council's low appetite for risk. The financial year continued the challenging low return investment environment of previous years. The Council's investments at the end of the year totalled £71.9m as set out in Confidential Appendix A.
- 1.4 The Council employed the Link Group in 2021/22 to provide a treasury management consultancy service including advice on borrowing, investments, counterparty credit details and general capital accounting information. The service included treasury training, market updates and real time credit information. Link also advised on proposed government accounting and funding changes. Performance is assessed by the promptness of market updates, feedback on training events and the quality of briefings on new developments. Their performance was good in 2021/22 and enabled the Council to deliver successfully its treasury management strategy.

## 2 Recommendations

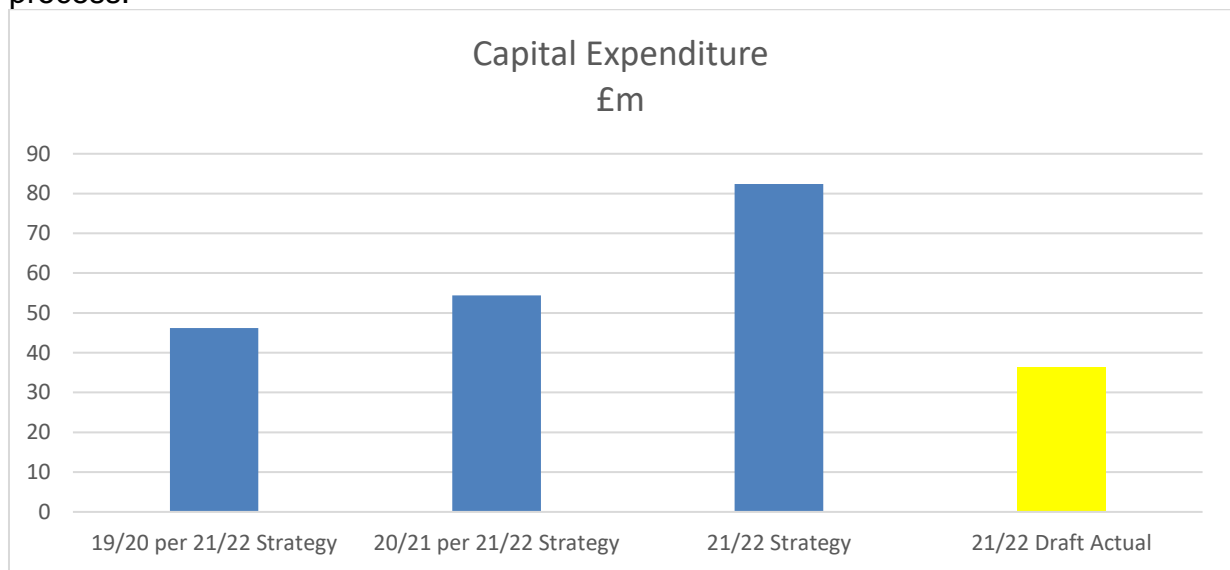
- 2.1 To approve the Treasury Management Annual Review for 2021/22.

## 3 Reason for report

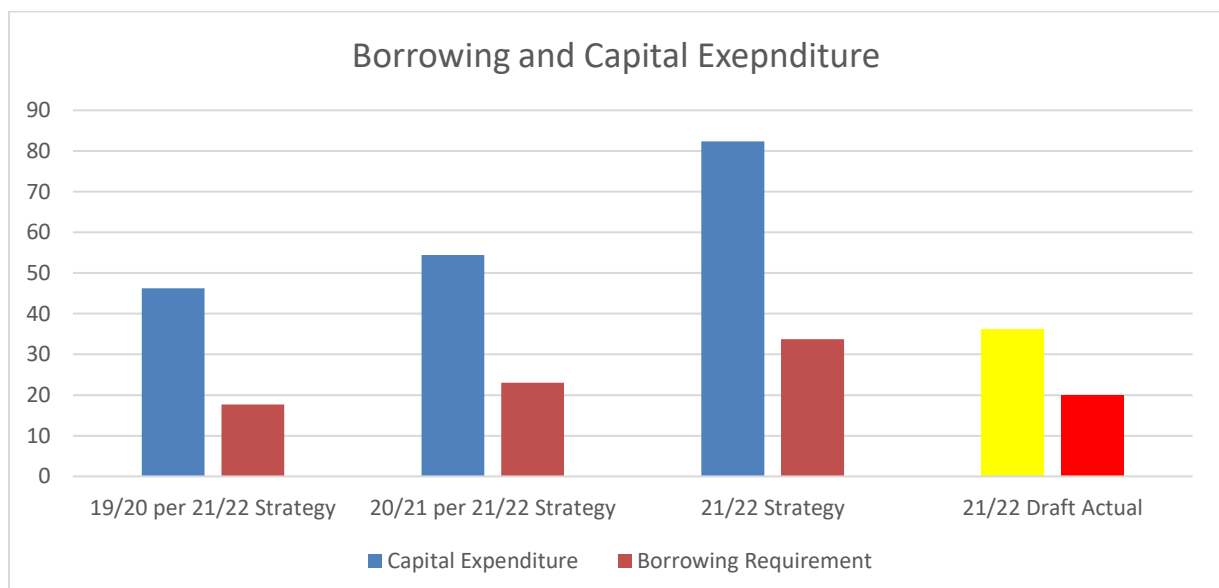
- 3.1 Due to delays in completion of the 2021/22 audit, the figures for final capital expenditure and capital financing requirements set out in this report are provisional. It is not expected any variations will arise when the accounts are ultimately signed off by BDO, but if so, the Committee will be updated.
- 3.2 The CIPFA Treasury Management Code of Practice requires the Council to produce three main reports each year, of which this is the final report for 2021/22.
  - the Treasury Management Strategy Statement
  - the Mid-Year Treasury Management Report
  - the Annual Treasury Management Review (this report)

## 4 Treasury Management Review 2021/22

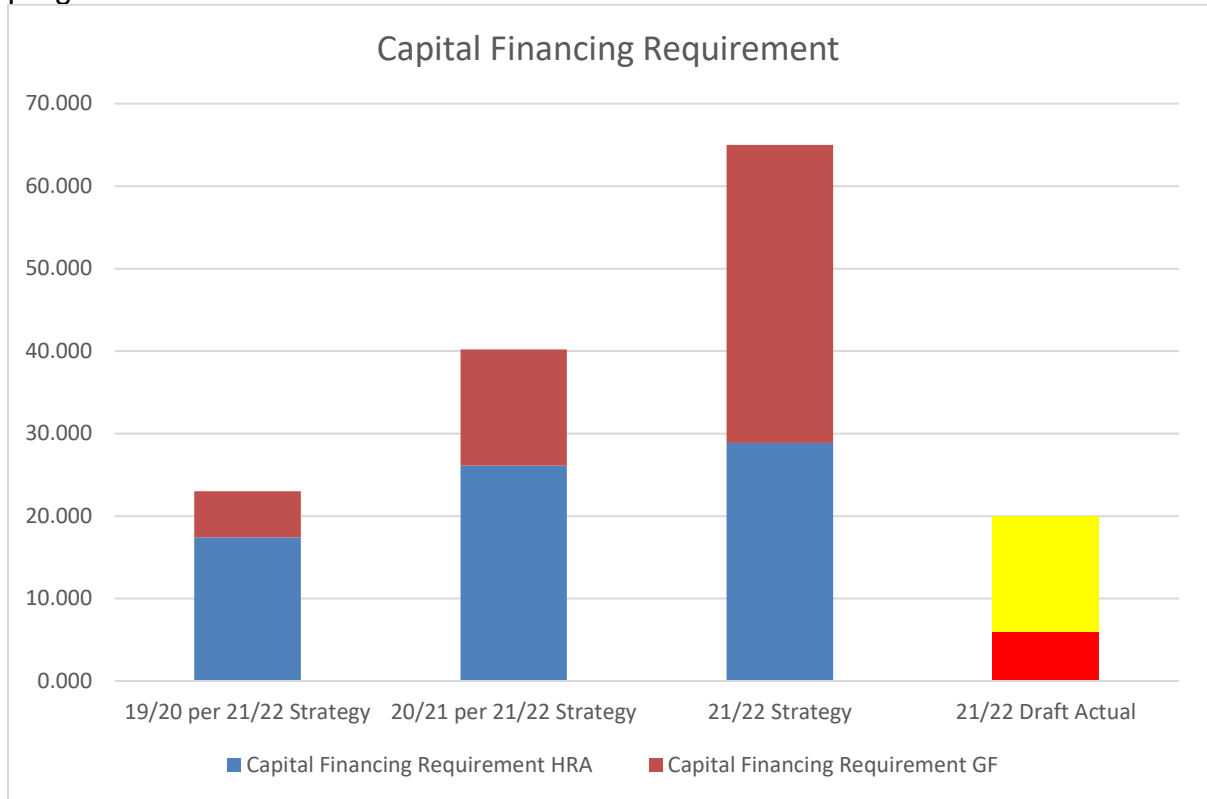
- 4.1 The Council used Link as its external treasury management advisors.
- 4.2 Responsibility for treasury management decisions remained with the Council and undue reliance was not placed upon external advisors. Decisions used available information including external advice.
- 4.3 The Council's capital expenditure plans were the key driver of treasury.
- 4.4 The Capital Expenditure Prudential Indicator compares 21/22 capital expenditure to the Council's capital expenditure plans set out in its 21/22 Treasury Management Strategy. The lower level of expenditure reflects the impact of Covid and delays to some large projects. This was set out in full in the 21/22 capital outturn report to the Committee in September. Future years' capital plans will be determined in the 2023/24 budget process.



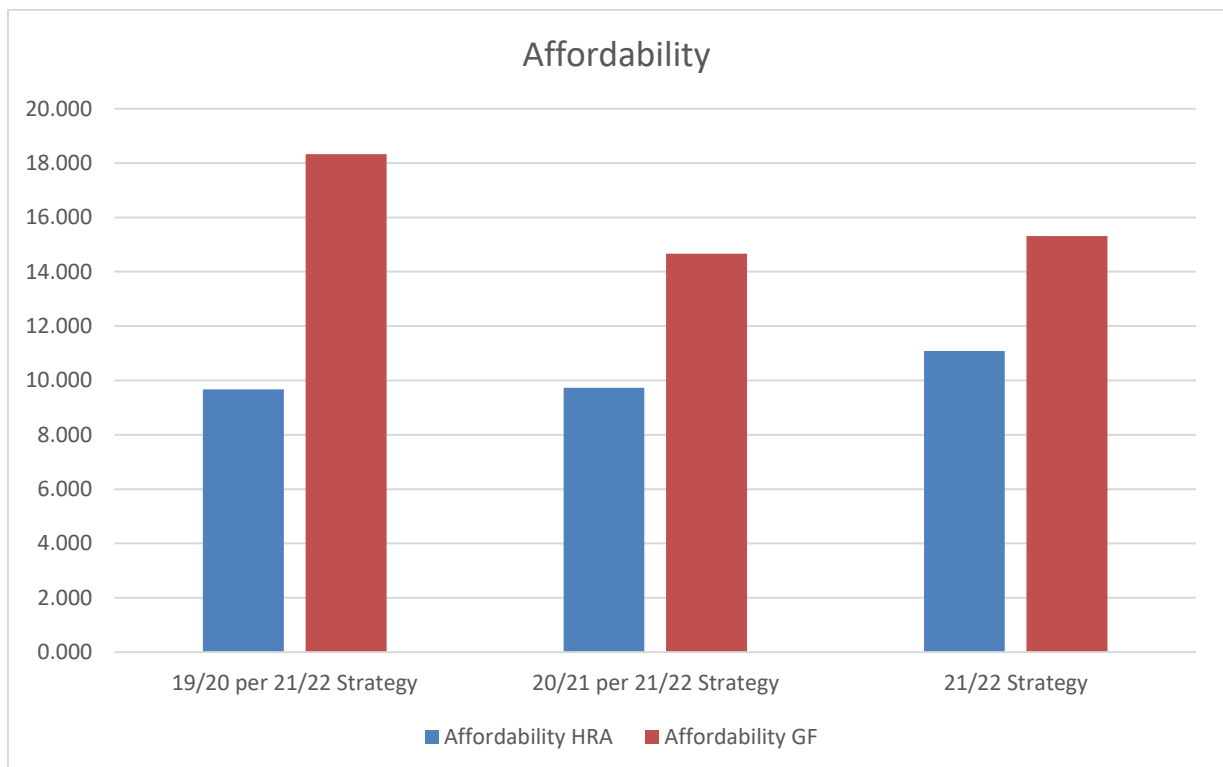
- 4.5 The chart below shows planned and actual changes in the Council's borrowing requirement to fund capital expenditure. Again, the lower than planned level reflects delays in the capital programme.



- 4.6 Capital Financing Requirement projections are set out below, with a breakdown of the annual movement. Again, the lower than planned level reflects delays in the capital programme.



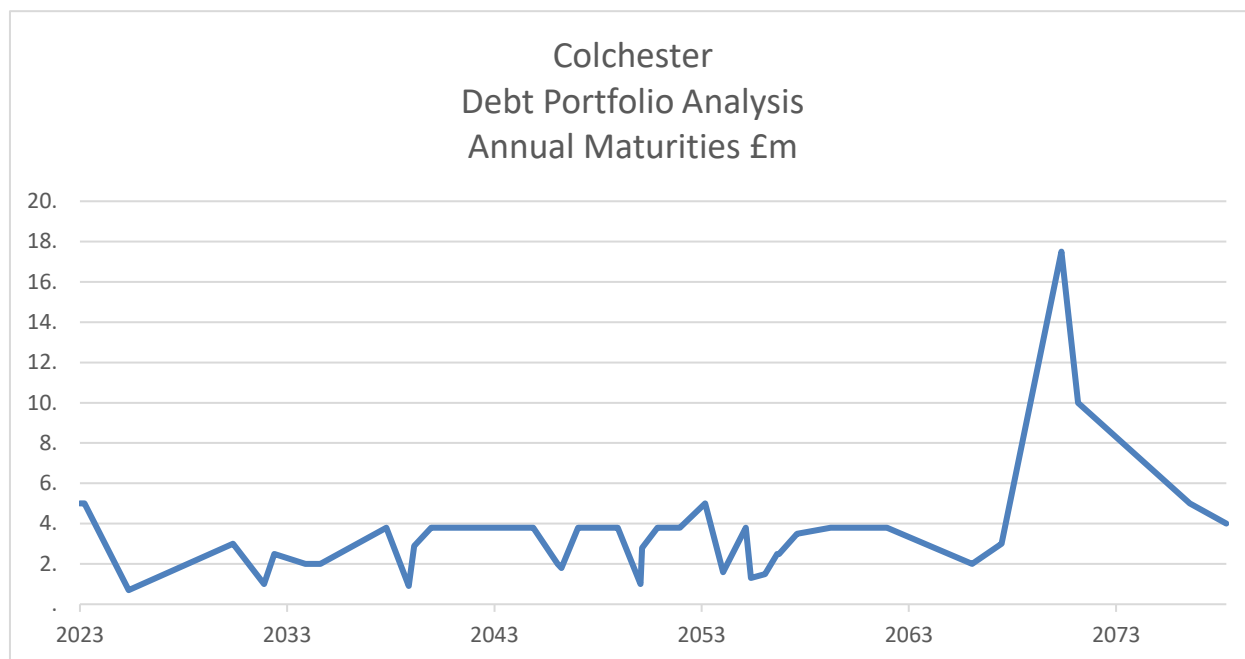
- 4.7 Due to low spending on the capital programme the affordability indicator (the cost of borrowing as a percentage of the Council's net revenue stream) is substantially below the strategy level. This indicator will need to be rebased in setting the 2023/24 Capital Programme.



4.8 The tables below set out 2021/22 performance on other Treasury Management Strategy Prudential Indicators. It is not now expected new borrowing will be required in 2022/23 as maturing loans will be replaced by reduced external investments. The maturity profile as at August 2022 is shown in the table.

Indicator	2020/21	2021/22 Strategy	2021/22 Actual	Comments
	£m	£m	£m	
Creditworthiness	Link creditworthiness system			All investments within policy
Country Limits		AA-		All investments within policy
Non-UK not to exceed		£15m		All investments within policy
Return on in-house funds.	0.23%	0.50%	0.11%	Reduced return due to low interest rates. Investment rates have significantly increased in 2022/23

Indicator	2020/21	2021/22 Strategy	2021/22 Actual	Comments
	£m	£m	£m	
Authorised Borrowing Limit	169,944	262,835	166,594	Actual borrowing was lower than forecast due to underspending on the 21/22 capital programme. Details reported to 6 Sep 2022 G&A Committee
Operational Boundary	169,944	250,835	166,594	Actual borrowing was lower than forecast due to underspending on the 21/22 capital programme.
Maturity Structure				
< 1 year	4.9%	15%	12.0%	Over time the period to maturity of existing loans decreases and may cause loans to be allocated to a different banding than the original allocation. The strategy limits exceed 100% in total allowing some flexibility to choose loan maturities.
1 to 2	8.8%	15%	0.0%	
2 to 5	0.4%	15%	0.4%	
5 to 10	1.8%	15%	1.8%	
10 to 20	13.4%	30%	13.6%	
20 to 30	22.3%	30%	22.8%	
30 to 40	21.7%	40%	22.1%	
40 to 50	21.4%	40%	21.8%	
50+		10%	5.4	
Average borrowing rate				
	3.52%		2.96%	



## **5 Strategic Plan references**

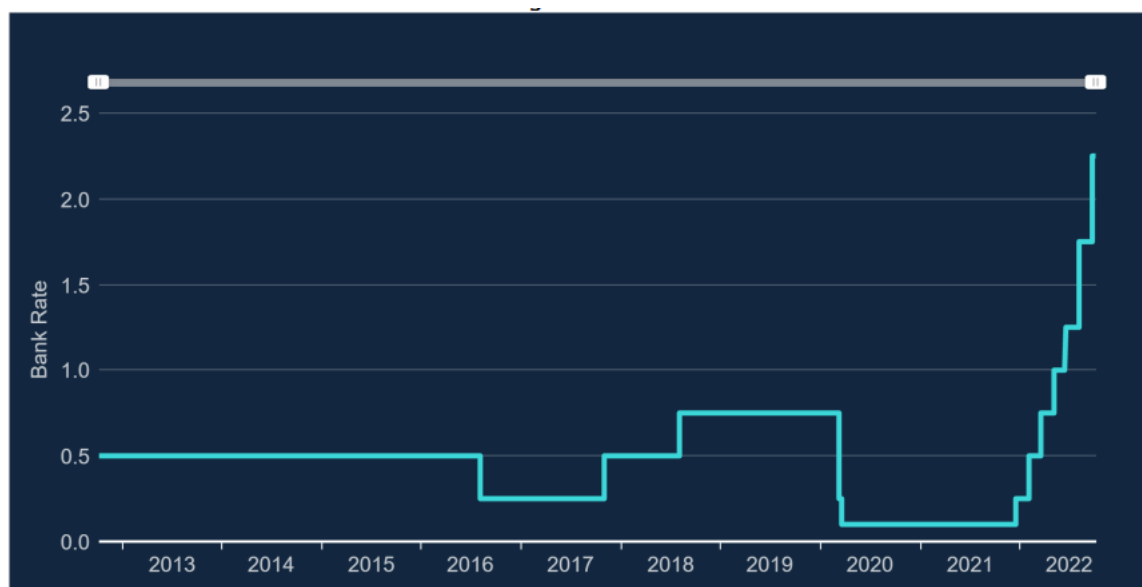
- 5.1 Prudent treasury management underpins the budget strategy required to deliver all Strategic Plan priorities.

## **6 Publicity considerations**

- 6.1 Appendix A to the annual report is confidential.

## **7 Financial implications**

- 7.1 Interest paid and earned on borrowing and investments is accounted for in the Central Loans and Investment Account (CLIA). Outturn figures for 2021/22 show a favourable variance of £551k, due primarily to underspending on the capital programme.
- 7.2 On 1 April 2021 bank rate stood at 0.1%. There were no Bank of England bank rate changes until quarter three when bank rate was increased by 0.15% to 0.25%. Two further bank rate increases in quarter four resulted in a bank rate of 0.75% at 31<sup>st</sup> March 2022.
- 7.3 The impact of bank rate changes after March 2022 will be addressed in 2022/23 monitoring reports, and in setting the 2023/24 Treasury Management Strategy.
- 7.4 This report covers the financial year 2021/22. However, the Committee will wish to be updated on 2022/23 given economic and interest rate changes. The Treasury Mid-year review for 2022/23 will be considered by the 22 November 2022 Committee.
- 7.5 Bank rate has increased since March 2022 (see the below table). Higher short term rates have improved forecast interest earnings on Council investments.



- 7.6 The Council's Treasury Management Strategy is not to borrow in advance of need. The Council's long-term borrowing to finance capital expenditure is held in fixed rate, long term Public Works Loan Board loans. Changes in gilt yields experienced over recent weeks will not therefore impact on the Council's borrowing costs in 2022/23. The Council does not borrow abroad, and recent currency market movements similarly will not affect borrowing costs directly.
- 7.7 Public Works Loan Board rates still represent good value in long maturities as the offered rates 7 October 2022 set out below demonstrate. It is not expected significant PWLB borrowing will be required until 2023 or 2024.

Standard New Loan Rates							
Period (years)	EIP		Annuity		Maturity		
	Rate	Change	Rate	Change	Rate	Change	
Over 41 not over 41½	5.51	(+0.02)	5.44	(+0.02)	5.17	(+0.03)	
Over 41½ not over 42	5.51	(+0.02)	5.43	(+0.01)	5.16	(+0.03)	
Over 42 not over 42½	5.51	(+0.02)	5.43	(+0.02)	5.15	(+0.03)	
Over 42½ not over 43	5.51	(+0.02)	5.42	(+0.02)	5.14	(+0.03)	
Over 43 not over 43½	5.51	(+0.02)	5.41	(+0.02)	5.14	(+0.03)	
Over 43½ not over 44	5.50	(+0.01)	5.40	(+0.01)	5.13	(+0.03)	
Over 44 not over 44½	5.50	(+0.02)	5.40	(+0.02)	5.12	(+0.03)	
Over 44½ not over 45	5.50	(+0.02)	5.39	(+0.02)	5.11	(+0.03)	
Over 45 not over 45½	5.50	(+0.02)	5.38	(+0.02)	5.11	(+0.04)	
Over 45½ not over 46	5.49	(+0.01)	5.37	(+0.01)	5.10	(+0.03)	
Over 46 not over 46½	5.49	(+0.02)	5.37	(+0.02)	5.09	(+0.03)	
Over 46½ not over 47	5.49	(+0.02)	5.36	(+0.02)	5.09	(+0.04)	
Over 47 not over 47½	5.49	(+0.02)	5.35	(+0.02)	5.08	(+0.03)	
Over 47½ not over 48	5.48	(+0.01)	5.34	(+0.02)	5.07	(+0.03)	
Over 48 not over 48½	5.48	(+0.02)	5.33	(+0.01)	5.07	(+0.04)	
Over 48½ not over 49	5.47	(+0.01)	5.33	(+0.02)	5.06	(+0.03)	
Over 49 not over 49½	5.47	(+0.02)	5.32	(+0.02)	5.06	(+0.04)	
Over 49½ not over 50	5.47	(+0.02)	5.31	(+0.02)	5.05	(+0.04)	

- 7.8 Borrowing requirements will be reviewed in resetting the capital programme for 2023/24 onwards. The 2023/24 Treasury Management Strategy will be reviewed by Scrutiny Panel as part of budget setting.

## **8 Risk management implications**

- 8.1 Risk Management is essential to effective treasury management. The Council's Treasury Management Policy Statement contains a section on treasury Risk Management.

## **9 Other standard references**

- 9.1 Having considered consultation, equality, diversity and human rights, community safety, and health and safety implications, there are none that are significant to the matters in this report.

## **Appendices**

Appendix A – Investment held as at 31<sup>st</sup> March 2022 (Confidential).

## **Background Papers**

Treasury Management Strategy 2021/22