

MEETING: PENSIONS COMMITTEE

DATE: 27 JUNE 2022

TITLE: TREASURY MANAGEMENT 2021/22

PURPOSE: CIPFA's Code of Practice requires that a report on the results of the Council's actual treasury management is produced.

RECOMMENDATION: RECEIVE THE REPORT FOR INFORMATION

AUTHOR: DELYTH JONES-THOMAS, INVESTMENT MANAGER

Executive Summary

During the 2021/22 financial year the Council's borrowing remained within the limits originally set and total interest received on deposits was £556,000 which was above the budgeted level of £433,000. There were no defaults by institutions in which the Council had deposited money.

1. Introduction

The Council's Treasury Management Strategy for 2021/22 was approved at Full Council on 4th March 2021.

It was decided at the Pensions Committee, 25 March 2021 to allow the surplus funds of the Pension Fund to be pooled and co-invested with the Council's overall cash flow for the financial year 2021/22.

The Council has borrowed and invested 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 risk are therefore central to the Council's Treasury Management Strategy.

This report compares the actual performance against the strategy for the financial year 2021/22 and fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government's Investment Guidance.

2. Treasury Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practices and Cross- Sectoral Guidance Notes on 20th December 2021. These define treasury management investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Council has held significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22 the Council's investment balances have ranged between £62.9 million and £147.9 million.

Treasury Investment Position

	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m	31.3.22 Rate %	31.3.22 WAM* days
Banks & building societies (unsecured)	8.6	14.5	23.1	0.64	24.2
Local Authorities	20.0	10.0	30.0	0.52	69.2
Money Market Funds	26.0	(9.0)	17.0	0.54	1.0
Debt Management Office	0.0	18.0	18.0	0.55	16.8
Pooled Funds	8.9	0.9	9.8	4.44	365+
Total investments	63.5	34.4	97.9		

*Weighted average maturity

Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Ultra low short- dates cash rates, which were a feature since March 2020 when Bank rate was cut to 0.1%, prevails for much of the 12 month reporting period which resulted in the return on Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns followed the increases in Bank Rate in December, February and March. At 31st March 2022, the 1- day return on the Council's MMFs ranged between 0.51%-0.58%.

Similarly, deposit rates with the Debt Management Office initially remained very low with rates ranging from 0% to 0.1%, but following the base rate increases, rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return on the Council's DMO deposits was 0.55%.

£9.8m of the Council's investments are held in externally managed strategic pooled equity and property funds where short term liquidity are lesser considerations, and the objectives instead are regular revenue income and long- term price stability.

These funds generated an income return of 4.4% and an unrealised capital gain of £0.9m in this financial year.

In the nine months to December improved market sentiment was reflected in equity, and property and multi- asset fund valuations and, in turn, in the capital values of the Council’s property and equity income funds in the Council’s portfolio. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January-March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets.

In light of Russia’s invasion, Arlingclose contacted the fund managers of MMFs and strategic funds and confirmed no direct exposure to Russian or Belarusian assets has been identified. Indirect exposures were immaterial. It should be noted that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular details is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued stability in meeting the Council’s medium to long term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years but with the confidence that over a three-to five year period total returns will exceed cash interest.

Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Income Rate of Return
31.03.2021	4.73	A+	63%	25	0.77%
31.03.2022	4.82	A+	54%	31	0.62%
Similar LAs	4.59	A+	46%	52	0.19%
All LAs	4.64	A+	66%	16	0.66%

*Weighted average maturity

3. Compliance Report

The section 151 officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in the following table:

Investment Limits

	2021/22 Maximum	31.3.22 Actual	2021/22 Limit	Complied
The UK Government	£59.8m	£18m	Unlimited	✓
Local authorities & other government entities	£5m	£5m	£10m	✓
Secured investments	£0m	£0m	£10m	✓
Banks (unsecured)	£5m	£5m	£5m	✓
Building societies (unsecured)	£0m	£0m	£5m	✓
Registered providers (unsecured)	£0m	£0m	£5m	✓
Money Market Funds	£7m	£7m	£10m	✓
Strategic pooled funds	£5m	£5m	£10m	✓
Real estate investment trusts	£0m	£0m	£10m	✓
Other investments	£0m	£0m	£5m	✓

4. Treasury Management Indicators

The Council measures and manages its exposures to treasury management risks using the following indicators:

Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the time-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment and taking the arithmetic average, weighted by the length of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.22 Actual	2021/22 Target	Complied
Portfolio average credit score	4.82	A score of 6 or lower	✓

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.3.22 Actual	2021/22 Target	Complied
Total cash available within 3 months	£78m	£10m	✓

Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on interest rate exposures expressed as the proportion of net principal borrowed was:

	31.3.22 Actual	2021/22 Limit	Complied
Upper limit on one year revenue impact of a 1% rise in interest rates	£389,866	£635,000	✓
Upper limit on one year revenue impact of a 1% fall in interest rates	£0	£24,000	✓

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£10m	£0	£0
Limit on principal invested beyond year end	£20m	£20m	£20m
Complied	✓	✓	✓