MEETING:	**AUDIT AND GOVERNANCE COMMITTEE**
DATE:	**30 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**
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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.

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. Year End Position

Balance Sheet Summary

At 31 March 2022 the Council had net borrowing of £7m arising from its revenue and capital activities. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The movements are summarised in the following table:

	31.3.21 Actual £m	2021/22 Movement £m	31.3.22 Actual £m
CFR	174	(5)	169
Less: Other debt liabilities	(2)	1	(1)
Borrowing CFR	**172**	**(4)**	**168**
Less: Usable reserves	(108)	(35)	(143)
Less: Working capital	(16)	(2)	(18)
Net borrowing	**48**	**(41)**	**7**

Lower official interest rates have lowered the cost of short- term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

Treasury Management Summary

	31.3.21 Balance £m	Movement £m	31.3.22 Balance £m	31.3.22 Rate %
Long- term borrowing	(103.1)	1.3	(101.8)	5.5
Short-term borrowing	(6.6)	5.0	(1.6)	6.4
PFI	(1.5)	0.1	(1.4)	n/a
Total borrowing	**(111.2)**	**6.4**	**(104.8)**	
Short-term investments	34.9	44.9	79.8	1.0
Cash and cash equivalents	28.7	(10.6)	18.1	0.6
Total investments	**63.6**	**34.3**	**97.9**	
Net borrowing	**47.6**	**40.7**	**6.9**	

3. Borrowing Activity

At 31st March 2022, the Council held £103.4m of loans, a decrease of £6.3m on the previous year, as part of its strategy for funding previous years capital programmes.

The debt interest paid in 2021/22 was £5.7 million on an average debt portfolio of £103.2 million at an average interest rate of 5.5%.

The year-end borrowing position and the year-on-year change is summarised in the following table:

	31.3.21 Balance £m	**2021/22 Movement £m**	**31.3.22 Balance £m**	**31.3.22 Rate %**	**31.3.22 WAM* years**
PWLB	86.9	(1.3)	85.6	5.75	18.21
Bank (Fixed term)	16.2	0.0	16.2	4.22	56.36
Local Authorities (Short term)	5.0	(5.0)	0.0	0.0	0
Other	1.6	0.0	1.6	0.0	3.47
Total borrowing	**109.7**	**(6.3)**	**103.4**		

*Weighted average maturity

The Council's main objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with a secondary objective of flexibility to renegotiate loans should the Council's long-term plans change.

Further to these objectives, no new long-term borrowing was undertaken in 2021/22, with existing loans maturing without replacement. This strategy enabled the Council to reduce net borrowing costs (despite foregoing investment income) and reduce overall treasury risk.

4. 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%, prevailes 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 of 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 with 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

5. Compliance Report

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

Debt Limits

	2021/22 Maximum	31.3.22 Actual	2021/22 Operational Boundary	2021/22 Authorised Limit	Complied
Borrowing	£108.1m	£103.4m	£190m	£200m	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

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	✓

6. 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	✓

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.22 Actual	**Upper Limit**	**Lower Limit**	**Complied**
Under 12 months	1.52%	25%	0%	✓
12 months and within 24 months	2.37%	25%	0%	✓
24 months and within 5 years	13.61%	50%	0%	✓
5 years and within 10 years	6.91%	75%	0%	✓
10 years and above	75.59%	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

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	✓	✓	✓

Other

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance: In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Councils that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management. The Council was not planning to borrow to invest primarily for commercial and so is unaffected by the changes to the Prudential Code.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non- treasury investments.

The principles of the Prudential Code takes immediate effect although local authorities could defer introducing the revised reporting requirement until the 2023/24 financial year, and the Council has chosen this date.

To comply with the Prudential Code, Councils must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly related to the functions of the Council. Exisiting commercial investments are not required to be sold, however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provide that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investements, far beyond those in the 2017 version.

The Council will follow the same process as the Prudential Code, by delaying changes in reporting requirements to the 2023/24 financial year.

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1st April 2022. Following a consultation, CIPFA/ LASAAC accounced an optional two year delay to the implementation of this standard, a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Councils can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Council intends to adopt the new standard on 1st April 2024.