

# Treasury Management Outturn 2021/22

Report of the Finance and Resources Portfolio Holder

## Recommended:

**That the Annual Treasury Management Report for 2021/22 and the Prudential Indicators for the year, as shown in the Annex to the report, be noted.**

### Summary:

- This report reviews the performance of the Treasury Management function in 2021/22 compared with the forecasts and policies set out for the year.
- Investment income for the year was around £14,800 higher than the level of income included in the forecast in February 2022.

## 1 Introduction

- 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 each financial year. 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 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.

## 2 The Council's Capital Expenditure and Financing

- 2.1 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.
- 2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£M	2020/21 Actual	2021/22 Forecast	2021/22 Actual
<b>Capital expenditure</b>	7.8	14.5	8.7
Financed in year	7.8	14.5	8.7
<b>Unfinanced capital expenditure</b>	<b>0</b>	<b>0</b>	<b>0</b>

### 3 The Council's Overall Borrowing Need

- 3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).
- 3.2 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table in Annex 1 highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

### 4 Treasury Performance in 2021/22

- 4.1 The Council managed all investments in-house in 2021/22.
- 4.2 Most investments during the year were placed in call-accounts or fixed-term deposits for durations of up to one year, with the exception of investments to three Local Authorities totalling £15M, for periods of up to five years.
- 4.3 The average return on investments for the year was 0.42% compared to the average benchmark rate of 0.17%. an out-performance of 0.25%.
- 4.4 The Council's investment position at the end of the year is detailed below.

	Principal at 31/03/22 £M	Principal at 31/03/21 £M	Rate of Return 2021/22 %	Benchmark Return %	Variance %
Internally Managed Investments	90.4	71.5	0.42	0.17	0.25

- 4.5 Of the principal invested on 31<sup>st</sup> March 2022, £75M was invested in fixed rate, fixed term deposits. The remainder was invested in call and notice accounts with access ranging from immediate to 95 days' notice.

- 4.6 A comparison of the investment interest earned with the original budget and forecast is shown in the table below.

	Original Budget 2021/22 £000	Forecast 2021/22 £000	Actual 2021/22 £000	Variance to Original £000
Interest on Investments	235.3	391.1	405.9	170.6

- 4.7 Income received on the Council's cash balances exceeded the income expected within the budget forecast, which was prepared in February 2022, by £14,800. Overall, there was a positive variance of £170,600 compared to original budget. These variances are due to rates obtained on investments being higher than forecasted plus multiple increases in Interest Rates from December onwards.

## 5 The strategy for 2021/22

- 5.1 Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021/22 was that 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 necessitated.
- 5.2 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.
- 5.3 Investment balances in 2021/22 have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

## 6 Prudential Indicators and Treasury Limits

### Prudential Indicators

- 6.1 The prudential indicators and borrowing limits are shown in Annex 1 and are relevant for setting an integrated treasury management statement.

- 6.2 The first indicator is the ratio of financing costs to net revenue stream. This compares the Council's net investment income and borrowing expenditure as a ratio of the budget requirement. A negative figure shows that investment income is greater than borrowing costs.
- 6.3 The second indicator is the Capital Financing Requirement (CFR). This is the total amount by which the funding of capital expenditure is reliant on external borrowing.

## 7 Consultations/ Communications

- 7.1 The Council's treasury advisors, Link Asset Services, have been consulted in the preparation of this report.

## 8 Equality Issues

- 8.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or low level negative impact have been identified, therefore a full EQIA has not been carried out.

## 9 Conclusion and reasons for recommendation

- 9.1 The Council achieved an average investment income rate of 0.42% in the year compared with an average benchmark figure of 0.17%.
- 9.2 Actual income for the year was above the original estimate by £170,600 and was also £14,800 above the forecast set in February 2022.
- 9.3 The report summarises performance during 2021/22. It does not propose any changes in respect of Treasury Management in the future and therefore the recommendation is that the report be noted.

<u>Background Papers (Local Government Act 1972 Section 100D)</u>			
None			
<u>Confidentiality</u>			
It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	N/A
(Portfolio: Finance and Resources) Councillor M Flood			
Officer:	Simon Skeates	Ext:	8817
Report to:	Cabinet	Date:	22 June 2022