Audit, Governance & Standards Committee	26 July 2022

Treasury Management Annual Review 2021/22

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Adrian Lovegrove – Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).

Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee. This report sets out the activities of the Treasury Management function for 2021/22 financial year.

Purpose of Report

This report requires noting from the Committee.

This report makes the following recommendations to this Committee:

1. That the review of the financial year 2021/22 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2021/22.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	28 July 2022

Treasury Management Annual Review 2021/22

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management Function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the strategic plan objectives.	Head of Finance
Cross Cutting Objectives	The report recommendations support the achievements of all the cross cutting objectives in the way stated above.	Head of Finance
Risk Management	Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2021/22 report. This report is purely for information purposes and has no risk management implications.	Head of Finance
Financial	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer & Finance Team
Staffing	None.	Head of Finance
Legal	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.	Interim Team Leader (Contentious and Corporate Governance)
Privacy and Data Protection	None.	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities & Communities Officer

Public Health	None.	Public Health Officer
Crime and Disorder	None.	Head of Finance
Procurement	None.	Head of Finance & Section 151 Officer
Biodiversity and Climate Change	There are no implications on biodiversity and climate change.	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

2.1 This 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).

2.1.1 The Treasury Management Strategy Statement (TMSS) for 2021/22 states the reporting requirements for the following reports:

- an annual treasury strategy in advance of the year (Full Council 24th February 2021)
- a mid-year treasury update report (Audit, Governance & Standards Committee 15th November 2021)
- an annual review following the end of the year describing the activity compared to the strategy (Audit Governance & Standards Committee - this report).

2.1.2 This report sets out the activities of the treasury management function for the 2021/22 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.

2.1.3 The Authority has 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 Authority's treasury management strategy.

2.1.4 The Authority's Treasury Management Strategy Statement for 2021/22 was approved by full Council on 24th February 2021. The key elements of the Strategy are:

- Increase counterparty investment limits with highly rated institutions due to additional funding of COVID-19 grants received from Central Government in 2020/21 and 2021/22;

- Utilise cash balances rather than loan debt to finance the capital programme in the short term, due to low investment returns and high counterparty risk in the current economic climate;

- Further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered. Greater use of local authority investments will be used where the borrowers offer a high level of security; and

- Borrowing options to be reviewed during the year, where cash balances are likely to be fully utilised, which will include long term and short borrowing.

2.2 Economic Overview

2.2.1 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022 (Bank rate is currently at 1.25% June 2022).

2.2.2 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% year on year Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% in March 2022. CPI was 9.1% in May 2022 and is looking to increase further during 2022.

2.2.3 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 and 10-year yields of 1.65%. These have now peaked at 2.37% for 2-year yields and 2.62% 10-year yields in June 2022. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

2.2.4 From 1st April 2022, employees will pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

2.2.5 Average inflation targeting was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

2.3 Investment Activity

2.3.1 The CIPFA Code and Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2021/22.

2.3.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22 the Authority's investment balances have ranged between £14.37m and £70.2m. The average investment balance for the year was £44.5m. The Council held investments totalling £38.75m as at 31st March 2022. This final investment balance is an increase on previous year due to slippage within the capital programme and the influx of Government grant funding. A full list of the investments can be found within **Appendix A**.

2.3.3 Investment income for the year totalled £71.8k. Rates had improved throughout the year as bank rate started to rise however, investments have been kept short term for liquidity purposes. Maximum duration of funds have been for 6 months with an average rate of 0.16%.

2.3.4 The Council has invested its funds within the parameters set within the Treasury Management Strategy for 2021/22.

2.4 Borrowing Activity

2.4.1 During 2021/22, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as this reduces cost of carry and minimises counterparty risk on placing investments.

2.4.2 The Council started the year with £11m of short-term loan debt funded by other local authorities. £2m had been repaid and £5m was transferred to long term borrowing with the PWLB, due to rates being advantageous and to mitigate refinancing and interest rate risk. The total amount of loan debt as at 31st March 2022 was £9m, which a full list of can also be found in **Appendix A**.

2.4.3 Due to the economic climate of rising interest rates and the need for future borrowing to fund the existing 5 year capital programme, the Council has entered into an agreement to forward borrow of £80m with Aviva Life and Pensions UK Limited. The funds will be available within 2023/24 (£40m), 2024/25 (£20m) and 2025/26 (£20m). The rates for these were secured at 2.89% over a 50 year term. 50 year rates with PWLB rates are currently at 3.25%.

2.4.4 The Council has borrowed funds within the parameters set within the Treasury Management Strategy for 2021/22.

2.5 Prudential and Treasury Indicators

2.5.1 The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.

2.5.2 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2021/22 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix B**.

2.6 Compliance Report

2.6.1 The Director of Finance & Business Improvement can confirm that all treasury management activities undertaken during 2021/22 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

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3. AVAILABLE OPTIONS

3.1 The Audit, Governance and Standards Committee agrees that that the review of the financial year 2021/22 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted and that no amendments to the strategy are required in consequence.

3.2 The Audit, Governance and Standards Committee could propose changes to the current procedures as a result of the review of activities in 2021/22.

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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The Audit, Governance and Standards Committee agrees that that the review of the financial year 2021/22 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted and no amendments to the strategy are required as there is no justification to make any changes.

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5. RISK

5.1 Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2020/21 report. This report is purely for information purposes and has no risk management implications.

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6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 None.

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7. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: List of Investments and Borrowing as at 31st March 2022.
- Appendix B: Prudential and Treasury Indicators.

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8. BACKGROUND PAPERS

8.1 None.