Report to Audit Committee

Treasury Management Review 2021/22

Portfolio Holder: Councillor Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

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21 June 2022

Reason for Decision

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 2021/22. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (approved by Council on 4 March 2021)
- a mid-year (minimum) treasury update report (approved by Council on 15 December 2021)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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.

The Council confirms that it has complied with the requirements under the Code to give prior scrutiny to the treasury strategy and the mid-year update. The Audit Committee is charged with the scrutiny of treasury management activities in Oldham and is therefore requested to review the content of this annual report prior to its consideration by Cabinet and Council (to ensure full compliance with the Code for 2021/22).

Executive Summary

During 2021/22, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	**2020/21 Actual £'000**	**2021/22 Revised £'000**	**2021/22 Actual £'000**
Actual capital expenditure	73,227	38,709	76,989
Total Capital Financing Requirement:	491,713	494,877	468,895
Borrowing	172,843	172,843	167,597
Total External debt (Gross Borrowing)	397,248	381,246	381,045
Investments			
· Longer than 1 year	15,000	15,000	15,000
· Under 1 year	68,540	52,000	90,300
· Total	**83,540**	**67,000**	**105,300**
Net Borrowing (Gross borrowing less investments)	89,303	105,843	62,297

As can be seen in the table above, actual capital expenditure was greater than the revised budget estimate for 2021/22 presented within the 2022/23 Treasury Management Strategy report considered at the Council meeting of 2 March 2022. The outturn position was less than the £86.002m original capital budget for 2021/22 as approved at Budget Council on 4 March 2021.

Oldham, along with the rest of the country, was impacted by the COVID-19 pandemic during 2021/22 but as the year progressed began to get back to some form of normality. This is reflected in the progress in taking forward the Council's capital programme and hence the expenditure incurred, most of which was over the later part of the financial year. It must be noted that as the pandemic is still on-going, there will be further challenges during 2022/23 but these are expected to be on a much lesser scale. The capital programme will therefore be subject to change, but this will be subject to close financial monitoring during the financial year.

Other prudential and treasury indicators are to be found in the main body of this report.

The Director of Finance confirms that the statutory borrowing limit (the authorised limit) was not breached during 2021/22.

The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns, although there was an upward movement towards the year-end reflecting inflationary price rises and increases in interest rates.

Recommendations

Audit Committee is recommended to:

1) Approve the actual 2021/22 prudential and treasury indicators presented in this report
2) Approve the annual treasury management report for 2021/22
3) Commend this report to Cabinet

Audit Committee **21 June 2022**

Treasury Management Review 2021/22

1 Background

1.1 The Council has adopted the Revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2021. The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities.
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management Policies and Practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the Section 151 Officer (Director of Finance).
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

Treasury management in this context is defined as:

"*The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.* "

1.2 The report therefore summarises the following:

- The Council's capital expenditure and financing during the year;
- The impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- The overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- The summary of interest rate movements in the year;
- The detailed debt activity; and
- The detailed investment activity.

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2021/22

2.1.1 The Council undertakes capital expenditure when it invests in or acquires 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
- Financed by borrowing if insufficient immediate financing is available, or a decision is taken not to apply available resources, the capital expenditure gives rise to a borrowing need.

2.1.2 The actual capital expenditure forms one of the required prudential indicators (these indicators are all summarised in Appendix 1). The table below shows the actual level of capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2021/22 was greater than the revised budget estimate. The revised budget estimate is based on the month 8 2021/22 reported position to align with the Annual Treasury Management Strategy 2022/23 report approved on 2 March 2022, and not the latest reported position (month 9 report on 21 March 2022). All prudential indicators in the 2021/22 strategy are based on this revised budget.

2.1.3 One of the major causes of the variation in expenditure between the revised outturn and the actual position was the requirement for the Council to include the new Saddleworth School within its asset register and 2021/22 accounts at a value of £32.333m. The school was opened in March 2022 and was mostly funded by the Department of Education who donated the asset to the Council. Other expenditure was also accelerated at the year end due to the easing of pandemic related pressures.

	2020/21 Actual £'000	**2021/22 Revised £'000**	**2021/22 Actual £'000**
Non-HRA capital expenditure	68,830	38,419	76,309
HRA capital expenditure	4,397	290	680
Total capital expenditure	**73,227**	**38,709**	**76,989**
Resourced by:			
• Capital receipts	3,184	5,535	11,861
• Capital grants	20,820	13,688	31,829
• Donated Asset	0	0	32,333
• HRA	2,532	291	912
• Revenue	146	7	54
Unfinanced capital expenditure	**46,545**	**19,187**	**0**

2.2 The Council’s Overall Borrowing Need

2.2.1 The Council’s underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council’s indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see above table), and prior years’ net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2.2 Part of the Council’s treasury activity is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council’s cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets) or utilising temporary cash resources within the Council.

Reducing the CFR

2.2.3 The Council’s (non-Housing Revenue Account [HRA]) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

2.2.4 The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

2.2.5 The Council’s 2021/22 MRP Policy (as required by Government Guidance) was approved as part of the Treasury Management Strategy report for 2021/22 on 4 March 2021.

2.2.6 The Council’s CFR for the year is shown in the table below and represents a key prudential indicator. It includes Private Finance Initiative (PFI) and leasing schemes on the balance sheet, which increase the Council’s borrowing need. In 2021/22 the Council had seven PFI schemes in operation; however, no borrowing is actually required against these schemes as a borrowing facility is included within each contract.

Capital Financing Requirement	2020/21 Actual £'000	2021/22 Revised £'000	2021/22 Actual £'000
Opening balance	472,377	491,713	491,713
Add unfinanced capital expenditure	46,544	19,187	0
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	270	0	373
Less MRP/VRP*	(2,742)	(2,742)	(2,742)
Less PFI & finance lease repayments	(24,736)	(13,281)	(20,449)
Closing balance	491,713	494,877	468,895

* Includes voluntary application of capital receipts and revenue resources

2.2.7 Borrowing activity is constrained by prudential indicators for net borrowing, the CFR and by the authorised limit.

Gross Borrowing and the CFR

2.2.8 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 (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years.

2.2.9 This essentially means that the Council is not borrowing to support revenue expenditure.

2.2.10 This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22 if so required. This flexibility was not used. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2020/21 Actual £'000	2021/22 Revised £'000	2021/22 Actual £'000
Total External Debt position (Gross Borrowing)	397,248	381,246	381,045
CFR - including PFI / Finance Leases	491,713	494,877	468,895
Under / (Over) funding of the CFR	94,465	113,631	87,850

The table above shows the position as at 31 March 2022 for the Council's gross borrowing position and CFR. This shows, compared to the revised budget position:

- A small movement in the gross borrowing position, due to lower than expected finance leases.

- A decrease in the CFR.

The Authorised Limit

2.2.11 The authorised limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003 and was set at £523m. Once this has been set, the Council does not have the power to borrow above this level.

The Operational Boundary

2.2.12 The operational boundary is the expected borrowing position of the Council during the year and was set at £498m. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. The Council operated well within this boundary in 2021/22.

	2021/22 Actual £'000
Authorised Limit	523,000
Operational Boundary	498,000

Actual financing costs as a proportion of net revenue stream

2.2.13 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream and is within expected levels.

	2021/22 Actual £'000
Gross Borrowing	167,597
PFI / Finance leases	213,448
Actual External Debt (Gross Borrowing)	**381,045**
Financing costs as a proportion of net revenue stream (General Fund)	9.65%

2.2.14 The table above splits the gross borrowing position of the Council between actual external debt (loans) and PFI / Finance lease debt. As can be seen above the gross borrowing position is well within the Authorised Limit and Operational Boundary.

2.3 The Council’s Debt and Investment Position

2.3.1 The Council’s debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

2.3.2 At the end of 2021/22 the Council's treasury position was as follows:

	31 March 2021 Principal £'000	Average Rate/ Return	Average Life years	31 March 2022 Principal £'000	Average Rate/ Return	Average Life years
Fixed rate funding:						
-PWLB	35,482			35,241		
-Stock	6,600			6,600		
Market	130,761			125,756		
Total borrowings	**172,843**	3.96%	36.35	**167,597**	4.16%	36.05
PFI & Finance Lease Liabilities	**224,405**			**213,448**		
Total External Debt	**397,248**			**381,045**		
CFR	**491,713**			**468,895**		
Over/ (under) borrowing	**(94,465)**			**(87,850)**		
Investments:						
Financial Institutions/LA's	68,540	0.37%		90,300	0.21%	
Property	15,000	4.44%		15,000	3.83%	
Total investments	**83,540**			**105,300**		
Net Debt	**89,303**			**62,297**		

2.3.3 The maturity structure of the debt portfolio was as follows:

	2020/21 Actual %	Upper Limit %	Lower Limit %	2021/22 Actual %
Under 12 months	32%	40%	0%	33%
12 months and within 24 months	10%	40%	0%	10%
24 months and within 5 years	13%	40%	0%	12%
5 years and within 10 years	4%	40%	0%	9%
10 years and above	40%	50%	0%	36%

2.3.4 The investment portfolio and maturity structure was as follows:

Investment Portfolio	Actual 31 March 2021 £'000	Actual 31 March 2021 %	Actual 31 March 2022 £'000	Actual 31 March 2022 %
Treasury Investments				
Banks	20,000	23.94%	25,000	23.74%
Building Societies	0	0%	5,000	4.75%
Local Authorities / Public Bodies	28,000	33.52%	14,000	13.30%
Money Market Funds (MMF's)	20,540	24.59%	46,300	43.97%
Total Managed In House	**68,540**	**82.04%**	**90,300**	**85.75%**
Bond Funds	0		0	
Property Funds	15,000	17.96%	15,000	14.25%
Cash Fund Managers	0		0	
Total Managed Externally	**15,000**	**17.96%**	**15,000**	**14.25%**
TOTAL TREASURY INVESTMENTS	**83,540**	**100%**	**105,300**	**100%**
TOTAL NON TREASURY INVESTMENTS *	0	0%	0	0%

	2020/21 Actual £'000	2021/22 Actual £'000
Investments		
Longer than 1 year	0	0
Under 1 year	68,540	90,300
Property Fund	15,000	15,000
Total	**83,540**	**105,300**

2.3.5 Key features of the debt and investment position are:

a) Over the course of the year 2021/22, investments have increased by £21.760m. The large increase in investments related to additional Government grants received in March 2022 for the Council Tax energy grant that was to be distributed in 2022/23 to qualifying households along with higher cash balances due to pension costs having previously been paid in advance in April 2020.

b) The average rate of return on investments with Financial Institutions decreased from 0.38% in 2020/21 to 0.21% in 2021/22. This decrease relates to the Bank of England base rate being at 0.10% for the majority of the year, until the first interest rate rise in December 2021 followed by further increases in February and March 2022.

c) Investments were arranged throughout the year to ensure enough liquid cash was available to support the paying of COVID-19 related grants to local businesses (on behalf of Central Government), but still trying to make a return on investments by placing cash out for longer periods. Although every effort was made to maximise returns, as the base rate increased 3 times in the later part of 2021/22 from 0.10% to 0.75% this affected the overall return in circumstances where investments were already in fixed term arrangements before the interest rate rise.

2.4 Investment Strategy and control of interest rate risk

2.4.1 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.

2.4.2 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 rate levels introduced at the start of the COVID-19 pandemic were no longer necessitated.

2.4.3 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to Local Authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was the demand to borrow. This had the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

2.4.4 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 resulting from 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.

2.4.5 Investment balances 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 as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

2.4.6 In December 2021 The Bank Of England ceased using LIBOR (London Interbank Offer Rate) and LIBID (London Interbank Bid Rate) and switched to SONIA (Sterling Overnight Index Average). The 2021/22 Treasury Management Strategy approved in

March 2021 stated Oldham Council would measure performance using LIBID rates. Due to this change this report includes both LIBID and the new SONIA comparators.

2.4.7 The two tables below show both bank rate versus LIBID Rates and SONIA Rates at different periods.

LIBID Rates of Return to December 2021

	Bank Rate	7 day	1 month	3 month	6 month	12 month
High	0.25	0.06	0.06	0.14	0.36	0.73
High Date	17/12/2021	29/12/2021	31/12/2021	31/12/2021	30/12/2021	28/10/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	-0.04
Low Date	01/07/2021	27/08/2021	17/09/2021	08/09/2021	27/07/2021	08/07/2021
Average	0.11	-0.07	-0.05	0.01	0.09	0.31
Spread	0.15	0.15	0.14	0.20	0.40	0.68

SONIA Rates of Return from December 2021

	Bank Rate	7 day	1 month	3 month	6 month
High	0.75	0.69	0.75	0.93	1.27
High Date	17/03/2022	18/03/2022	16/03/2022	28/03/2022	17/03/2022
Low	0.10	0.05	0.05	0.05	0.05
Low Date	01/04/2021	15/12/2021	10/11/2021	14/04/2021	09/04/2021
Average	0.19	0.14	0.17	0.24	0.34
Spread	0.65	0.65	0.71	0.88	1.22

2.5 Borrowing Strategy and control of interest rate risk

2.5.1 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 investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

2.5.2 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

2.5.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

2.5.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury Management Team and the Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

- If it had been felt that there was a significant risk of a sharp **fall** in long and short term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- If it had been felt that there was a significant risk of a much sharper **rise** in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

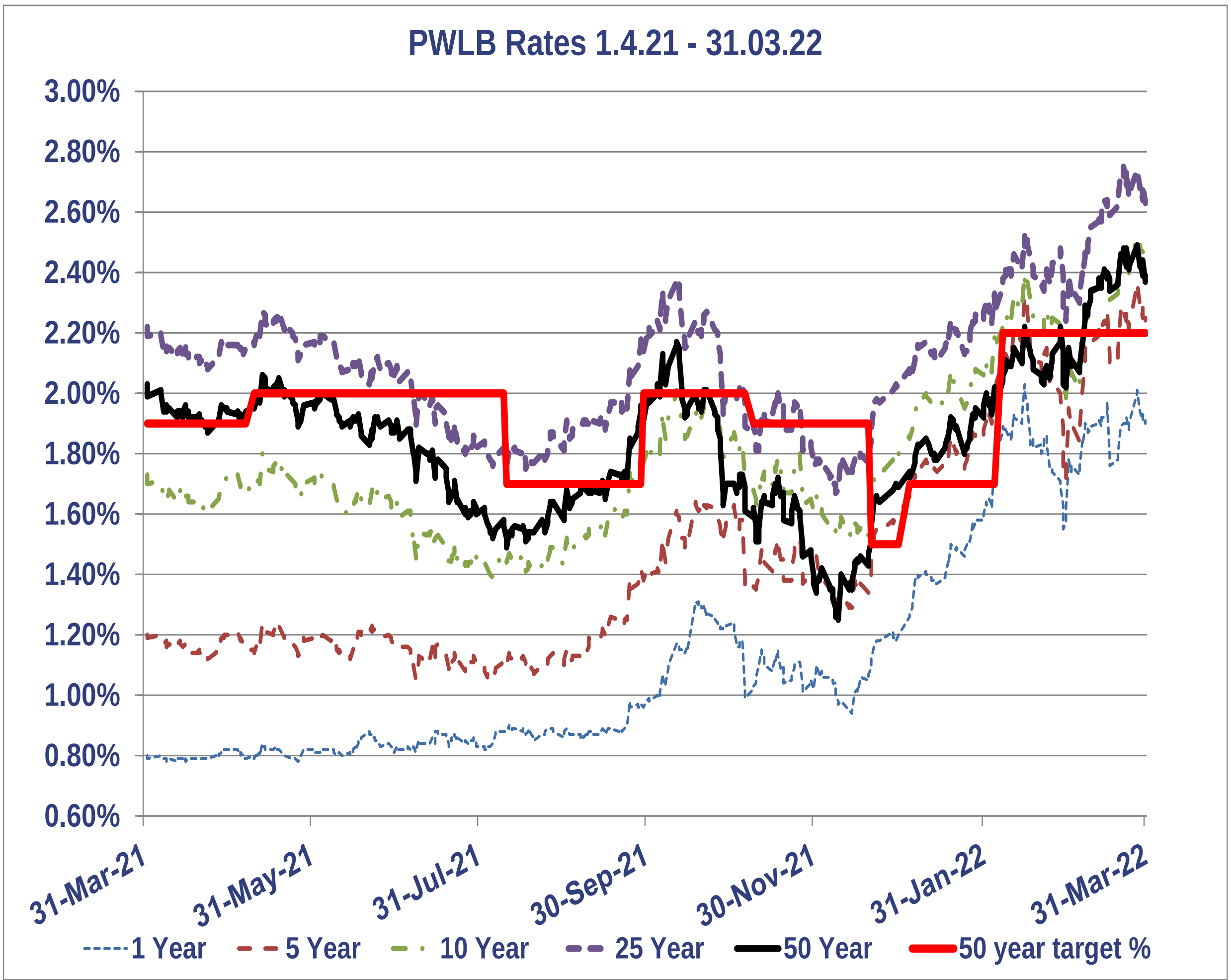
2.5.5 Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the financial year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing over the period until well into the second half of 2021/22.

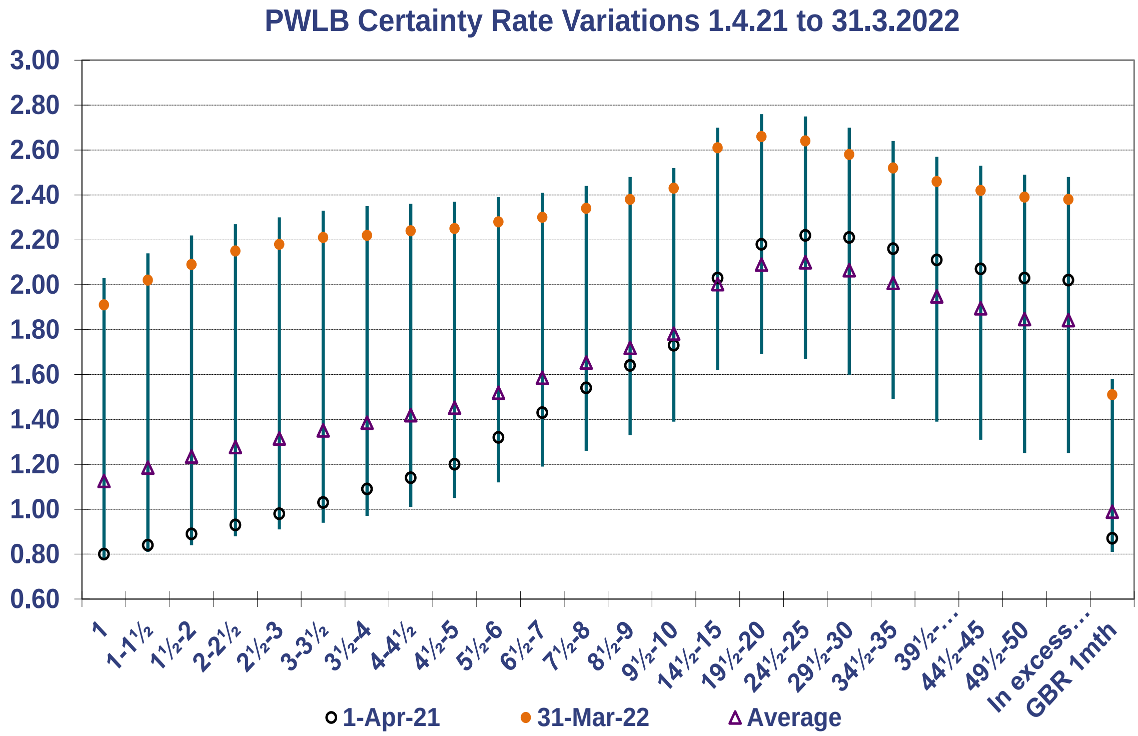
2.5.6 The two tables below show the interest rate forecast as at the time the Treasury Management Strategy was issued in March 2021 compared to the interest rate forecast as at February 2022.

Link Group Interest Rate View	8.2.21												
	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	0.90	0.90	0.90	0.90	1.00	1.00	1.10	1.10	1.10	1.20	1.20	1.20	1.20
10 yr PWLB	1.30	1.30	1.30	1.30	1.40	1.40	1.50	1.50	1.50	1.60	1.60	1.60	1.60
25 yr PWLB	1.90	1.90	1.90	1.90	2.00	2.00	2.10	2.10	2.10	2.20	2.20	2.20	2.20
50 yr PWLB	1.70	1.70	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00

Link Group Interest Rate View	7.2.22												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

2.5.7 The information in the table below and in graphs in Appendix 2 show PWLB rates for a selection of maturity periods, the average borrowing rates and the high and low points in rates.





	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%

2.5.8 PWLB rates are based on, and are determined by, gilt (UK Government bonds) yields through H.M. Treasury determining a specified margin to add to gilt yields.

2.5.9 The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc.

2.5.10 This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the European Union (EU) would struggle to increase growth rates and inflation from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year due to global inflation concerns.

2.5.11 Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focused on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

2.5.12 At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11%– 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

2.5.13 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

2.5.14 There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

2.6 Borrowing Outturn for 2021/22

Treasury Borrowing

2.6.1 Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

Debt Rescheduling

2.6.2 There was no rescheduling of debt during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Repayment of Debt

2.6.3 On 9 August 2021 the Council repaid £0.241m of PWLB debt at a rate of 3.81%. No breakage costs were incurred as the maturity date had been reached. Also, during the year £0.005m was distributed to charities for which the Council manages the funds.

Borrowing in Advance of Need

2.6.4 The Council has not borrowed in advance of its needs.

2.7 Investment Outturn

Investment Policy

2.7.1 The Council’s investment policy is governed by Ministry of Housing, Communities and Local Government (MHCLG) investment guidance (now the Department for Leveling Up, Housing and Communities (DLUHC). This has directed the preparation of the annual investment strategy which for 2021/22 was approved by Council on 4 March 2021. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

2.7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources

2.7.3 The Council’s cash balances comprise revenue and capital resources and cash flow monies. The Council’s core cash resources comprised as follows:

Balance Sheet Resources	31 March 2021 (£'000)	31 March 2022 (£'000)
Balances - General Fund	17,263	20,012
Balances - HRA	21,371	21,721
Earmarked Revenue Reserves	113,512	99,228
Revenue Grant Reserve	20,146	10,731
School Reserve	9,306	10,192
Provisions	25,427	19,698
Total	**207,025**	**181,582**

Investments at 31 March 2022

2.7.4 The Council managed all of its investments in house with the institutions listed in the Council’s approved lending list. At the end of the financial year the Council had £105.300m of investments as follows:

Institution	Type	Amount £'000	Term/ Days	Rate%	Start Date	End Date
CCLA Property	Property	15,000		3.83%		
		15,000				
Cornwall Council	Fixed	5,000	33	0.55%	31-Mar-22	03-May-22
Close Brothers Ltd	Fixed	5,000	181	0.40%	25-Nov-21	25-May-22
London Borough of Haringey	Fixed	5,000	91	0.75%	28-Feb-22	30-May-22
Close Brothers Ltd	Fixed	5,000	182	0.40%	29-Dec-21	29-Jun-22
Nationwide Building Society	Fixed	5,000	181	0.15%	04-Jan-22	04-Jul-22
Goldman Sachs	Fixed	5,000	181	0.81%	01-Feb-22	01-Aug-22
Total Fixed Deposits		**30,000**				
Santander UK PLC	Notice	2,500	35	0.45%	01-Apr-21	
Santander UK PLC	Notice	2,500	95	0.55%	30-Apr-21	
Santander UK PLC	Notice	5,000	180	0.53%	24-Nov-21	23-May-22
Total Notice Accounts		**10,000**				
UK Treasury	Treasury Bills	2,000	92	0.18%	17-Jan-22	19-Apr-22
UK Treasury	Treasury Bills	2,000	92	0.18%	17-Jan-22	19-Apr-22
Total Treasury Bills		**4,000**				
Aberdeen MMF	MMF*	20,000	2	0.50%	30-Mar-22	01-Apr-22
Federated MMF	MMF*	10,000	1	0.50%	31-Mar-22	01-Apr-22
Invesco MMF	MMF*	6,300	1	0.48%	31-Mar-22	01-Apr-22
Federated Cash Plus MMF	MMF*	10,000	31	0.52%	01-Mar-22	01-Apr-22
Total Money Market Funds (MMF)		**46,300**				
Total Investments		**105,300**				

* Money Market Funds (MMF)

2.7.5 The Council's investment strategy as set in March 2021 was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. LIBID ceased to be used by the Bank of England at 31 December 2021, with SONIA (Sterling Overnight Index Average) replacing it. The table below shows the returns by the relevant time period measured against both LIBID and SONIA.

	Average Benchmark LIBID Return %	Average Benchmark SONIA Return %	Actual Return %
7 day	(0.074%)	0.137%	0.043%
1 month	(0.053%)	0.126%	0.199%
3 Month	(0.011%)	0.095%	0.378%
6 Month	0.095%	0.074%	0.237%

2.7.6 The Council's overall average performance on its cash investments exceeded its LIBID and SONIA benchmark in all periods.

2.7.7 The investments held with the Churches, Charities and Local Authorities (CCLA) Property Fund generated £0.550m of income with an average return in year of 3.83%. Furthermore, the Director of Finance confirms that the approved limits within the Annual Investment Strategy were not breached during 2021/22.

2.8 The Economy and Interest Rates

UK – Economy

2.8.1 Over the last two years, the Coronavirus outbreak has caused 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 16 December 2021, 0.50% at its meeting of 4 February 2022 and then to 0.75% in March 2022.

2.8.2 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 Gross Domestic Product (GDP) numbers have been robust (9% year on year [y/y] Q1 2022) and sufficient for the Monetary Policy Committee (MPC) to focus on tackling the second-round effects of inflation, now that the Consumer Price Inflation (CPI) measure has already risen significantly.

2.8.3 Gilt yields fell towards the end of 2021, but despite the war in Ukraine gilt yields moved up in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

2.8.4 Historically, a further rise in US Treasury yields will probably pull UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in utilities prices in April 2022 as well as rises in Council Tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with.

2.8.5 In addition, from 1 April 2022, employees also 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.

Average Inflation Targeting

2.8.6 This 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 now seems very dated. Inflation has increased significantly and together with 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.

USA

2.8.7 The flurry of comments from Federal Reserve (Fed) officials following the mid-March Federal Open Market Committee (FOMC) meeting, including from Chair Jerome Powell, had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

2.8.8 The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the impact on real disposable incomes and the additional uncertainty points in the opposite direction.

2.9.9 The inversion of the 10 year-2 year Treasury yield spread at the end of March led to predictable speculation that the Fed's interest rate increases would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

Eurozone (EZ)

2.8.10 With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the European Central Bank (ECB) will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. The market is now anticipating possibly three 25bp rate increases later this year followed by more in 2023.

2.8.11 Policymakers have also hinted strongly that they would re-start asset purchases if required. Christine Lagarde has stated "we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation."

2.8.12 While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a "technical" recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% quarter on quarter (q/q) with the y/y figure posting a healthy 5.2% gain. Encouragingly, unemployment fell to only 6.8% towards the end of 2021/22.

China

2.8.13 After a concerted effort by China to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; however, 2021 saw the economy negatively impacted. With the recent outbreak of COVID-19 in large cities, such as Shanghai, near-term economic performance is likely to be subdued. Official GDP numbers suggest growth of c4% y/y, but other data measures suggest this may be an overstatement.

Japan

2.8.14 The Japanese economic performance through 2021/22 is best described as tepid. With a succession of local lockdowns throughout the course of the year, GDP is expected to have risen only 0.5% y/y with Q4 seeing a minor contraction. The policy rate has remained at -0.1%, unemployment is currently only 2.7% and inflation is sub 1%, although cost pressures are mounting.

World Growth

2.8.15 World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

Deglobalisation

2.8.16 Until recent years, world growth has been boosted by increasing globalisation i.e., countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation.

2.8.17 However, the rise of China as an economic superpower over the last 30 years, which now accounts for 18% of total world GDP (the USA accounts for 24%), and Russia's recent invasion of Ukraine, has unbalanced the world economy. In addition, after the pandemic exposed how frail extended supply lines were around the world, both factors are now likely to lead to a sharp retrenchment of economies into two blocs of western democracies v. autocracies.

2.8.18 It is, therefore, likely that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries from dependence on China (and to a much lesser extent Russia) to supply products and vice versa. This is likely to reduce world growth rates.

Central Banks' Monetary Policy.

2.8.19 During the pandemic, the Governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total Government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth.

2.8.20 This provides Governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than has generally been seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g., full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

2.9 Other Key Issues

International Financial Reporting Standards (IFRS) 9 – Financial Instruments

2.9.1 Following the introduction of IFRS 9 in 2020/21 and after the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS9, the Government has introduced a mandatory statutory override for Local Authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018 and applies for five years from this date. The Council has elected to utilise the mandatory override. The Council is required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

Other Treasury Management Issues

2.9.2 The Committee has previously been advised about the introduction of IFRS 16 Leasing which would bring currently off balance sheet leased assets onto the balance sheet which should have been introduced for Local Authorities from 1 April 2021. This would have meant that the annual accounts for 2021/22 were the first set of accounts produced in accordance with this standard.

2.9.3 However, due to the COVID-19 pandemic and following the consultation on the emergency proposals for an update of the 2021/22 Code of Practice on Local Authority Accounting in the UK and the 2022/23 Code Consultation in March 2022 the introduction of IFRS 16 has been delayed until 2024/25. This delay is part of the recommendations to address the crisis position within the sector, regarding the fact that the significant majority (91%) of local bodies missed the statutory deadline of 30 September 2021 for publication of their audited 2020/21 accounts. Members should note that the Council was not included in the 91%, as the Council's accounts were audited within the statutory deadline.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Council has no option other than to consider and approve the contents of the report. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of the report are agreed and recommended to Council for approval.

5 Consultation

5.1 There has been consultation with Link Asset Services, Treasury Management Advisors.

5.2 The presentation of the Treasury Management Review 2021/22 to the Audit Committee for detailed scrutiny on 21 June 2022 will be in compliance with the requirements of the CIPFA Code of Practice. The report will then be presented to Cabinet and then subsequently Council for approval.

6 Financial Implications

6.1 All included in the report.

7 Legal Services Comments

7.1 None

8 Cooperative Agenda

8.1 The treasury management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the cooperative ethos of the Council.

9 Human Resources Comments

9.1 None

10 Risk Assessments

10.1 There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to treasury management which has previously been acknowledged in Internal Audit reports and in the External Auditors' reports presented to the Audit Committee.

11 IT Implications

11.1 None

12 Property Implications

12.1 None

13 Procurement Implications

13.1 None

14 Environmental and Health & Safety Implications

14.1 None

15 Equality, community cohesion and crime implications

15.1 None

16 Equality Impact Assessment Completed

16.1 No

17 Key Decision

17.1 Yes

18 Key Decision Reference

18.1 N/A

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendices 1 and 2
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20 **Appendices**

Appendix 1 Prudential and Treasury Management Indicators
Appendix 2 Graphs

Appendix 1: Prudential and Treasury Indicators

TABLE 1: Prudential indicators	2020/21	2021/22	2021/22	2021/22
	Outturn	Original	Revised	Outturn
Capital Expenditure				
Non – HRA	73,227	86,002	38,709	76,989
HRA				
TOTAL	73,227	86,002	38,709	76,989
Ratio of financing costs to net revenue stream				
Non – HRA	12.39%	13.32%	13.32%	9.65%
In year Capital Financing Requirement				
Non – HRA	10,334	32,558	3,164	(22,818)
TOTAL	10,334	32,558	3,164	(22,818)
Capital Financing Requirement as at 31 March	491,713	504,935	494,877	468,895

TABLE 2: Treasury Management Indicators	2020/21 Outturn	2021/22 Original Budget	2021/22 Revised	2021/22 Outturn
Authorised Limit for External Debt				
Borrowing	308,000	321,500	302,500	302,500
Other long term liabilities	229,500	220,000	220,500	220,500
TOTAL	**537,500**	**541,500**	**523,000**	**523,000**
Operational Boundary for External Debt -				
Borrowing	288,000	301,500	282,500	282,500
Other long term liabilities	224,500	215,000	215,500	215,500
TOTAL	**512,500**	**516,500**	**498,000**	**498,000**
Actual external debt	397,248			381,045
Upper limit for total principal sums invested for over 364 days	50,000	50,000	50,000	50,000

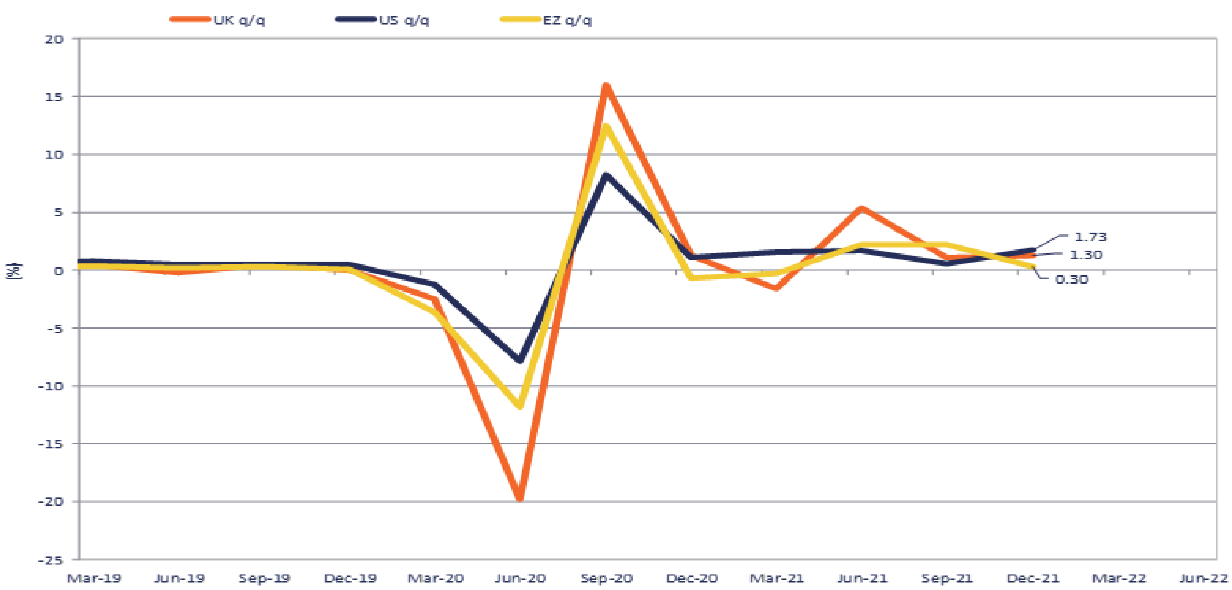
Maturity structure of fixed rate borrowing during 2021/22	Upper Limit	Lower Limit	Actual
Under 12 months	40%	0%	33%
12 months and within 24 months	40%	0%	10%
24 months and within 5 years	40%	0%	12%
5 years and within 10 years	40%	0%	9%
10 years and above	50%	0%	36%

Appendix 2: Graphs

Market Expectations for Future Increases in Bank Rate (6th April 2022)

*MD0 = Change in Bank Rate expected at MPC meeting to be held May 2022, MD1 = Jun-22, MD2 = Aug-22, MD3 = Sep-22, MD4 = Nov-22, MD5 = Dec-22, MD6 = Feb-23

UK, US and EZ Quarterly GDP



CPI v Average Weekly Earnings Growth