

**Executive**

**16 June 2022**

Report of the Chief Finance Officer  
Portfolio of the Executive Member for Finance & Performance

## **Treasury management annual report and review of prudential indicators 2021/22**

### **Summary**

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 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. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
3. This report also confirms that the Council has complied with the requirement under the Code to give scrutiny to treasury management reports by Audit & Governance Committee.

### **Recommendations**

4. Executive is asked to:

Note the 2021/22 performance of treasury management activity and prudential indicators outlined in annex A.

Reason: to ensure the continued performance of the treasury management function can be monitored and to comply with statutory requirements.

### **Background and analysis**

## The Economy and Interest Rates

5. 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 16<sup>th</sup> December 2021, 0.5% at its meeting of 4<sup>th</sup> February 2022 and then to 0.75% in March 2022. In May 2022 the rate increased again to 1.0%.
6. 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% y/y Q1 2022) and sufficient for the Monetary Policy Committee to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.
7. The squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st 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.
8. 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". However, 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.
9. 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 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 that to the Bank of England that the emergency level of rates introduced at the start of the pandemic were no longer required.
10. The Bank of England and the Government also maintained various monetary and fiscal measures supplying the banking system and the

economy with cheap credit so that banks could help businesses to survive the lockdown. 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 demand to borrow, with the consequent effect that investment earnings rates remained low until towards the end of the year when inflation concerns indicated banks would need to lift interest rates to combat the effects of growing levels of inflation.

### Overall treasury position as at 31 March 2022

11. The Council's year end treasury debt and investment position for 2021/22 compared to 2020/21 is summarised in the table below:

<b>Debt</b>	31/03/2022	Average Rate	31/03/2021	Average Rate
	£m	%	£m	%
General Fund debt	159.6	3.21	151.6	3.32
Housing Revenue Account (HRA) debt	146.4	3.21	146.4	3.23
PFI	44.0	n/a	45.2	n/a
Total debt	350.0	3.21	343.2	3.27
<b>Investments</b>				
Councils investment balance	38.8	0.10	8.3	0.17

Table 1 summary of year end treasury position as at 31 March 2022

### Borrowing requirement and debt

12. The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

	31 March 2022 Actual £m	31 March 2022 Budget £m	31 March 2021 Actual £m
CFR General Fund	275.5	325.7	249.9
CFR HRA	146.4	146.4	146.4
PFI	44.0	44.0	45.2
Total CFR	465.9	516.1	441.5

Table 2 capital financing requirement

### Borrowing outturn for 2021/22

13. 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.
14. 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.
15. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this is kept under review to avoid incurring higher borrowing costs in the future.
16. During 2021/22 the following new loans were taken. The total of new loans was £15m. This borrowing was anticipated and is as a result of the progress made in delivering the capital programme. The associated revenue implications were included in the annual budget setting process.

Lender	Issue Date	Repayment Date	Amount £	Rate	Duration (years)
PWLB	15/03/2022	15/07/2044	5,000,000.00	2.40%	22.34
PWLB	17/03/2022	15/08/2045	5,000,000.00	2.48%	23.41
PWLB	17/03/2022	17/06/2047	5,000,000.00	2.47%	25.25

Table 3 – New loans in 2021/22

17. During 2021/22 the following existing loans matured. The total of maturing loans was £7m

Lender	Issue Date	Repayment Date	Amount £	Rate	Duration (years)
PWLB	11/08/2011	10/08/2021	2,000,000.00	3.81%	10.00
PWLB	23/11/2000	05/11/2021	1,000,000.00	4.75%	20.95
PWLB	03/04/2001	05/11/2021	1,000,000.00	4.75%	20.59
PWLB	15/11/2001	28/02/2022	3,000,000.00	4.50%	20.29

Table 4 – Maturing loans in 2021/22

18. No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

### Investment outturn for 2021/22

19. The Council's investment policy is governed by DLUHC guidance, which has been implemented in the annual investment strategy approved by the Council on 25<sup>th</sup> February 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.). The Council will also consider environmental, social and governance issues when placing investments through the use of the FTSE4Good index. The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.
20. The Council maintained an average investment balance of £45.722m in 2021/22 compared to £15.690m in 2020/21. The surplus funds earned an average rate of return of 0.10% in 2021/22 compared to 0.17% in 2020/21. Cash supporting the Council's reserves, balances and cash flow was used as an interim measure to delay and minimise long term borrowing throughout the year. This strategy was prudent as investment returns were low and minimised counterparty risk.
21. The level of cash balances available is largely dependent on the timing of the Council's cash flow as a result of precept payments, receipt of grants, receipt of developers contributions, borrowing for capital purposes, payments to its suppliers of goods and services and spend progress on the Capital Programme. Cash held compared with this time last year has increased rather than decreased due to the timing of these cash flows and the cash balances are therefore only available on a temporary basis. Cash balances have been helped in 2021/22 by cash transactions between the Council and DLUHC as per paragraph 10 and in relation to business rates as set out in previous reports.
22. The comparable performance indicator for the Councils investment performance is the average London Inter Bank Bid Rate (LIBID) which represents the average interest rate at which major London banks borrow from other banks. The LIBID rates ceased at 31<sup>st</sup> December 2021 and therefore from 1<sup>st</sup> January 2022 the Council is using the average Sterling Overnight Index Average (SONIA) as a comparable performance indicator. LIBID is the rate that banks are willing to pay for deposits in the London interbank market while SONIA is based on actual transactions reflecting the average of the interest rates that banks pay to borrow sterling overnight.

23. Table 5 shows the rates for financial year 2021/22 up to 31<sup>st</sup> December 2021 using LIBID and Table 6 shows the period from 1<sup>st</sup> January 2022 up to 31<sup>st</sup> March 2022 using SONIA. The comparators given are based on overnight, 7 day and 3 month benchmarks. The Council has held cash liquid or in short term notice deposits over the year and so as the Bank of England has increased interest rates from 0.10 to 0.75 between December 2021 and March 2022 the Councils average rate of return, while increasing, has remained lower than SONIA due to the liquid nature of the cash holdings.

Benchmark	Benchmark Return	Council Performance
Overnight	-0.08	0.05
7 day	-0.07	0.05
3 month	-0.02	0.05

Table 5 – LIBID (1<sup>st</sup> Apr. 21 - 31<sup>st</sup> Dec. 2021) vs. CYC comparison (1<sup>st</sup> Jan. 22 - 31<sup>st</sup> Mar. 22)

Benchmark	Benchmark Return	Council Performance
Overnight	0.39	0.26
7 day	0.38	0.26
3 month	0.66	0.26

Table 6 – SONIA (1<sup>st</sup> Jan. 22 - 31<sup>st</sup> Mar. 22) vs. CYC comparison (1<sup>st</sup> Jan. 22 - 31<sup>st</sup> Mar. 22)

### Consultation

24. The report will be reviewed and scrutinised by Audit and Governance Committee on 29<sup>th</sup> June 2022.

### Options

25. Not applicable.

### Council Plan

26. Effective treasury management ensures the Council has sufficient liquidity to operate, safeguards investments, maximises return on those

investments and minimises the cost of debt. This allows more resources to be allocated for delivering the Council's priorities as set out in the Council Plan.

## Implications

27. This report has the following implications:

- **Financial** are contained throughout the main body of the report.
- **Human Resources (HR)** There are no HR implications.
- **One Planet Council / Equalities** There are no One Planet Council or equalities implications.
- **Legal** Treasury management activities have to conform to the Local Government Act 2003, which specifies that the Council is required to adopt the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice.
- **Crime and Disorder** There are no crime and disorder implications.
- **Information Technology (IT)** There are no IT implications.
- **Property** There are no property implications.
- **Other** There are no other implications.

## Risk Management

28. The treasury function is a high-risk area due to the large value transactions that take place. As a result, there are strict procedures set out as part of the treasury management practices statement. The scrutiny of this and other monitoring reports is carried out by Audit and Governance Committee as part of the Council's system of internal control.

## Contact Details

<b>Authors:</b>		<b>Chief Officer Responsible for the report:</b>		
Debbie Mitchell Chief Finance Officer		Debbie Mitchell Chief Finance Officer		
Tony Clark Accounting Technician		<b>Report Approved</b>	✓	<b>Date</b> 1/6/22
<b>Wards Affected:</b> List wards or tick box to indicate all				<b>All</b> ✓
<b>For further information please contact the author of the report</b>				

**Background Papers:**

None

**Annexes:**

Annex A: Prudential Indicators 2021/22

**List of Abbreviations Used in this Report**

CIPFA - Chartered Institute of Public Finance & Accountancy

CYC – City of York Council

MRP - Minimum Revenue Provision

CFR - Capital Financing Requirement

MPC - Monetary Policy Committee

PWLB - Public Works Loan Board

MHCLG – Ministry of Housing, Communities and Local Government

DLUHC – Department for Levelling Up, Housing and Communities

LIBID – London Interbank Bid Rate

SONIA – Sterling Overnight Index Average