

AUDIT AND GOVERNANCE COMMITTEE

22 July 2022

TREASURY MANAGEMENT – REVIEW OF PERFORMANCE 2021/2022

Report of the Executive Director of Corporate Services

1 Purpose of the Report

- 1.1 To report on the Treasury Management borrowing and investment performance for 2021/2022.

2 Description of Decision (Recommendation)

- 2.1 The Committee is requested to note the Treasury Management performance for 2021/2022.

3 Introduction

- 3.1 This report sets out the annual borrowing and investment performance for the financial year 2021/2022 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by Council on 3rd March 2021. The Treasury Management Strategy comprises the approved Council strategy for borrowing and its policies for managing its investments (which give priority to the security and liquidity of the funds over yield of those investments).
- 3.2 The Treasury Management Policy Statement and Strategy complied with best practice, including the Ministry of Housing, Communities and Local Government's 'Statutory Guidance on Local Government Investments' updated in February 2018 and also incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, updated in December 2017.

4 Review of Performance 2021/2022

Summary

- 4.1 The performance of the Council's Treasury Management function continues to maximise financial savings. The average interest rate of the Council's borrowing at 2.55% is low and the Council's treasury management advisor reports this compares favourably with their other local authority clients as does the 0.22% rate of return achieved on investments.
- 4.2 Covid-19 has had a significant impact on financial markets and economic forecasting throughout 2021/2022 and any respite to the uncertainty from the successful rollout of vaccines has been replaced by the global fallout of Russia's invasion of Ukraine in February 2022. Concerns over Europe's reliance on Russia for its oil and gas supplies has sent wholesale energy prices soaring, despite the UK's exposure being less than its European neighbours. Serious supply-side shocks have fed through to

higher energy and food bills placing unprecedented pressure of household incomes with little prospect of this abating in 2022.

Borrowing Strategy and Performance – 2021/2022

4.3 The basis of the agreed Borrowing Strategy was to:

- continuously monitor prevailing interest rates and forecasts;
- secure long-term funds to meet the Council's future borrowing requirement when market conditions were favourable;
- use a benchmark financing rate of 2.60% for long-term borrowing (i.e. all borrowing for a period of one year or more);
- take advantage of debt rescheduling opportunities as appropriate.

4.4 The Borrowing Strategy has been reviewed by this Committee in July and October 2021 and February 2022 and was updated where necessary to reflect changing circumstances. The Borrowing Strategy for 2021/2022 was based upon internal expertise, supplemented with market data, market information and leading economic forecasts provided by the Council's treasury management adviser, Link Asset Services.

4.5 The strategy for 2021/2022 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Council. A benchmark financing rate of 2.60% for long-term borrowing was set for 2021/2022 in light of the views prevalent at the time the Treasury Management policy was set in March 2021.

4.6 The BoE Monetary Policy Committee (MPC) voted at its meeting on 16th December 2021 to increase the Base Rate by 0.15% to 0.25%, the first increase in the Base Rate since the historic low of 0.10% announced on 19th March 2020. This was followed by two further increases of 0.25% at its meetings on 3rd February and 17th March 2022 respectively, taking the Base Rate to the pre-virus and post-Global Financial Crisis high of 0.75% with more to come if the MPC switches focus to combating inflation than protecting economic growth.

4.7 The continued surge in Consumer Price Index (CPI) inflation to a new 30-year high of 7.0% in March 2022, is more than three times the BoE target of 2% and despite measures announced by the Chancellor in his Spring Fiscal Statement, we are seeing the biggest squeeze on households' living standards for over 50 years.

4.8 There have been high levels of volatility in the financial markets during 2021/2022. The war in Ukraine has contributed to financial conditions being as tight as after the Brexit vote in 2016. Whilst the economy has proven resilient to the effects of the war in its early stages, this position is likely to change if it becomes a long and protracted conflict. 50-year PWLB interest rates started the financial year in April 2021 at 2.03% (inclusive of the 0.20% discount available to Local Authorities), dropping to 1.49% in August 2021 before reaching a peak of 2.17% on 11th October 2021. From then rates gradually fell to a low of 1.25% on 9th December 2021 before steadily rising to end the financial year at 2.39%.

- 4.9 The table below shows the average PWLB borrowing rates for each quarter in 2021/2022.

2021/2022	Qtr 1 (Apr - June) %	Qtr 2 (July – Sept) %	Qtr 3 (Oct – Dec) %	Qtr 4 (Jan – Mar) %
SONIA Overnight Rate	0.05	0.05	0.07	0.39
1 year	0.81*	0.87*	1.11*	1.71*
5 year	1.18*	1.15*	1.47*	2.01*
10 year	1.68*	1.52*	1.75*	2.19*
25 year	2.14*	1.90*	1.99*	2.38*
50 year	1.94*	1.68*	1.68*	2.09*

* Rates take account of the 0.2% discount to PWLB rates available to eligible authorities (including the Council) from 1st November 2012.

- 4.10 In line with discussions with the Council's economic advisors, the Council took advantage of the low borrowing rate troughs that have occurred and has taken out £100 million of new borrowing during the financial year. These rates were considered opportune, and the Treasury Management team continues to closely monitor PWLB rates in line with future capital programme requirements. The new borrowing is summarised in the following table.

Duration	Date of the transaction	Start	Matures	Rate %	Loan Amount £m
50 years	30/11/2021	07/12/2021	07/12/2071	1.40*	100.0

*rate takes account of the 0.20% discount to PWLB rates available to the Council.

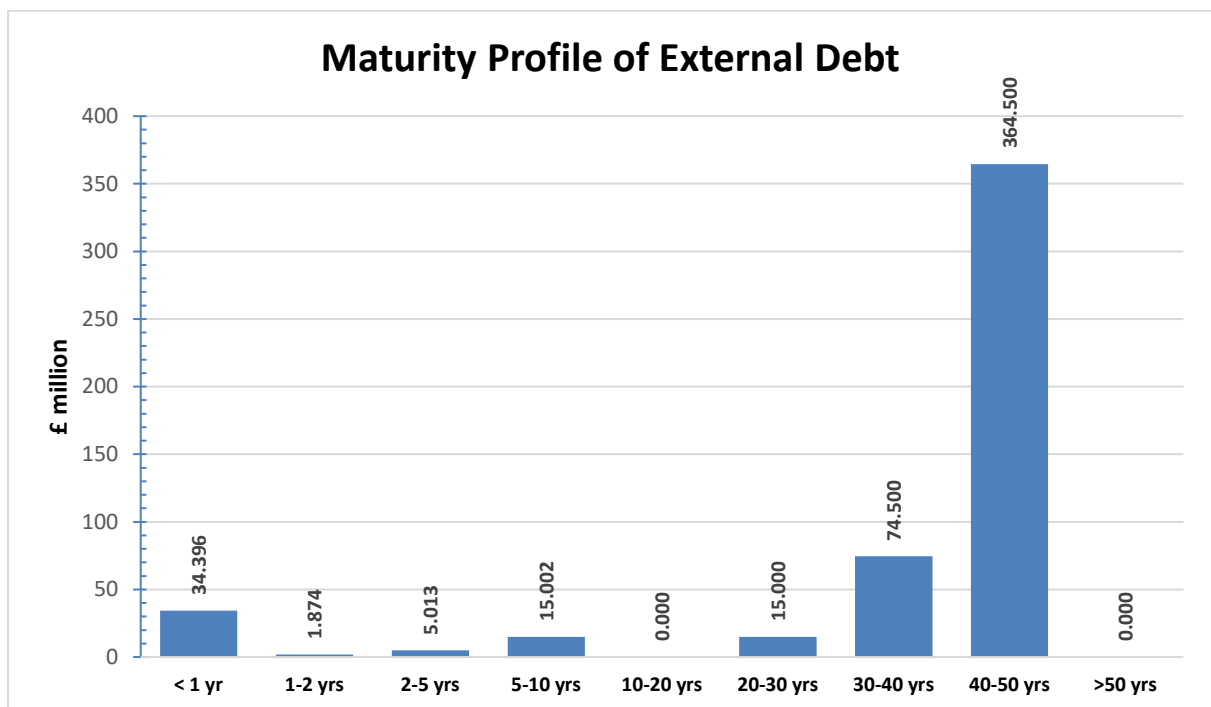
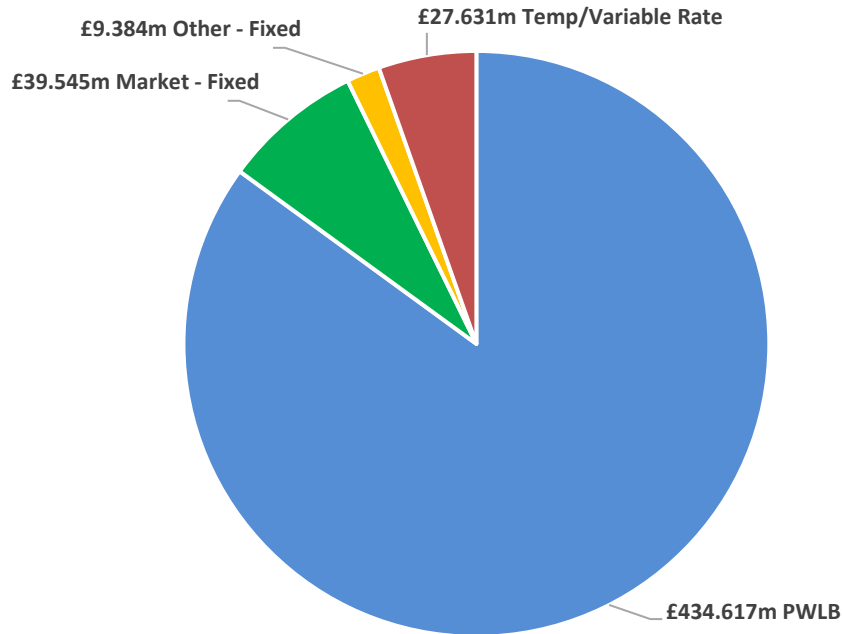
- 4.11 The Treasury Management Strategy for 2021/2022 included provision for debt rescheduling, whilst accepting that because of the very low underlying rate of the Council's long-term debt it would be difficult to refinance long-term loans at interest rates lower than those already in place. As expected, rates have not been sufficiently favourable for debt rescheduling in 2021/2022.
- 4.12 The Council's borrowing portfolio position at 31st March 2022 is set out below.

Borrowing Summary at: 31 March 2022			
	<u>Principal</u>	<u>Interest</u>	<u>Ave rate</u>
<u>Fixed</u>			%
PWLB	434,616,667	11,274,421	2.59
Market - Fixed	39,545,000	1,742,323	4.41
Other - Fixed	9,383,570	55	0.00
	483,545,237	13,016,799	2.69
<u>Variable</u>			
Temporary/Other - Variable	27,631,243	38,811	0.14
	27,631,243	38,811	0.14
TOTAL BORROWING:	511,176,480	13,055,610	2.55
TOTAL INVESTMENTS:	298,790,000		

(All Managed In-house)

NET POSITION:

(212,386,480)



4.13 The Council had a net borrowing position of £212.386 million representing the difference between gross debt and total investments. The net borrowing position is expected to widen (increase) further over the next few years as the Council will need

to take out additional borrowing to fund its capital programme whilst earmarked revenue reserves will be used to fund agreed programmes.

Prudential Indicators – 2021/2022

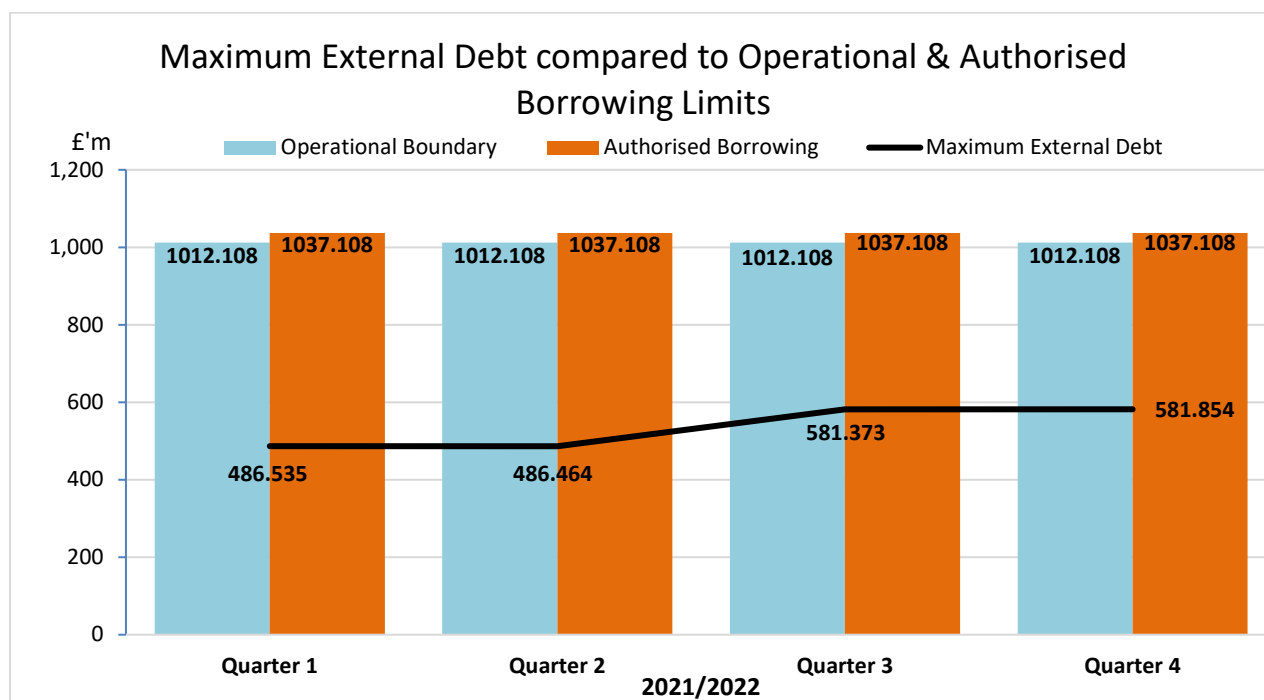
- 4.14 All external borrowing and investments undertaken in 2021/2022 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Council's performance for all other Prudential Indicators as follows:
- 4.15 The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was set by the Council for 2021/2022 as follows:

	£m
Borrowing	911.927
Other Long-Term Liabilities	125.181
Total	<u>1,037.108</u>

The Operational Boundary for External Debt for 2020/2021 was set as follows:

	£m
Borrowing	886.927
Other Long-Term Liabilities	125.181
Total	<u>1,012.108</u>

The Council's maximum external debt in respect of borrowing in 2021/2022 was £581.854 million and is within the borrowing limits set by both of these indicators.



- 4.16 The table below shows that all other Treasury Management Prudential Indicators have also been complied with:

Prudential Indicators	2021/2022	
	Limit	Actual
P9 Maturity Pattern Under 12 months 12 months and within 24 months 24 months and within 5 years 5 years plus A lower limit of 0% for all periods P10 Upper limit for total principal sums invested for over 365 days	Upper Limit 50% 60% 80% 100% £75.0m	8.89% 1.80% 1.34% 91.93% 0

5 Investment Strategy and Performance - 2021/2022

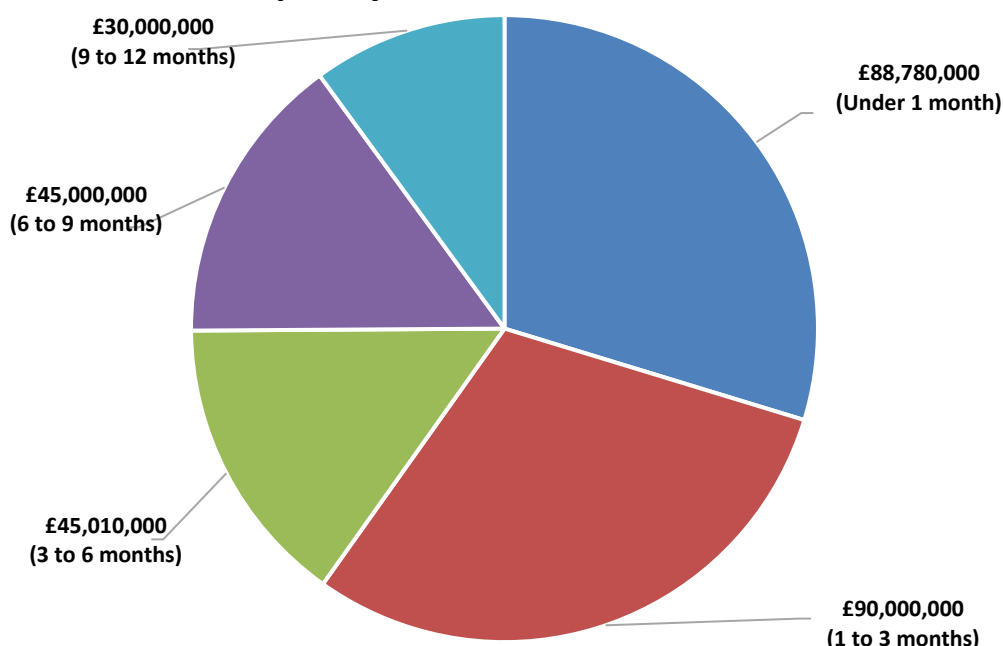
5.1 The Investment Strategy for 2021/2022 was approved by Council on 3rd March 2021. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then
- (C) The Council aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

5.2 At 31st March 2022, the funds managed by the Council's in-house team amounted to £298.790 million and all investments complied with the Annual Investment Strategy.

Investment Summary at 31 March 2022					
Borrower	Duration	Amount of Loan	Rate (%)	Start Date	Maturity Date
Call Accounts:					
NatWest SIBA	Overnight	6,680,000	0.01		Call
Prime MMF	Overnight	38,000,000	0.50		Call
Aberdeen Liquidity Fund	Overnight	44,100,000	0.51		Call
Santander 95 Day Notice	95d Notice	25,000,000	0.25		95 day
Lloyds 95 Day Notice	95d Notice	10,000	0.05		95 day
Sub-total:		113,790,000			
Fixed Term Deposits:					
SMBC	63 days	20,000,000	0.880	21-Mar-22	23-May-22
Santander UK Plc	181 days	20,000,000	0.300	26-Nov-21	26-May-22
Standard Chartered Bank	182 days	20,000,000	0.280	10-Dec-21	10-Jun-22
Yorkshire Building Society	182 days	30,000,000	0.250	10-Dec-21	10-Jun-22
Standard Chartered Bank	184 days	20,000,000	1.420	21-Mar-22	21-Sep-22
Yorkshire Building Society	273 days	15,000,000	1.230	07-Feb-22	07-Nov-22
Goldman Sachs Int Bank	364 days	30,000,000	0.770	10-Dec-21	09-Dec-22
Goldman Sachs Int Bank	358 days	10,000,000	1.505	08-Feb-22	01-Feb-23
Goldman Sachs Int Bank	364 days	20,000,000	1.525	08-Feb-22	07-Feb-23
Sub-total:		185,000,000			
TOTAL:		298,790,000			

Investment Liquidity:



- 5.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Council uses to assess its performance. The 7-Day LIBID (London Interbank Bid) rate previously used by the Council ceased being published at the end of December 2021 and the SONIA rate is the closest comparable rate.

	2021/2022 Return %	2021/2022 Benchmark %
In-house Managed Funds	0.22	0.14

- 5.4 All investments placed in 2021/2022 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List approved by Council on 3rd March 2021.
- 5.5 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Council. As reported during the year, the rate of return available on investments has remained at very low levels and the Council has held higher than normal levels of cash balances to support its response to the Covid-19 pandemic.
- 5.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management advisers is to continue to restrict investments to shorter term periods.
- 5.7 As members will be aware, the regular updating of the Council's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. Changes made during 2021/2022 have been reported to members previously and the latest Lending List and Criteria are included in the

Treasury Management First Quarterly Review 2022/2023 report appearing elsewhere on today's agenda for information.

6 Reason for Decision

6.1 To note the performance for 2021/2022.

7 Alternative Options

7.1 No alternatives are submitted for consideration