Key Decision Required:	Yes	In the Forward Plan:	Yes

CABINET

15 JULY 2022

REPORT OF CORPORATE FINANCE AND GOVERNANCE PORTFOLIO HOLDER

A.7 TREASURY MANAGEMENT PERFORMANCE 2021/22

(Report prepared by Richard Barrett and Wendy Borgartz)

PART 1 – KEY INFORMATION

PURPOSE OF THE REPORT
To report on the Council's treasury management activities and Prudential Indicators for 2021/22.

EXECUTIVE SUMMARY

- Borrowing and investments have been undertaken in accordance with the 2021/22 Annual Treasury Strategy that was approved by full Council on 13 July 2021.

- ***Summary of the Council's Borrowing Position:***

Amount Outstanding at the end of March 2022	Average Interest Rate Paid in 2021/22	Total Interest paid in 2021/22
£0.144m (General Fund)	7.122%	£0.011m
£36.777m (HRA)	3.521%	£1.322m

No external borrowing was undertaken in 2021/22 for either the General Fund (GF) or Housing Revenue Account (HRA).

- ***Summary of the Council's Investment Position:***

Value of Investments held at the end of March 2022	Average Interest rate on Investments 2021/22	Interest Earned on Investments 2021/22
£7.655m	0.073%	£0.065m

The amount of interest earned from investments decreased during the year due to the bank base rate remaining at 0.10% until 16 December 2021, when it increased to 0.25%, with further increases to 0.50% on 3 February 2022 and 0.75% on 17 March 2022. As most investments are fixed for 6 months at a time, the increases did not offset the majority of the year at 0.10%. Compared to historic interest figures, the 2021/22 return remained low because of the continuing unprecedented low interest rates. Estimated income was reduced from prior years to **£0.067 million**, with the outturn figure being **£0.065 million** as set out in the table above.

- The Council continues to hold one property within its Commercial Investment Portfolio, which had a balance sheet value at 1 April 2021 of **£1.985 million**. This 'book value' was increased by the Council's appointed valuers to **£2.108 million** at the end of 2021/22. However, this is an 'accounting' valuation and not a direct value that could be achieved on the market if it was sold. In-line with the budget, rental income of **£0.256 million** was earned on the property in 2021/22 (this figure was higher than in previous years due to the schedule of payments moving back to quarterly rather than monthly with no effect on the overall annualised position)

- As reported to Cabinet in February 2022, during 2021/22 the Treasury Management limit of **£1.000 million** that can be held across the Council's various current accounts on any one day was exceeded on 17 December 2021, when a total of **£2.213 million** was held across the various current accounts. This was due to a serious cybersecurity attack on the Council, meaning that treasury officers were unable to access the systems necessary to move **£1.300 million** across to the call accounts, although the total held with Lloyds Bank was less than the total limit across both the call account and the current accounts. On 1 June 2022, the limit for the bank current accounts was again exceeded, due to the closure of a bank account held with Nat West where they gave no notice of the repayment of the associated credit on the account. As no prior notification of this repayment was received, no alternative arrangements could be made in time. This was a one-off event with further details set out later on in this report.

- Treasury performance figures for the year are set out in **Appendix A** with Prudential Indicators attached as **Appendix B.**

- The impact of inflation is expected to grow further in 2022/23 with an expectation that interest rates will continue to rise. Investment income budgets will be reviewed as part of the quarterly Corporate Budget Monitoring and long term financial planning processes.

RECOMMENDATION(S)

That Cabinet:

a) notes the Treasury Management performance position for 2021/22; and

b) approves the Prudential and Treasury Indicators for 2021/22.

PART 2 – IMPLICATIONS OF THE DECISION

DELIVERING PRIORITIES

Good and effective Treasury Management supports the Council in delivery against its corporate goals and objectives.

FINANCE, OTHER RESOURCES AND RISK

Finance and other resources

Key treasury management performance data is set out in **Appendix A**.

Risk

Risk is inherent in all treasury management activities. Such risks are considered within the Capital and Treasury Strategy with management actions necessary to mitigate the risks set out in the Council's Treasury Management Practices.

LEGAL

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).

The Local Authorities (Capital Financing and Accounting) (England) Regulations 2003 include the requirement for local authorities to have regard to CIPFA guidance which this Council has adopted.

OTHER IMPLICATIONS

Consideration has been given to the implications of the proposed decision in respect of the following and any significant issues are set out below.
Crime and Disorder / Equality and Diversity / Health Inequalities / Area or Ward affected / Consultation/Public Engagement.

There are no direct implications in respect of the above areas.

PART 3 – SUPPORTING INFORMATION

BACKGROUND AND CURRENT POSITION

The Council has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice for Treasury Management in the Public Services. The main reporting elements to comply with this code include:

- An Annual Capital and Treasury Strategy approved by Cabinet after consultation with the relevant overview and scrutiny committee for recommending to the Full Council.

- Regular monitoring reports that form part of the Council's Corporate Financial Performance Monitoring arrangements during the year. During 2021/22, a breach of the limits that can be held in total across the current accounts on 17 December 2021 was reported when a total of **£2.213 million** was held compared to the limit of **£1.000 million**. This arose due to a serious cybersecurity attack on the Council, meaning that the treasury officers were unable to access the systems necessary to move **£1.300 million** across to the call account with Lloyds.

- A further breach during 2022/23 occurred on 1 June 2022, when the total held across all current accounts over the Jubilee bank holiday weekend was **£1.750 million**. This arose because the decision had been taken some weeks previously to close the call account with Nat West bank and the paperwork provided to the bank, but they did not advise us when they were going to return the **£1.007** million held in the account and transferred it into the direct credits current account late that afternoon. There was no opportunity to move the money to another account, so the limit was breached until the situation was resolved on 6 June 2022. This is a one-off situation, as the only money in such accounts now is held with Lloyds and within the two Money Market Funds, which the Council can transfer out of before they are closed (although there are no plans to close them at the current time).

- An annual treasury performance or outturn report for the preceding year that is presented to Cabinet.

This report sets out the necessary information in response to the third bullet point above and provides a summary of the treasury activities undertaken in 2021/22 **(Appendix A)** and final Prudential and Treasury Indicators at the end of 2021/22 **(Appendix B),** with revised figures for 2022/23 where relevant.

During 2021/22, the Council complied with its legislative and regulatory requirements and associated treasury management activity remained in accordance with the Treasury Strategy and Treasury Management Practices with further details in respect of specific borrowing and investment considerations set out in the next section of the report.

BORROWING AND INVESTMENTS 2021/22

Borrowing

The Base Rate set by the Bank of England remained at 0.10% until 16 December 2021. Since then there have been a series of increases and the latest forecast from the Council's treasury advisors indicates that the base rate is expected to rise progressively to 2.75% by March 2023 and to remain at that level until December 2023, with a drop back to 2.50% in March 2024 and 2.25% in September 2024, with the rate remaining at that level until June 2025. Public Works Loan Board (PWLB) rates are projected to rise over the period with the 25 year rate expected to peak at 3.0% in September 2022 and the 50 year rate expected to peak at 3.50% in March 2023. In December 2021, revised versions of the Treasury Management Code and the Prudential Code were issued by CIPFA with the aim of tightening further the requirements around commercial property investments and introducing new elements. These are applicable from 2023/24. The Council's current investment property was not financed by loan.

No external borrowing was undertaken during the year. In respect of the General Fund, the Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with external loans, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy remains prudent, as investment returns are low and counterparty risk remains relatively high. As set out in the Treasury Strategy, the current internal borrowing position is running close to the £5m agreed. However, although it is felt prudent to maintain this position in the short term, it will be kept under on-going review, in consultation with the Council's external advisors, given the volatility in forecast interest rates highlighted above.

No new borrowing or restructuring of existing debt was undertaken for GF or HRA purposes in 2021/22. Principal on HRA debt continues to be repaid each year in line with the 30 year business plan. Debt rescheduling opportunities are limited in the current economic climate with no debt rescheduling taking place in 2021/22.

No temporary borrowing from the markets was required during the year.

One of the key prudential indicators relates to the Council's Authorised Borrowing Limit. It is therefore worth highlighting that borrowing has been maintained within the Council's Authorised limit as set out below:

Key Indicator	Limit 2021/22	Amount Borrowed (Internal and External)
Authorised Limit – borrowing	£75.820m	£41.798m

As set out in the HRA budget report to Cabinet on 28 January 2022, the redevelopment of the Honeycroft site has not yet been included within the HRA Capital Programme. A separate report will be presented to Cabinet / Council once the tender exercise for the design and build of the scheme has been completed, which will also set out the funding required for the development and seek approval for prudential borrowing within the HRA as necessary.

There is also an HRA PWLB maturity loan of **£0.800 million**, which matures in 2022/23 and in accordance with the HRA Business Plan this will be 'replaced' with a 'repayment' type loan to reduce future interest costs and to prudently pay off the loan over reasonable timescales. However, this approach will be kept under review in 2022/23, with any necessary changes included in associated reports to Members during the year.

Investments

The year saw the continuation of the challenging investment environment of very low investment returns with relatively high level of counterparty risk continuing. The tight monetary conditions remain and short-term deposit rates remain at extremely low levels, with some DMO rates being negative at certain points in the year. Additional liquidity in the market as a result of government grants to local authorities in response to COVID 19 and reduced investment activity in the wider economy due to COVID 19 resulted in banks not looking for any additional funding, which has driven rates down even further and has made it increasingly difficult to find suitable counterparties.

The Council manages its investments in-house and invests in accordance with the approved strategy. The Council invests for periods of time dependent on the Council's cash flows, the view as to future interest rate movements and the interest rates offered by counterparties whilst balancing various risks such as interest rate risk and counterparty risk.

The Council's investments continued across the following investment types:

- Deposits at fixed rates and for fixed terms with other local authorities and the Government's Debt Management Office (DMO)
- Deposits at fixed rates and for fixed terms with UK-based banks and building societies meeting the counterparty risk criteria
- Treasury bills, which are tradeable but if held to maturity are at fixed rates
- Certificates of deposit, which are tradeable but if held to maturity are at fixed rates
- Use of deposit accounts with UK banks and the two Money Market Funds for liquidity

Further details on how the investment types changed over the year is set out below.

With poor investment returns available along with limited 'low' risk counterparties, a significant proportion of the Council's investments were still made with other local authorities. Money also continued to be placed with the Bank of England's Debt Management Facility (DMO) throughout the year, even in periods when the DMO was paying negative interest rates, meaning that the Council received back less money than was placed with the DMO. This was due to the volume of grant money held and the lack of other suitable counterparties and was done in the knowledge that the 'loss' would be very minimal. In respect of the latter point, total negative interest paid by the Council was limited to £920.67 across the whole year. One lot of **£4.000 million** of Treasury Bills were bought during the year, and over the year **£17.000 million** of Certificates of deposit with banks meeting the Council's criteria were purchased, along with some fixed deposits with Building Societies and the call accounts and Money Market Funds, leading to a total of **£31.997 million** placed with UK financial institutions over the year. Both government and local authority investments fit well with the Council's low appetite for risk with the security and liquidity of the investment the prime concern.

The total invested in local authorities at 31 March 2022 was **£39.000 million** out of a total investment of **£77.698 million**, with a further **£18.000 million** invested short term with the Debt Management Office and **£6.902 million** invested in two Money Market Funds. A total of **£1.798 million** was placed in call accounts, **£3.000 million** with a Building Society and the remaining **£8.997 million** was invested in Certificates of deposit.

With lower levels of Covid grant funding, although this repeatedly went out and came back through the DMO through the year, aggregated investments reached just over **£893 million** for the year as set out in **Appendix A**.

The Council receives regular credit rating updates during the year following which the appropriate action is taken as soon as practical where the credit rating falls below the minimum ratings, which form part of the Council's Treasury Management Practices.

The UK holds an AA rating with one rating agency, AA- with a second and Aa3 with the third, with the lower grades not having a specific adverse impact on the Council's treasury activities at the present time.

In accordance with the Council's Commercial Property Investment Policy, an annual update on the portfolio is set out below.

In August 2017 the Council purchased an investment property in the District. The purchase was financed partly from capital receipts and partly from revenue resources, so there was no increase in indebtedness arising from the purchase. The purchase price, including stamp duty, was **£3.244 million**. At 31 March 2018 the property had been revalued t**o £3.100 million** (the purchase price less stamp duty tax). In each subsequent year the Council's appointed valuer has revalued the property for the purposes of the Council's Statement of Accounts and the fair value has changed as set out in the table below:

Date	**Comment**	**Value £ million**	**Impairment / Gain £ million**
August 2017	Purchase	3.244	0.000
March 2018	Revalued – exclude stamp duty	3.100	0.144
March 2019	Revalued	2.300	0.800
March 2020	Revalued	2.155	0.145
March 2021	Revalued	1.985	0.170
March 2022	Revalued	2.108	(0.123)

A gain of **£0.123 million** was recognised in the Council's 2021/22 statement of accounts, which is charged to revenue within the Comprehensive Income and Expenditure Statement and then reversed out through the Movement in Reserves Statement so that it does not affect the amount that needs to be financed. It is worth highlighting that the above adjustments reflect the necessary end of year accounting adjustments and therefore do not necessarily reflect the value of the property on the open market. This remains as the only property in the portfolio.

In terms of the performance of the property, during the year the rental income was **£0.256 million**. (This is higher than in 2020/21 as the payment of rent has moved back to a quarterly basis from a monthly basis but this has had no impact on the overall annualised amount). The annualised amount represents an annual rate of return of 6.5% compared to the purchase price including stamp duty. The property is therefore performing satisfactorily against the financial target with the budgeted investment income achieved for the year. It is important to highlight that the rental payments can be seen as paying back the original investment made in purchasing the property. The overall performance of the investment therefore needs to take into account such considerations over the life of the Council's ownership of the property rather any shorter term position in isolation.

The current leasehold occupier of the property ceased trading from the property in November 2018 with the property now sublet, a position expected to remain for the unexpired period of the lease (approximately 4 years). It is worth highlighting that the Council's Commercial Property Investment Policy is underpinned by robust risk management actions, which will respond to any changes to the situation. With the latter point in mind and as set out within the Commercial Property Investment Policy, the Council's wider treasury management activities are designed to ensure that the Council is not faced with a position of having to sell the property for cash flow purposes. This in turn ensures that the Council remains in control of when the property is ever exposed to the market rather than potentially having to sell the property during a period where there may be a downturn in commercial property prices.

Given the above, there are no current risks to the Council's long-term forecast or significant changes to the risk of holding commercial property, but this will be reviewed on an on-going basis with any changes required to be made to the forecast set out as part of the financial strategy process over the reminder of the year.

Compliance with Treasury and Prudential Limits

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy. The outturn for the Prudential Indicators is shown in **Appendix B.**

BACKGROUND PAPERS FOR THE DECISION

None

APPENDICES

Appendix A Treasury Performance figures 2021/22
Appendix B Prudential and Treasury Indicators 2021/22