Treasury Management Outturn Report 2021/22

Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management annual report after the end of each financial year.

The Council's treasury management strategy for 2021/22 was approved on 24th February 2021. The Authority has invested and borrowed substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report.

The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 24th February 2021.

External Context

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report.

Credit review: Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance: In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish.

Local Context

On 31st March 2022, the Authority had net borrowing of £116.3m arising from its revenue and capital income and expenditure, an increase on 2021 of £23.3m.

The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.21 Actual £000	2021/22 Movement £000	31.3.22 Actual £000
General Fund CFR	23,775	32,785	56,560
HRA CFR	126,477	(1,898)	124,579
Total	**150,252**	**30,887**	**181,139**
Less: Usable reserves	(56,110)	7,575	(48,535)
Less: Working capital	(1,133)	(15,149)	(16,282)
Net borrowing	**93,009**	**23,313**	**116,322**

Net borrowing has increased due to a rise in the CFR as new capital expenditure was lower than the financing applied.

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 20212 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £000	2021/22 Movement £000	31.3.22 Balance £000	31.3.22 Rate %
Long-term borrowing	125,429	3,060	128,489	3.74%
Short-term borrowing	0	15,000	15,000	0.16%
Total borrowing	**125,429**	**18,060**	**143,489**	
Long-term investments	0	0	0	
Short-term investments	0	(12,400)	12,400	0.05%
Cash and cash equivalents	32,420	17,653	14,767	0.06%
Total investments	**32,420**	**5,253**	**27,167**	
Net borrowing	**93,009**	**23,313**	**116,322**	

Borrowing Activity

At 31st March 2022, the Authority held £143 of loans, an increase of £18m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change in show in table 3 below.

Table 3: Borrowing Position

	31.3.21 Balance £000	2021/22 Movement £000	31.3.22 Balance £000	31.3.22 Rate %	31.3.22 Average maturity years
Public Works Loan Board	125,429	3,060	128,489	3.74	27 years
Short-term borrowing	0	15,000	15,000	0.16	<1 year
Total borrowing	**125,429**	**18,060**	**143,489**		

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

The Authority has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a combination of short-term borrowing and long-term repayment loans. The Authority borrowed £5m long-term fixed rate loans. These loans provide some longer-term certainty and stability to the debt portfolio.

Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Authority's investment balance ranged between £12m and £42m million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 4 below.

Table 4: Investment Position

	31.3.21 Balance £000	2021/22 Movement £000	31.3.22 Balance £000	31.3.22 Rate %	31.3.21 Average maturity years
Government (incl. local authorities)	12,820	(420)	12,400	0.05	<1 year
Money Market Funds	19,600	(4,833)	14,767	0.06	<1 year
Total investments	**32,420**	**(5,253)**	**27,167**		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

In furtherance of these objectives, the Authority continued to increase deposits into more secure asset classes during 2021/22. As a result, investment risk was lowered.

Ultra low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March.

Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) remained very low for much of the year with rates ranging from 0% to 0.1%, but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity.

Other Non-Treasury Holdings and Activity

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

The Authority holds £46m of directly owned investment property and land. The Authority also holds a £50,000 loan to the Derbyshire Building Control Partnership that commenced in March 2018, a £52,500 loan to Staveley Town Council that commenced in March 2020 and a £500,000 loan to Chesterfield Football Club Community Trust that commenced in August 2020.

Performance Report

The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget, as shown in table 5 below.

Table 5: Performance

	Actual £000	Budget £000	Over/ under
Total investment income	(21)	(7)	(14)
Total debt expense	4,685	4,689	(4)

GRAND TOTAL	4,664	4,682	(18)

Compliance Report

The Service Director - Finance is pleased to report that all treasury management activities undertaken during 2021/22 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	2021/22 Maximum	**31.3.22 Actual**	**2021/22 Limit**	**Complied**
Any single organisation (excluding Central Government)	**£0m**	**£0**	**£5m**	✓
Any group of funds under the same management	**£0m**	**£0**	**£7.5m**	✓
Enhanced Money Market Funds	**£12m**	**£8.8m**	**£12m**	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2021/22 Maximum £000	**31.3.22 Actual £000**	**2021/22 Operational Boundary £000**	**2021/22 Authorised Limit £000**	**Complied**
Borrowing	**£143,489**	**£143,489**	**£175,600**	**£188,800**	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was below the operational boundary for the whole of 2021/22.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates were:

Interest rate risk indicator	31.3.22 Actual	2021/22 Limit	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£111,000	£300,000	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	£111,000	£300,000	✓

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.22 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	12%	25%	0%	✓
12 months and within 24 months	3%	25%	0%	✓
24 months and within 5 years	6%	30%	0%	✓
5 years and within 10 years	10%	40%	0%	✓
10 years and within 25 years	47%	70%	20%	✓
25 years and above	22%	75%	15%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	2021/22	2022/23	2023/24
Actual principal invested > 364 days	£0	£0	£0
Limit on principal invested > 364 days	£10m	£10m	£10m
Complied	✓	✓	✓

Other

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Authority intends to adopt the new standard on 1st April *2024*.