COUNTY COUNCIL
Meeting date: 23 June 2022
From: Deputy Leader of the Council

TREASURY MANAGEMENT ANNUAL REPORT 2021/2022

1.0 EXECUTIVE SUMMARY

1.1 ***This report details treasury management activities for the 2021/22 financial year. It highlights performance and activities which confirm all Treasury Management activities undertaken during the period were in compliance with the Annual Strategy agreed by Members at Council in February 2021.***

1.2 ***Despite the volatility in economic expectations and therefore the markets during 2021/22, borrowing and investment activity was undertaken in accordance with the Strategy and this resulted in a net interest budget outperformance (i.e. underspend) of £2.735m for 2021/22. This outperformance was achieved within all prudential limits while also maintaining the Council's prudent strategy regarding investment counterparties.***

1.3 ***The primary reason for underspending against the Treasury Management budget is a consequence of the delay in borrowing. Council has approved, for a number of years, the tactical strategy of using internal cash reserves rather than incurring borrowing costs in respect of approved borrowing by Council to fund the capital programme. This continued during 2021/22, and the delay in borrowing generated savings against the budget of £1.309m. The current estimate of internal borrowing at 31 March 2022 is £58.9m (31st March 2021: £58.6m). The externalisation of this borrowing will be subject to continuing review.***

1.4 ***This report also confirms full compliance with all Prudential Indicator targets in 2021/22.***

2.0 STRATEGIC PLANNING AND EQUALITY IMPLICATIONS

2.1 ***The Council Plan 2018 – 2022 (extended to April 2023) details that the Council aims to explore new ways to deliver services and maximise its resources. Policies and practices that enable the management of the Council's Treasury Management function to be operated in such a manner support the overall objectives and priorities of the Council.***

3.0 RECOMMENDATION

3.1 Council is recommended to:

3.1.1 note the treasury management annual report for 2021/22;

3.1.2 note the year-end position for the Prudential Indicators 2021/22 and full compliance with the Council's treasury management policies and practices during the year; and

3.1.3 note the Treasury Management function reports a £2.735m underspend for 2021/22, due primarily to the Council's tactical strategy to utilise internal cash reserves whilst available, albeit that this will be kept under review given various uncertainties, including interest rate movements and cash flow requirements.

PART B – ADVICE OF DIRECTOR OF FINANCE (SECTION 151 OFFICER)

4.0 BACKGROUND

4.1 Purpose of the Treasury Management Annual Report

4.1.1 As detailed in Part 5G (Financial Standing Orders) of the Council's Constitution, the Council follows the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (as revised). The primary requirements of the Code include:

- receipt by the full Council of an Annual Treasury Management Strategy Statement (TMSS), including the Annual Investment Strategy and Minimum Revenue Provision Policy, for the year ahead (this was confirmed by Full Council on 18 February 2021);
- a mid-year strategy review report (Council 4 November 2021); and
- an annual review report following the end of the year, describing activities compared to the set strategy (attached at Appendix A).

4.1.2 The regulatory environment continues to place a strong emphasis on Members for the review and scrutiny of treasury management policy and activities.

4.1.3 The TMSS approved by Council notes that key to the Treasury function is the effective control of the associated risks and the pursuit of optimum performance consistent with those risks. To achieve this, the Treasury function ensures the Council's short-term cash reserves are securely held (i.e. security of principal) and ensures that appropriate levels of cash are available to manage day to day payments (i.e. liquidity). After both security and liquidity have been considered, Treasury officers aim to maximise investment returns (i.e. income generation).

4.1.4 This report is important as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

4.2 Treasury Management Annual Report 2021/22

4.2.1 Key points to note for 2021/22:

a) In response to continuing cost pressures and uncertainties with the COVID-19 pandemic, the Council has continued to ensure it can respond by having sufficient monies readily available. This focus on the two treasury investment priorities (the security and liquidity of its investment portfolio) meant that interest received on amounts invested remained low, reflecting the low UK Bank Rate over the majority of 2021/22.

b) Throughout 2021/22, the Council held higher than usual cash balances - a position experienced by most other councils. This was due to both the timing of spend related to COVID-related funding allocated to the Council and upfront grants to fund ongoing and new capital programmes. Cash balances held by the Council increased from £175.6m at 31 March 2021 to £217.4m at 31 March 2022. Further details are presented in Appendix A to this report.

c) In April 2021, the Council paid £31.7m for the projected full year employer contribution to Cumbria LGPS. Paying upfront rather than on a monthly basis generated savings to the Council of £0.574m which was factored into the 2021/22 budget approved by Council in February 2021.

d) The aforementioned cash balances continued to provide the Council with the opportunity to use 'internal' borrowing rather than taking on new long-term debt, and this delay in borrowing generated considerable savings against the budget, albeit in the short-term until these reserves are spent.

e) As at 31 March 2022, 92% of the long term debt portfolio was at interest rates at or below 5% with over a quarter (28%) of long term debt incurring interest rates at or below 2.5%. No new long-term borrowing was taken during the year, nor did any of the Council's long term loans mature. Therefore, the Council's external borrowing remained at £386.2m throughout 2021/22.

f) Throughout 2021/22, investment of the Council's cash balances has returned an average of 0.16%, out-performing the benchmark rate of 0.14% by 0.02%. The benchmark rate was negative over an early part of the period whilst a negative base rate was a possibility, reflecting that leading banks were having to pay to invest short term money with other banks, as detailed in section 1.2 of Appendix A.

g) The Bank of England had kept the Base Rate at 0.10% from March 2020 to respond to the risks presented to the UK economy from the COVID pandemic. In response to sharp increases in inflation towards the end of 2021, the Base Rate was increased in December to 0.25%, in February 2022 to 0.50%, and then to 0.75% in March 2022. The average rate of the Council's investment portfolio as at 31st March 2022 was 0.48% (as detailed at 4.10 in Appendix A).

h) Officers continue to monitor forecasts for cash investment rates which (at May 2022) reflect expectations for further Base Rate rises, responding to high inflation which also impacts on gilt yields and therefore on rates for new borrowing.

4.2.2 The approved 2021/22 Treasury Management budget is £30.063m. This budget included a one off saving of £1.000m in 2021/22 only arising from the Council's continuation of its strategy to offset approved borrowing with short-term cash balances and a permanent saving of £0.400m in recognition of the current low borrowing rates and an assumption that the next £40m of external borrowing can be achieved at 1% less than budgeted.

4.2.3 In 2021/22, the Treasury Management budget underspent by £2.735m as set out below:

- The Council did not enter into any new long term borrowing arrangements during the financial year with capital expenditure being financed by the Council's temporary high levels of cash. This deferral of borrowing previously approved by Council (through the capital programme) released £1.309m of revenue expenditure in 2021/22.
- The slippage in capital programme from 2020/21 resulted in a reduction of Minimum Revenue Provision (MRP) of £0.868m charged to the Treasury Management budget during the year.
- The Council has held high levels of cash throughout the year due primarily to a combination of COVID-19 grants received from the government where expenditure had not been incurred by 31 March 2022 and slippage against the capital programme. However, the Base Rate has remained low throughout the year, despite increases in December, February and March. These low Base Rates impacted upon the interest that the Council received for its cash balances. As a result, the Council received £0.387m less interest than budgeted during 2021/22.
- Other budgets across Treasury Management underspent by £0.945m during the year including £0.569m which was included as an ongoing saving from the budget as part of the 2022/23 Medium Term Financial Plan.

4.2.4 The forecast underspend on the Treasury Management budget of £2.735m is in addition to the savings included within the 2021/22 budget as detailed in paragraph 4.2.2. It should be noted that £2.166m of these net underspends were one-off savings relating to 2021/22 only. As noted above, an ongoing saving of £0.569m from the Treasury Management budget has been included as an efficiency in the 2022/23 Medium Term Financial Plan.

4.2.5 The external borrowing and investments balances as at 31 March 2022 are as follows:

External borrowing and investments	Principal (as at 31 Mar '22) £m	Average Interest Rate %	Average Life Years	Principal (as at 31 Mar '21) £m	Average Interest Rate %	Average Life Years
Total External Borrowing	386.2	3.83	26.5	386.2	3.83	27.5
Total Investments	217.4	0.48	< 1 year	175.6	0.10	< 1 year
Net Debt	168.8			210.6		

4.2.6 In undertaking these Treasury Management activities, the Director of Finance (S151 Officer) confirms that there have been no breaches of the approved limits relating to borrowing within the Prudential and Treasury Management indicators during 2021/22.

4.3 Recent developments relevant to the 2021/22 Treasury Management Strategy

4.3.1 COVID-19 pandemic - due to the ongoing COVID-19 pandemic, the priority for Treasury Management has been to keep sufficient monies readily available to respond to the evolving situation. Treasury staff have approached this pro-actively, adapting day to day processes to ensure adequate liquidity for revenue and capital activities, security of investments and to manage all other risks. During the year where possible, excess cash was placed in short term deposits of three months to one year duration enabling the Council to secure higher rates of return whilst still ensuring appropriate liquidity to respond as services need.

4.3.2 The high-level procedures and controls to achieve the objectives as set out in the Treasury Management Strategy are well established and these along with authorised activity are detailed in the Council's Treasury Management Practices. All have been adhered to.

4.3.3 Russian invasion of Ukraine – the market reactions to the invasion and ongoing news led to a very volatile period from late February and through March, impacting equity, fixed income and sovereign gilt markets. No Council treasury management investments or borrowing were directly exposed to Russian, Belarus or Ukraine counterparties or banks.

4.3.4 Local Government Reorganisation – initial work began during 2021/22, and will continue throughout 2022/23, as Officers prepare for Local Government Reorganisation (LGR) and work through the impact this will have on the Treasury Management function and associated strategies e.g. the Capital programme, prudential indicators and all forecasts beyond the vesting date of 1 April 2023. The work includes planning for these functions for the two new unitary authorities.

4.3.5 CIPFA Consultations – in 2021/22 CIPFA consultations asked for views regarding changes to: 'Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes', and the 'Prudential Code for Capital Finance in Local Authorities'. The revised editions of the two documents were issued in December 2021. A primary objective of the changes is to reinforce the principle and provide greater clarity that local authorities must not borrow to fund primarily yield generating investments, a principle the Council supports. It also introduces requirements for additional Prudential Indicators to be included in local authority Treasury Management Strategy Statements and monitoring reports. Local authorities are required to implement these new requirements from 2023/24 and consequently will be reflected in the TMSS for 2023/24 (i.e. the strategies for the new unitary authorities from 1 April 2023).

4.3.6 No changes were required to either the Treasury Management Strategy Statement or the Annual Investment Strategy for any in-year developments.

4.4 Compliance with Prudential Indicators and Treasury Management Indicators for 2021/22

4.4.1 Appendix B sets out the approved Prudential Indicators and Treasury Management Indicators for 2021/22 together with the outturn position.

4.4.2 As set out in this appendix, all Treasury Management activities in 2021/22 operated within the limits set out in the Council's Treasury Policy Statement and Treasury Strategy Statement including the Prudential Indicators set by Council in February 2021.

5.0 OPTIONS

5.1 Members can consider the report and either:

- Accept the recommendations as set out in Section 3 of this report; or
- Request additional information from the Director of Finance (Section 151 Officer).

6.0 RESOURCE AND VALUE FOR MONEY IMPLICATIONS

6.1 The strategy for deferring external borrowing and changes to capital financing decisions have contributed to an underspend on the net interest budget of £2.735m as at 31 March 2022. This has been achieved to date without significantly affecting the stability of cash balances and with no additional risks to the Council.

6.2 As at 31 March 2022, the Council held cash investments with a range of financial institutions valued at £217.4m and had external borrowing of £386.2m as previously approved by Council through the capital programme. All investments and borrowing have been undertaken in accordance with the Council's approved Treasury Management Strategy.

7.0 LEGAL IMPLICATIONS

7.1 Under FR4 of the Council's Financial Standing Orders the Section 151 Officer has a duty to annually prepare for Cabinet to recommend to Council a Treasury Management Statement including an Annual Investment

Strategy, Prudential Indicators and Minimum Revenue Provision (MRP) Policy statement.

As this is report to note there are no specific legal implications arising from this report as Council is not being recommended to make any decisions.

8.0 CONCLUSION

8.1 All Treasury Management activities in the 2021/22 year have been conducted in accordance with the Treasury Strategy 2021/22 and within the Treasury and Prudential limits agreed by Council in February 2021, whilst also supporting the Council's service pressures and response to the COVID-19 pandemic.

8.2 Internal borrowing whilst reserves allowed, has provided a prudent and cost effective risk based approach to release savings to support the revenue budget in the short-term, but it is a fine balance whilst aiming to maximise long-term savings by taking tactical borrowing decisions. Externalising the borrowing where considered appropriate protects against rising interest rates in the future. The position will continue to be closely monitored by Officers in conjunction with the Council's Advisors.

8.3 Treasury Management continues to be conducted on a prudent basis and in 2021/22 the strategy has produced a saving on the net interest budget of £2.735m, compared to the original budget. This has benefited the Council's revenue budget thereby helping to offset Directorate pressures.

Pam Duke
Director of Finance (s151 Officer)
June 2022

APPENDICES

Appendix A - Summary of Treasury Management Activity in 2021/22
Appendix B - The Council's Prudential Indicators and Treasury Management Indicators Outturn at 31 March 2022

Electoral Division(s): All

Executive Decision		**No**	
Key Decision		**No**	
If a Key Decision, is the proposal published in the current Forward Plan?			**N/A**
Is the decision exempt from call-in on grounds of urgency?		**No**	
If exempt from call-in, has the agreement of the Chair of the relevant Overview and Scrutiny Committee been sought or obtained?			**N/A**
Has this matter been considered by Overview and Scrutiny? If so, give details below.		**No**	

Has an environmental or sustainability impact assessment been undertaken?			**N/A**
Has an equality impact assessment been undertaken?			**N/A**

PREVIOUS RELEVANT COUNCIL OR EXECUTIVE DECISIONS

Revenue Budget - Treasury Management Strategy Statement (18 February 2021 Item 8 - Appendix D) - County Council
Treasury Management Half Year Review 2021/22 (4 November 2021 Item 11) – County Council

CONSIDERATION BY OVERVIEW AND SCRUTINY

Not considered by Overview and Scrutiny

BACKGROUND PAPERS

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (as revised)
CIPFA Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Authorities and Fire Authorities (as revised)
CIPFA The Prudential Code for Capital Finance in Local Authorities (as revised)

RESPONSIBLE CABINET MEMBER

Peter Thornton
Deputy Leader of the Council and Cabinet Member for Finance

REPORT AUTHOR

Pete George
Group Finance Manager – Pensions, Treasury & Insurance
07917 244545
peter.george@cumbria.gov.uk

Debbie Purvis
Finance Manager – Pensions Investment & Treasury
01228 226277
debbie.purvis@cumbria.gov.uk

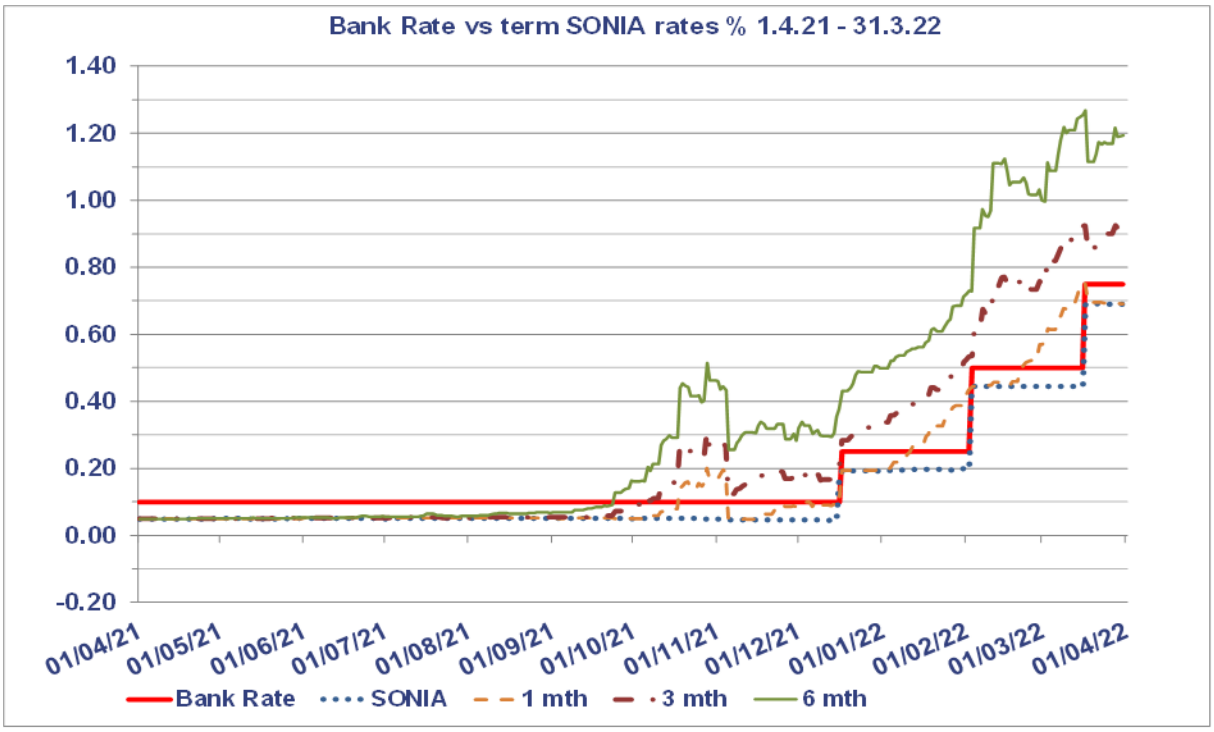
Summary of Treasury Management Activity in 2021/22

1.0 CONTEXT - ECONOMIC PERFORMANCE UPDATE AND OUTLOOK

1.1 During 2021/22 the markets saw a high level of volatility. The key drivers of this volatility included opposing expectations for interest rate changes and inflation, the continuing impact of the COVID-19 pandemic, and the Russian invasion of Ukraine.

1.2 Against this backdrop investment rates remained historically low, although the final few months saw an increase as markets priced in expectations of future rate increases. In summary:

- The Bank Base rate started the year at 0.10% and, for much of the first quarter, forecasters suggested interest rates could fall further, potentially into negative rates. This was reflected in negative average market rates for very short-term investments.
- The risk of a further rate cut dissipated at the end of the Summer, as inflation looked to be rising, and investment rates for deposits of six months or longer improved.
- Following the first base rate change in December to 0.25%, market expectations moved quickly to multiple upwards rate hikes, and as inflation figures increased sharply, the response was further base rate rises in February to 0.50% and in March to 0.75%.



1.3 Further Bank Rate increases are forecast during 2022 with Link Group forecasting a rate of 2.0% by March 2023. There are, however, inherent uncertainties in forecasting the Bank Rate which may lead to amendments to the forecast within a relatively short time frame. These include: -

- The Government's fiscal policies which may supress GDP growth.

- The Monetary Policy Committee (MPC) tightening monetary policy (i.e. by raising Bank Rate or unwinding Quantitative Easing (QE)) too quickly.
- The MPC tightening monetary policy too late to ward off building inflationary pressures.
- Geo-political risks - on-going global power influence struggles between Russia/China/US/Iran and the Russian invasion of Ukraine, and
- Further economic impact arising from the COVID pandemic or new mutations which could depress economic activity.

1.4 **Inflation**: CPI rose by 9.0% in the 12 months to April 2022 taking the figure to its highest level in 40 years, meaning that, at the time of writing, it is now more than four times the Bank of England's 2% target. The Bank of England has suggested inflation could peak at 10% later this year when the energy price cap is increased in October.

1.5 Taking the above into account, the Council's treasury advisor, Link Group, expect the Bank of England to react to this high inflation with further rises following the bank rate increase to 1% in May, but see rises to 3% (forecast by Capital Economics) being less likely to occur, due to the unwanted impact to repress economic growth. Link Group has provided the following forecast as at 10 May 2022.

Interest Rate Forecasts								
Bank Rate	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link	1.25%	1.50%	1.75%	2.00%	2.00%	2.00%	2.00%	2.00%
Cap Econ	1.25%	1.75%	2.25%	2.50%	2.75%	3.00%	3.00%	3.00%
5Y PWLB RATE								
Link	2.50%	2.50%	2.60%	2.60%	2.60%	2.60%	2.60%	2.60%
Cap Econ	2.70%	3.10%	3.50%	3.60%	3.80%	3.60%	3.50%	3.30%
10Y PWLB RATE								
Link	2.80%	2.80%	2.90%	2.90%	2.90%	2.90%	2.90%	2.90%
Cap Econ	2.90%	3.20%	3.60%	3.70%	3.80%	3.70%	3.60%	3.50%
25Y PWLB RATE								
Link	3.00%	3.10%	3.10%	3.20%	3.20%	3.20%	3.10%	3.10%
Cap Econ	3.00%	3.30%	3.70%	3.80%	3.90%	3.80%	3.70%	3.60%
50Y PWLB RATE								
Link	2.70%	2.80%	2.80%	2.90%	2.90%	2.90%	2.80%	2.80%
Cap Econ	2.80%	3.10%	3.60%	3.70%	3.80%	3.80%	3.70%	3.60%

2.0 CUMBRIA COUNTY COUNCIL'S TREASURY MANAGEMENT ACTIVITY 2021/22

2.1 The economic and financial environment in which the Council's treasury operations are undertaken remains challenging and interest rates had remained low until recent months. As such, it was considered appropriate for the Council to continue to take a risk aware and prudent approach to its Treasury Strategy during 2021/22. The Council's approach and the outcomes of it are set out in the following sections below:

- Section 3 – Debt Management (Borrowing)
- Section 4 – Investment Portfolio
- Section 5 – Training & Advisors
- Section 6 – Compliance with Treasury Limits

3.0 DEBT MANAGEMENT (BORROWING)

3.1 The Treasury Management function ensures that the Council's cash is managed in accordance with the relevant professional codes and that sufficient cash is available to fund those plans. This involves both the organisation of the cash flow and, where capital plans require, the organisation of appropriate borrowing facilities. The Prudential Code only permits the Council to borrow in the long term to finance capital spend. In accordance with this the Council's Borrowing Strategy details the Council's approach to funding the expected need detailed in the Capital Programme.

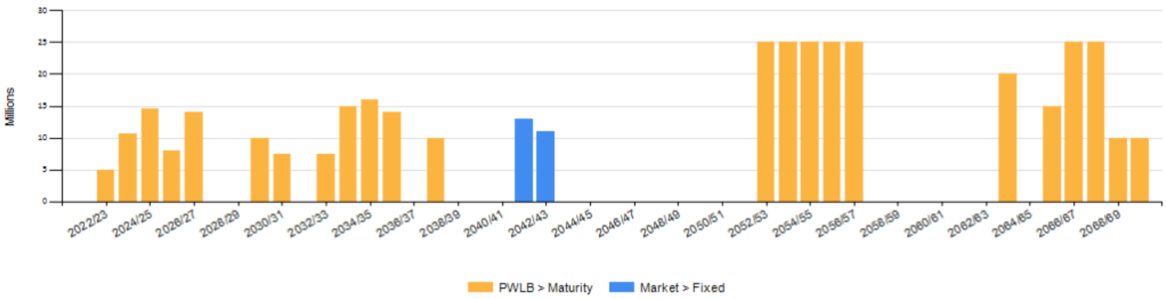
3.2 The Strategy for 2021/22 agreed in February 2021 was to continue using cash balances for internal borrowing whilst possible, but to also make tactical decisions to take new external borrowing (which has previously been approved by Council to fund schemes in the capital programme) where considered appropriate in order to protect against rising interest rates in the future.

3.3 No new long-term borrowing has been undertaken in 2021/22 and no existing loans matured during the year. In recognition that the ability to defer borrowing is limited by the actual use of reserves and balances (i.e. available cash) this has been (and continues to be) kept under close review throughout the year.

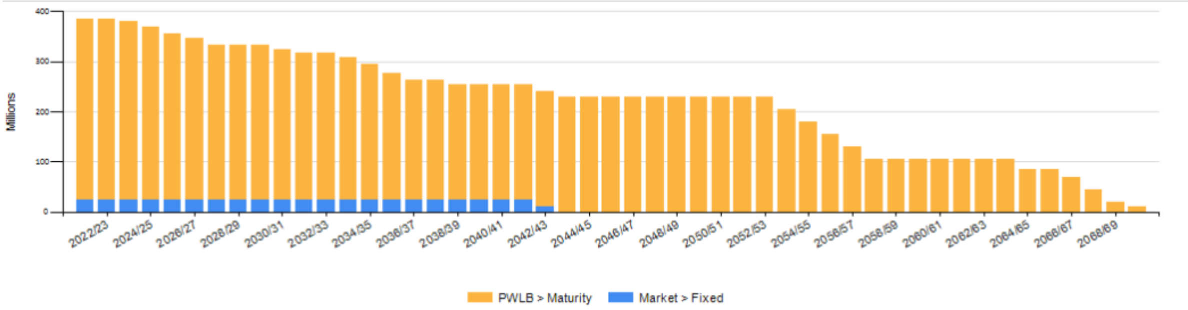
3.4 Details of all debt maturity and interest rates are presented further below.

Long term borrowing (Debt Portfolio) at 31 March 2022

Maturity Profile of Individual Loans:



Total Loan Duration:



Key: Dark colour = Market Loans (LOBO's), medium colour = Public Works Loans Board (PWLB)

Note: Lender Option Borrower Options (LOBOs) are long term 'market loans' (i.e. a loan from a bank for a fixed period repaid at maturity). The interest rates in the initial periods of these loans are at a discount to the market rate. The lender has the option to change the terms, at which point the

Council has the option to repay the loan early. Due to this, the loans are classed as ‘variable’ rate. The costs of early repayment have been reviewed and penalties for re-financing are currently prohibitive.

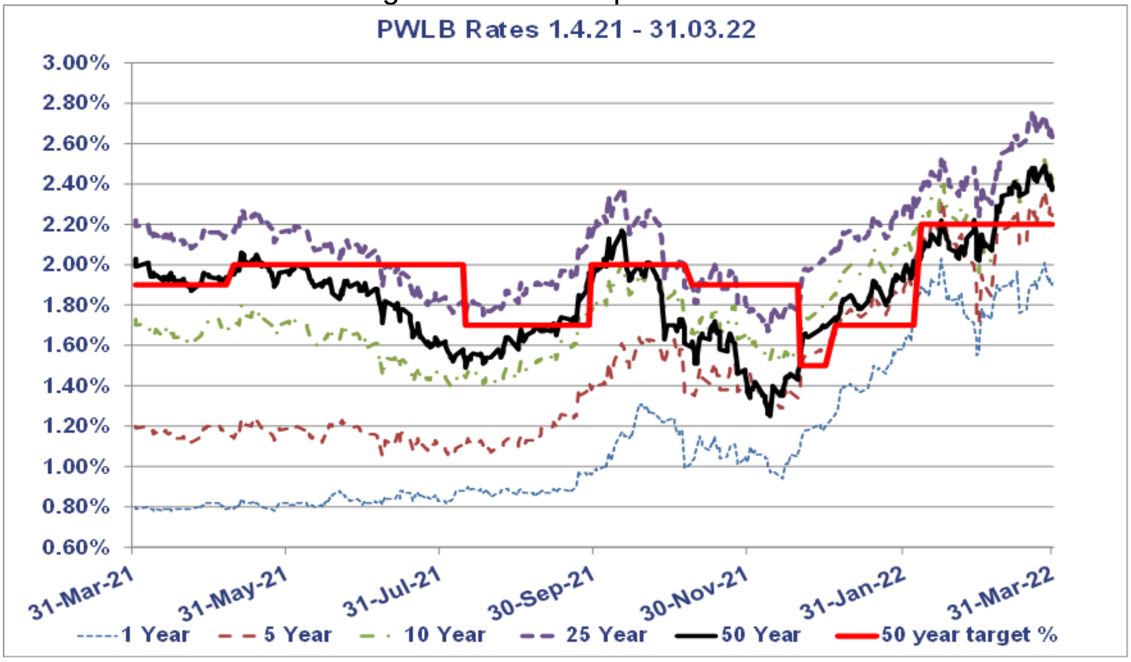
The LOBOs taken out between 2002 and 2003 total £24m (6.2%) of the Council’s total long term borrowing as at 31 March 2022.

Debt portfolio detail at 31 March 2022:

Lender	**Original Loan Start Date**	**Maturity Date**	**Principal**	**Interest Rate**
P W L B	04-May-95	15-Nov-22	5,000,000	8.50
P W L B	24-Dec-97	15-May-23	5,700,000	6.25
P W L B	04-May-95	15-Nov-23	5,000,000	8.50
P W L B	24-Sep-98	15-May-24	9,500,000	5.00
P W L B	04-May-95	15-Nov-24	5,000,000	8.50
P W L B	14-Nov-01	14-Nov-25	3,000,000	4.50
P W L B	29-May-03	15-Nov-25	5,000,000	4.45
P W L B	14-Nov-01	13-Nov-26	14,000,000	4.50
P W L B	04-Sep-19	01-Sep-29	10,000,000	1.21
P W L B	22-Oct-18	22-Oct-30	7,500,000	2.50
P W L B	22-Oct-18	22-Oct-32	7,500,000	2.60
P W L B	27-Aug-10	27-Aug-33	15,000,000	3.92
P W L B	20-Dec-04	15-May-34	16,000,000	4.50
P W L B	19-May-05	15-May-35	14,000,000	4.50
P W L B	10-Dec-07	15-Nov-37	10,000,000	4.49
FMSWERTM	25-Jan-02	27-Jan-42	13,000,000	4.73
FMSWERTM	31-Jan-03	30-Jan-43	11,000,000	4.45
P W L B	25-Jan-07	15-May-52	25,000,000	4.25
P W L B	25-Jan-07	15-May-53	25,000,000	4.25
P W L B	25-Jan-07	15-May-54	25,000,000	4.25
P W L B	25-Jan-07	14-May-55	25,000,000	4.25
P W L B	08-Mar-07	15-May-56	25,000,000	4.25
P W L B	10-Jun-19	10-Jun-63	20,000,000	2.16
P W L B	22-Oct-18	22-Oct-65	15,000,000	2.67
P W L B	28-Mar-18	28-Mar-67	25,000,000	2.32
P W L B	28-Mar-18	28-Mar-68	25,000,000	2.32
P W L B	31-May-18	31-May-68	10,000,000	2.25
P W L B	04-Sep-19	01-Sep-69	10,000,000	1.67
			386,200,000	**3.83**

Note: The FMSWERTM borrowing above relates to market loans with FMS Wertmanagement Bank Germany. Initially taken from Depfa Bank Plc (Dublin) and subsequently transferred by the lender to FMS.

PWLB New Loan Borrowing rates over the period:



3.5 PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. In November 2020, the Chancellor announced the current margins, and a prohibition was introduced to deny access to borrowing from the PWLB for any local authority purchasing assets primarily for yield (i.e. commercial projects, particularly property investment).

3.6 Any change in rates for new loans does not affect the existing borrowing that the Council has through the PWLB as the rates are fixed to maturity.

3.7 No new long-term borrowing has been undertaken during 2021/22 as the strategy has been to defer external borrowing.

CAPITAL FINANCING REQUIREMENT (CFR)

3.8 The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from temporary internal cash balances (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and the level of cash balances.

External & Internal borrowing and the Capital Financing Requirement (CFR)

	Forecast 31/03/2022 £m	**Actual 31/03/2021 £m**
Capital Financing Requirement (CFR)	556.0	557.0
PFI Liabilities	(110.9)	(112.2)
Over/(under) borrowed i.e. Internal Borrowing	(58.9)	(58.6)
Total = External Borrowing	386.2	386.2

3.9 As at 31 March 2022, the Council's estimated capital financing requirement (CFR) for 2021/22 is £556.0m (excluding PFI and other long term liabilities). This decrease of £1.0m from the CFR as at 31 March 2021 (£557.0m reported to Council in September 2021), reflects the outcomes for actual spend on the 2021/22 Capital Programme (new schemes due to be funded by prudential borrowing in the year are less than the MRP charge for the year).

3.10 The estimated level of internal borrowing as at 31 March 2022 is £58.9m.

4.0 INVESTMENT PORTFOLIO 2021/22

4.1 In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and then to obtain an appropriate level of return which is consistent with the Council's risk appetite.

4.2 The Council's investments increased from £175.6m at 31 March 2021 to £217.4m at 31 March 2022.

4.3 As previously reported, expectations prior to the pandemic had been that the Council's cash balances would reduce over the year, with key drivers being:

- The upfront payment in April for the Council's 2021/22 Local Government Pension Scheme employer pension contribution (£31.7m), enabling the Council to take a discount for early payment which has benefited the Council's Revenue Budget and was assumed within the Base Budget;
- The spending of COVID-related funding received as a mix of temporary and upfront grants since the start of the pandemic; and
- Payments for ongoing capital works which continued throughout 2021/22.

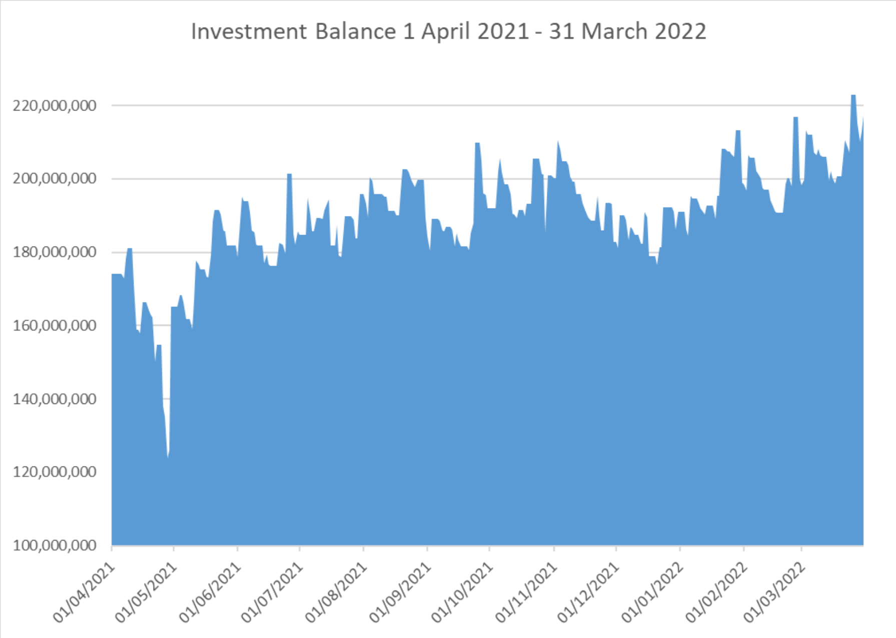
4.4 However, as the pandemic recovery continues, more new monies have been received as temporary and upfront grants to support Council services. In addition, monies were received to support the costs of transitioning through the local government reorganisation process (LGR). These included:

- £20m central government COVID and other one-off grants;
- £16m Department of Health funding for COVID grants;
- £10m additional business rates monies; and
- £9m District Council funding for the LGR reserve.

4.5 The Council also received a number of upfront grants relating to ongoing and new capital programmes. The cash balance therefore incorporates the remaining balance of those grants due to be spent during 2021/22 and beyond including;

- £36m from the Department for Transport for various highways schemes (including potholes funding, safer roads and block funding);
- £19m from the Department for Education and Skills, and.
- £8m for the BT Broadband rollout.

4.6 The average level of funds available for investment purposes was £190.1m (highest balance £223.0m, lowest balance £123.9m, as shown in the following chart). These funds were available on a temporary basis, and the level of funds available is normally dependent on the timing of council tax receipts, precept payments, receipt of grants and progress on the Capital Programme.



4.7 The Council's investment strategy is to first provide security and adequate liquidity, before considering optimising investment return. The aim is for an appropriate balance of instant access, short-term investments (paying lower rates) and longer, three to twelve month deposits (earning higher rates). The Council is committed to this policy, but it must be acknowledged that it lowers the potential interest rates available.

4.8 During the first six months of the year there was a reasonable expectation that the base rate could be cut to nil or lower, i.e. a negative base rate. The strategy in reaction to this was to look to place fixed rate deposits for surplus cash earning positive returns, whilst maintaining a high level of security on the whole investment portfolio. As rates picked up and these deposits matured, they were replaced in the second half of the year with higher earning deposits.

4.9 The Council's average investment rate as at 31 March 2022 is 0.48%, which reflects the blend in the portfolio from investments held in instant access accounts used for daily liquidity but with low returns, and the fixed term investments with a longer maturity, returning up to a rate of 1.46% (arranged at the end of March 2022).

4.10 The Council's investment portfolio and average interest rate as at 31 March 2022 is shown below.

Credit Limit Group / Counterparty	Country	Credit Rating	Deposit Type	Start Date	Maturity Date	Principal (£)	Interest Rate (%)
BANK OF ENGLAND							
DEBT MANAGEMENT OFFICE	UK	AA-	Term Deposit	09/03/2022	08/04/2022	10,000,000	0.51%
YELLOW (£20m MAX, UP TO 2 YRS)							
BNP PARIBAS MMF - INSTICASH	UK	AAA	MMF*			20,000,000	0.64%
FEDERATED ST PRIME MMF	UK	AAA	MMF*			14,000,000	0.50%
ABERDEEN STANDARD MMF	UK	AAA	MMF*			18,800,000	0.50%
DEUTSCHE PLATINUM MMF	UK	AAA	MMF*			4,600,000	0.49%
PINK (£20m MAX)							
ROYAL LONDON CASH PLUS FUND	UK	AAA	USDBF**			20,000,000	0.00%
BLUE (£25m MAX, UP TO 1 YEAR)							
NATIONAL WESTMINSTER BANK	UK	A+	Term Deposit	24/09/2021	26/09/2022	10,000,000	0.24%
NATIONAL WESTMINSTER BANK	UK	A+	Term Deposit	28/10/2021	28/10/2022	5,000,000	0.67%
NATIONAL WESTMINSTER BANK	UK	A+	Term Deposit	09/02/2022	09/02/2023	5,000,000	1.33%
ORANGE (£20m MAX, UP TO 1 YEAR)							
AUSTRALIA AND NEW ZEALAND BANK	AUS	A+	Term Deposit	05/05/2021	04/05/2022	5,000,000	0.15%
AUSTRALIA AND NEW ZEALAND BANK	AUS	A+	Term Deposit	05/08/2021	04/08/2022	10,000,000	0.17%
AUSTRALIA AND NEW ZEALAND BANK	AUS	A+	Term Deposit	06/10/2021	06/04/2022	5,000,000	0.30%
RED (£15m MAX, UP TO 6 MTHS)							
BAYERISHE LANDESBANK	GER	A-	Term Deposit	28/01/2022	28/04/2022	10,000,000	0.40%
GOLDMAN SACHS	UK	A+	Term Deposit	29/10/2021	29/04/2022	10,000,000	0.44%
GOLDMAN SACHS	UK	A+	Term Deposit	29/11/2021	30/05/2022	5,000,000	0.28%
LANDESBANKEN HESSEN	GER	A+	Term Deposit	06/10/2021	06/04/2022	5,000,000	0.24%
LANDESBANKEN HESSEN	GER	A+	Term Deposit	13/12/2021	13/06/2022	10,000,000	0.27%
NATIONAL BANK OF CANADA	CAN	A+	Term Deposit	25/01/2022	25/07/2022	10,000,000	0.57%
SANTANDER UK	UK	A+	Term Deposit	12/01/2022	12/07/2022	5,000,000	0.51%
SANTANDER UK	UK	A+	Term Deposit	29/03/2022	29/09/2022	10,000,000	1.20%
STANDARD CHARTERED	UK	A+	Term Deposit	29/11/2021	27/05/2022	10,000,000	0.28%
STANDARD CHARTERED	UK	A+	Term Deposit	31/03/2022	30/09/2022	5,000,000	1.46%
GREEN (£10m MAX, UP TO 100 DAYS)							
LEEDS BUILDING SOCIETY	UK	A-	Term Deposit	22/03/2022	22/06/2022	10,000,000	0.72%
*Money Market Fund (instant access) **Ultra short dated bond fund (2-3 days access)		Average Rate and Total Investments				**217,400,000**	0.48%

4.11 New deals arranged in the period 1st April 2021 to 31st March 2022 are shown below:

Counterparty	Start Date	Maturity Date	Amount	Rate %
GOLDMAN SACHS INTERNATIONAL BANK	30/04/2021	29/10/2021	10,000,000	0.24
AUSTRALIA AND NEW ZEALAND BANK	05/05/2021	05/08/2021	10,000,000	0.10
AUSTRALIA AND NEW ZEALAND BANK	05/05/2021	04/05/2022	5,000,000	0.15
STANDARD CHARTERED BANK	27/05/2021	29/11/2021	10,000,000	0.13
GOLDMAN SACHS INTERNATIONAL BANK	27/05/2021	29/11/2021	5,000,000	0.24
DUNDEE CITY COUNCIL	11/06/2021	12/01/2022	10,000,000	0.06
LEEDS BUILDING SOCIETY	30/06/2021	06/10/2021	10,000,000	0.06
LANDESBANK HESSEN-THURINGEN LONDON	13/07/2021	13/12/2021	10,000,000	0.10
AUSTRALIA AND NEW ZEALAND BANK	05/08/2021	04/08/2022	10,000,000	0.17
NATIONAL WESTMINSTER BANK	24/09/2021	26/09/2022	10,000,000	0.24
SANTANDER UK	29/09/2021	29/03/2022	10,000,000	0.20
STANDARD CHARTERED BANK	01/10/2021	31/03/2022	5,000,000	0.20
AUSTRALIA AND NEW ZEALAND BANK	06/10/2021	06/04/2022	5,000,000	0.30
LANDESBANK HESSEN-THURINGEN LONDON	06/10/2021	06/04/2022	5,000,000	0.24
NATIONAL WESTMINSTER BANK	28/10/2021	28/10/2022	5,000,000	0.67
GOLDMAN SACHS INTERNATIONAL BANK	29/10/2021	29/04/2022	10,000,000	0.44
ABERDEEN CITY COUNCIL	22/11/2021	22/03/2022	5,000,000	0.05
GOLDMAN SACHS INTERNATIONAL BANK	29/11/2021	30/05/2022	5,000,000	0.28
STANDARD CHARTERED BANK	29/11/2021	27/05/2022	10,000,000	0.28
LANDESBANK HESSEN-THURINGEN LONDON	13/12/2021	13/06/2022	10,000,000	0.27
SANTANDER UK	12/01/2022	12/07/2022	5,000,000	0.51
NATIONAL BANK OF CANADA	25/01/2022	25/07/2022	10,000,000	0.57
BAYERISCHE LANDESBANK	28/01/2022	28/04/2022	10,000,000	0.40
NATIONAL WESTMINSTER BANK	09/02/2022	09/02/2023	5,000,000	1.33
DEBT MANAGEMENT OFFICE	09/03/2022	08/04/2022	10,000,000	0.51
STIRLING COUNCIL	18/03/2022	25/03/2022	3,000,000	0.75
LEEDS BUILDING SOCIETY	22/03/2022	22/06/2022	10,000,000	0.72
SANTANDER UK	29/03/2022	29/09/2022	10,000,000	1.20
STANDARD CHARTERED BANK	31/03/2022	30/09/2022	5,000,000	1.46

4.12 The average investment returns achieved in the twelve month period are noted in the table below:

Period	**Benchmark Return** % pa	**Average Rate of Return achieved** % pa	**Out/(Under) Performance** %
Year to 31/03/22	0.14%	0.16%	+ 0.02%

4.13 As illustrated, the Council outperformed the benchmark, the SONIA (Sterling Overnight Index Average) 7 day compounded average, by 0.02% (2 basis points).

5.0 TRAINING AND ADVISORS

5.1 The Director of Finance (S151 Officer) ensures that any Officer involved in the operation of the treasury management function, receives appropriate training relevant to their needs to ensure they fully understand their roles and responsibilities. During the year Treasury staff continued to attend regular courses and seminars provided through its advisors, Link Asset Services, its membership of the CIPFA Treasury Management Forum (TMF) Scotland and England, and other ad hoc events including treasury software supplier forums.

5.2 In addition to this training, the Director of Finance (S151 Officer) and Officers within the Finance Team receive professional and technical advice from the Council’s contracted external advisors, Link Asset Services.

6.0 COMPLIANCE WITH TREASURY LIMITS

6.1 During the financial year Officers operated within the treasury limits and Prudential Indicators agreed by the County Council in February 2021. The outturn for the prudential indicators is attached as Appendix B.

APPENDIX B – THE COUNCIL'S PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT INDICATORS 2021/22

Officers can confirm that all Treasury Management activities undertaken during 2021/22 were within the boundaries of the Prudential Indicators approved by Council in February 2021.

		2021/22 Revised Estimate	2021/22 Actual (subject to audit) **
	PRUDENTIAL INDICATORS – Affordability	**£m**	**£m**
1	**Estimate of proposed capital expenditure**	128.441	88.645
	Estimate of proposed capital expenditure to be funded by prudential borrowing	26.389	13.286
	The revised estimate (as included within the Qtr2 2021/22 Monitoring report) and forecast actual capital expenditure and amount of capital expenditure to be funded by prudential borrowing for 2021/22.		
		£m	**£m**
2	**Capital Financing requirement (CFR) excluding PFI & other long term liabilities– the borrowing need**	458.25	445.15
	Capital Financing requirement (CFR) including PFI & other long term liabilities– the borrowing need	568.96	556.03
	The Capital financing requirement indicator is a measure of the Council's underlying need to borrow for capital purposes.		
		%	**%**
3a	**Ratio of Finance costs to Net Revenue Stream exclusive of PPPI**	6.90	5.96
3b	**Ratio of Finance costs to Net Revenue Stream Inclusive of PPPI**	10.32	9.30
	This indicator shows the proportion of income received from grant and Council Tax that is spent on paying for the consequences of borrowing to fund capital borrowings.		

	PRUDENTIAL INDICATORS - Prudence	2021/22 Approved *	2021/22 Actual (subject to audit)**
4	**Authorised limit for external debt**	**£m**	**£m**
	Borrowing	516	386
	Other Long term Liabilities	135	111
	Total	**651**	**497**
	This is the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit (Legal Limit) determined under section 3 (1) of the Local Government Act 2003.		
5	**Operational Boundary for external debt**	**2021/22 Approved ***	**2021/22 Actual (subject to audit)****
		£m	**£m**
	Borrowing	491	386
	Other Long term Liabilities	125	111
	Total	**616**	**497**
	The Operational Boundary is based on the Council's prudent estimate of the maximum level of external debt. It is only a guide and may be breached temporarily on occasion without significant concern, due to variations in cash flow and/or interest rates. Any sustained or regular trend above the operational boundary will be investigated and action taken as appropriate.		

	Upper Limit on Net Sums Borrowed	2021/22 Approved * Limit £m	2021/22 Actual (subject to audit)**
6	**Fixed interest rates**	491	362
7	**Variable interest rates**	100	(193) ***
	**** Net borrowing is negative as variable investments (£217m) exceed variable borrowing (£24m). All investments maturing within one year are classed as variable.* The purpose of this indicator is to contain the Council's exposure to unfavourable movements in future interest rates. The indicators are expressed as Fixed Rate Debt less Fixed Rate Investments and Variable Rate Debt less Variable Rate Investments. The Council defines variable rate as including those instruments maturing within each year, as the replacement of those instruments will be subject to prevailing rates of interest.		

8	Maturity Structure of fixed interest rate borrowing	Upper	Lower	Actual 31/03/22
	Under 12 months	30%	0%	1.4%
	12 months to 2 years	40%	0%	3.0%
	2 years to 5 years	40%	0%	10.1%
	5 years to 10 years	40%	0%	4.8%
	10 years and above	100%	30%	80.7%
	The maturity of borrowing is determined by the earliest date on which the lender can require payment. The indicator is designed to exercise control over the Council having large concentrations of fixed rate debt needing to be replaced at any one time.			

* 2021/22 Strategy as approved at Council in February 2021
** 2021/22 Budget Outturn presented to Council in June 2022