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| Report to: | **Audit Committee** |
| Date: | **6 September 2022** |
| Title: | **Annual Treasury Management Report 2021/22** |
| Portfolio Area: | **Cllr C Edmonds – Performance & Resources** |
| Wards Affected: | **ALL** |

| | | | |
|---|---|---|---|
| Urgent Decision: | **N** | Approval and clearance obtained: | **Y** |

Date next steps can be taken**: N/A**


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|---|---|---|---|
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**Recommendations:**

**That the Audit Committee:**

1. Approves the actual 2021/22 prudential and treasury indicators in this report.
2. Notes the Annual Treasury Management report for 2021/22.

## 1. Executive summary

1.1 Income from investments this year was £35,230 which is £70,091 lower than the budget of £105,321 at an average return of 0.07%. The comparable performance indicator (Benchmark) is the Sterling Overnight Interbank Average rate (SONIA) which was 0.14%. Therefore the Council achieved 0.07% return on investments below the benchmark for 21/22.

1.2 The Bank Base rate was at an all time low of 0.1% during the majority of 2021 with a rise to 0.75% in December 2021. This was implemented by the Bank of England in order to counter the negative impact of the national lockdown on large swathes of the economy. The Council's return on investments of 0.07% reflects the fact that investments were kept very short term due to concerns over cashflow as there were many unknown variables such as the payment of Business Grants.

## 2. Background

2.1 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).

2.2 Treasury management is defined as:

"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks "

2.3 During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (Minute CM 44)
- A mid-year (minimum) treasury update report (Minute AC 19)
- An annual review following the end of the year describing the activity compared to the strategy (this report)

2.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

2.5 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during 2020/21 and will be carried out again in the Summer of 2023 as part of the Member Induction Programme in order to support their scrutiny role.

## 3. The Economy and Interest Rates

3.1 **UK. Economy.** 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 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

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 MPC 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.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, 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.

3.2 **Average inflation targeting.** This 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*". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of the war in Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

3.3 **Central banks' monetary policy**. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

## 4. Overall Treasury Position as at 31 March 2022

4.1 At the beginning and the end of 2021/22 the Council's treasury position was as follows:

| Treasury Portfolio | 31 March 2021 | | 31 March 2022 | |
|---|---|---|---|---|
| | **£'000** | **Rate%** | **£'000** | **Rate%** |
| Treasury Investments: | | | | |
| Short term – fixed | 6,500 | 0.02 | 17,200 | 0.74 |
| Money Market Funds | 12,000 | 0.00 | 9,650 | 0.38 |
| Property Funds | 471 | 4.30 | 553 | 3.25 |
| **Total treasury investments** | **18,971** | | **27,403** | |
| Treasury External Borrowing | | | | |
| PWLB | 28,945 | 2.54 | 28,341 | 2.54 |
| **Total external borrowing (£27.726m of long term borrowing and £615k of short term borrowing)** | **28,945** | | **28,341** | |
| **Net treasury investments / (borrowing)** | **(9,974)** | | **(938)** | |

4.2 The following is a list of the Council's investments at 31 March 2022.

**Fixed Term Deposits**

| Amount | Investment | Average Interest rate |
|---|---|---|
| £3,000,000 | Lloyds Bank Plc | 1.34% |
| £3,000,000 | Standard Chartered | 0.48% |
| £11,200,000 | DMO | 0.39% |
| **£17,200,000** | **Total** | |

**Money Market Funds**

| Amount | Investment | Average Interest rate |
|---|---|---|
| £3,000,000 | Aberdeen Standard Investments | 0.39% |
| £3,000,000 | BlackRock | 0.35% |
| £650,000 | Deutsche | 0.36% |
| £3,000,000 | LGIM | 0.42% |
| **£9,650,000** | **Total** | |

**Property Funds**

| Amount | Investment | Dividend Yield |
|---|---|---|
| £553,111 | CCLA – Property Fund | 3.25% |

4.3 At Council in February 2017, it was approved (Minute CM54 and HC50) that a sum of £500,000 be used to invest in CCLA's (CCLA Investment Management Limited) Local Authorities Property Fund, with the investment being placed in April 2017.

4.4 The investment was made with a view to a long term commitment. The bid market value as at 31 March 2022 for the Council's investment was £553,111.

**South West Mutual**

4.5 Tony Greenham of South West Mutual gave a presentation to Overview and Scrutiny Committee on 26th July 2022 outlining the progress of the South West Mutual. The Annual General Meeting of the South West Mutual is due to be scheduled later in the calendar year. The S151 Officer will attend alongside Member representatives.

## 5. The Strategy for 2021/22

### Investment strategy and control of interest rate risk

5.1 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 continued 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 to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

5.2 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. 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 turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

5.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.4 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

5.5 The Treasury Management Strategy Report for 2021/22 was approved by the Council on 30 March 2021 (Minute – CM44).

**Borrowing strategy and control of interest rate risk**

5.6 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 very low and minimising counterparty risk on placing investments also needed to be considered.

5.7 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.

5.8 The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

5.9 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Strategic Finance (S.151 Officer) therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

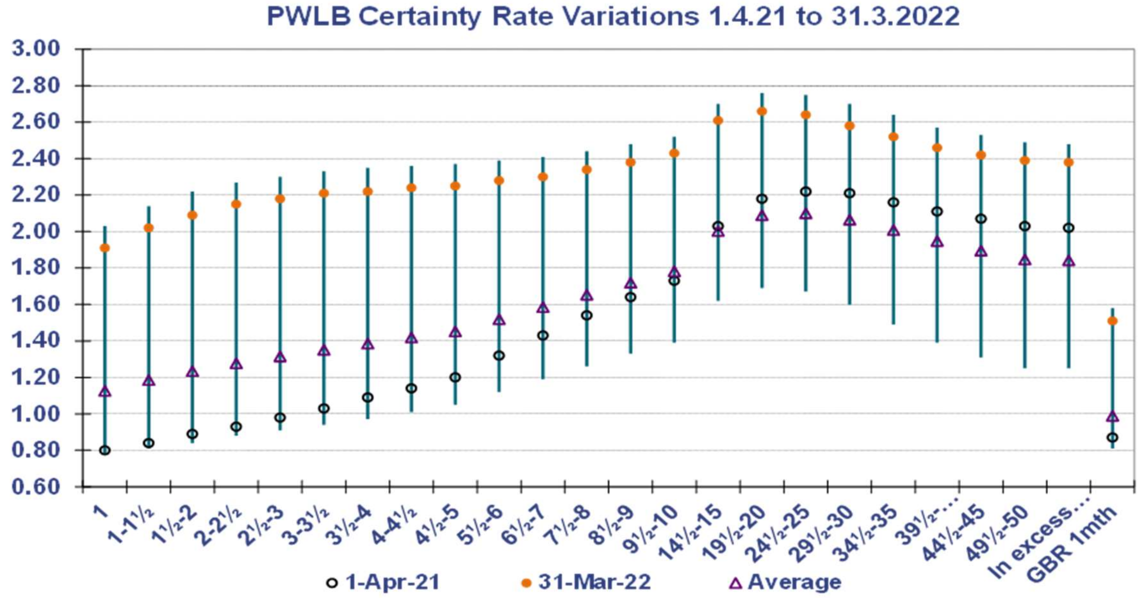
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

5.10 Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22.

5.11 Interest rate forecasts during 2021/22 are shown below (as at 10.5.2021).

| Link Group Interest Rate View | | | 10.5.21 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep-21 | Dec-21 | Mar-22 | Jun-22 | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 |
| BANK RATE | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.25 | 0.25 | 0.25 |
| 3 month ave earnings | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.30 | 0.30 | 0.30 |
| 6 month ave earnings | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.10 | 0.20 | 0.30 | 0.40 | 0.40 | 0.40 |
| 12 month ave earnings | 0.20 | 0.20 | 0.20 | 0.20 | 0.20 | 0.30 | 0.30 | 0.40 | 0.50 | 0.50 | 0.50 |
| 5 yr PWLB | 1.20 | 1.30 | 1.30 | 1.30 | 1.40 | 1.40 | 1.40 | 1.40 | 1.50 | 1.50 | 1.50 |
| 10 yr PWLB | 1.70 | 1.70 | 1.80 | 1.80 | 1.90 | 1.90 | 1.90 | 2.00 | 2.00 | 2.00 | 2.00 |
| 25 yr PWLB | 2.20 | 2.30 | 2.40 | 2.40 | 2.40 | 2.50 | 2.50 | 2.50 | 2.50 | 2.50 | 2.60 |
| 50 yr PWLB | 2.00 | 2.10 | 2.20 | 2.20 | 2.20 | 2.30 | 2.30 | 2.30 | 2.30 | 2.30 | 2.40 |

5.12 Actual PWLB borrowing rates - the graph below shows, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.




| | 1 Year | 5 Year | 10 Year | 25 Year | 50 Year |
|---|---|---|---|---|---|
| 01/04/2021 | 0.80% | 1.20% | 1.73% | 2.22% | 2.03% |
| 31/03/2022 | 1.91% | 2.25% | 2.43% | 2.64% | 2.39% |
| Low | 0.78% | 1.05% | 1.39% | 1.67% | 1.25% |
| Low date | 08/04/2021 | 08/07/2021 | 05/08/2021 | 08/12/2021 | 09/12/2021 |
| High | 2.03% | 2.37% | 2.52% | 2.75% | 2.49% |
| High date | 15/02/2022 | 28/03/2022 | 28/03/2022 | 23/03/2022 | 28/03/2022 |
| Average | 1.13% | 1.45% | 1.78% | 2.10% | 1.85% |
| Spread | 1.25% | 1.32% | 1.13% | 1.08% | 1.24% |

5.13 PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

5.14 Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

5.15 At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

5.16 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

5.17 Bank Rate has recently risen to 1.75%. The latest predictions for Bank rate and PWLB borrowing are below:

| Link Group Interest Rate View | 09.08.22 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Sep-22 | Dec-22 | Mar-23 | Jun-23 | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 |
| BANK RATE | 2.25 | 2.50 | 2.75 | 2.75 | 2.75 | 2.50 | 2.50 | 2.25 | 2.25 | 2.25 | 2.25 | 2.25 | 2.00 |
| 3 month ave earnings | 2.50 | 2.80 | 3.00 | 2.90 | 2.80 | 2.50 | 2.40 | 2.30 | 2.30 | 2.30 | 2.20 | 2.20 | 2.20 |
| 6 month ave earnings | 2.90 | 3.10 | 3.10 | 3.00 | 2.90 | 2.80 | 2.70 | 2.60 | 2.50 | 2.50 | 2.40 | 2.30 | 2.30 |
| 12 month ave earnings | 3.20 | 3.30 | 3.20 | 3.10 | 3.00 | 2.90 | 2.80 | 2.70 | 2.40 | 2.40 | 2.40 | 2.40 | 2.40 |
| 5 yr PWLB | 2.80 | 3.00 | 3.10 | 3.10 | 3.00 | 3.00 | 2.90 | 2.90 | 2.80 | 2.80 | 2.80 | 2.70 | 2.70 |
| 10 yr PWLB | 3.00 | 3.20 | 3.30 | 3.30 | 3.20 | 3.10 | 3.10 | 3.00 | 3.00 | 3.00 | 2.90 | 2.90 | 2.80 |
| 25 yr PWLB | 3.40 | 3.50 | 3.50 | 3.50 | 3.50 | 3.40 | 3.40 | 3.30 | 3.30 | 3.20 | 3.20 | 3.20 | 3.10 |
| 50 yr PWLB | 3.10 | 3.20 | 3.20 | 3.20 | 3.20 | 3.10 | 3.10 | 3.00 | 3.00 | 2.90 | 2.90 | 2.90 | 2.80 |

## 6. Borrowing Outturn for 2021/22

6.1 Details of the loans outstanding at 31 March 2022 are shown below:

| Lender | Type | Maturity | Interest Rate % | Principal held at 31 March 2021 £'000 | Principal held at 31 March 2022 £'000 |
|---|---|---|---|---|---|
| PWLB - Maturity | Fixed Interest Rate | 45 Years | 4.55 | 2,100 | 2,100 |
| PWLB - Annuity | Fixed Interest Rate | 9 Years | 1.92 | 1,817 | 1,528 |
| PWLB – Annuity | Fixed Interest Rate | 22 Years | 1.95 | 1,389 | 1,331 |
| PWLB – Annuity | Fixed Interest Rate | 50 Years | 2.65 | 12,374 | 12,241 |
| PWLB - Annuity | Fixed Interest Rate | 50 Years | 2.60 | 3,509 | 3,471 |
| PWLB – 23 maturity loans | Fixed Interest Rate | 49 Years | 2.54* | 3,592 | 3,592 |
| PWLB – Annuity | Fixed Interest Rate | 50 Years | 2.31 | 1,761 | 1,740 |
| PWLB – Annuity | Fixed Interest Rate | 30 Years | 1.73 | 2,403 | 2,338 |
| **Total** | | | | **28,945** | **28,341** |

*Average interest rate

### Repayments

6.2 During 2021/22 the Council repaid interest of £746,000 at an average rate of 2.54%.

### Borrowing in advance of need

6.3 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

6.4 In September 2019, when borrowing rates fell to a point where it was considered optimal to do so in order to finance capital expenditure which would be incurred within the time frame of the forward approved Capital Financing Requirement estimates, the Council borrowed £2.5 million at an interest rate of 1.73% for future forecast capital expenditure. In taking this decision, the Council carefully considered achieving best value, the risk of having to borrow at higher rates at a later date, the carrying cost of the difference between interest paid on such debt and interest received from investing funds which would be surplus until used, the current economic climate and that the Council could ensure the security of such funds placed on temporary investment.

**Debt rescheduling**

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

## 7. Investment Outturn for 2021/22

7.1 **Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 30 March 2021 (Minute – CM44). 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.).

7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

| **Balance Sheet Resources £'000** | **31 March 2021** | **31 March 2022** |
|---|---:|---:|
| General Fund Balance | 1,294 | 1,490 |
| Earmarked Reserves | 8,941 | 9,189 |
| Usable Capital Receipts | 158 | 56 |
| Provisions | 886 | 921 |
| Other | (2,556) | (511) |
| **Total** | **8,723** | **11,145** |

## 8. Other Issues 2021/22

### IFRS 9 fair value of investments

8.1 Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG] (now renamed the Department of Levelling Up, Housing & Communities) on IFRS 9 the Government previously introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

## 9. Outcomes/outputs

9.1 Income from investments this year was £35,230 which is £70,091 lower than the budget of £105,321.

9.2 Industry performance is judged and monitored by reference to a standard benchmark; this is the Sterling Overnight Interbank Average rate (SONIA). The SONIA rate at the end of March was 0.14% which is 0.07% higher than our average return of 0.07% as at 31 March 2022.

## 10. Options available and consideration of risk

10.1 The Treasury Management Strategy is risk averse with no investments allowed for a period of more than a year and very high credit rating is required, together with a limit of £3m per counterparty. This has resulted in only a small number of institutions in which the Council can invest (see Appendix A).

10.2 The Council’s treasury management activities and interest rates are reviewed daily to ensure cash flow is adequately planned with surplus funds being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

10.3 The 2018 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g. for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy will be brought to Members’ attention in treasury management update reports.

## 11. Proposed Way Forward

11.1 The Council's treasury activities and interest rates will continue to be monitored daily and appropriate action taken to mitigate risk whilst optimising investment return where possible.

## 12. Compliance with Treasury Limits and Prudential Indicators

12.1 During 2021/22 the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement. The Council's Prudential Indicators for 2021/22 are detailed and shown in Appendix B.

## 13. Implications

| Implications | Relevant to proposals Y/N | Details and proposed measures to address |
|---|---|---|
| Legal/Governance | Y | Statutory powers are provided by the Local Government Act 1972 Section 151 and the Local Government Act 2003 |
| Financial Implications to include reference to value for money | Y | Income from Treasury Management activities amounted to £35,230 in 2021/22.<br>Consideration of the Annual Treasury Report forms an essential component of the Council's systems for public accountability. It also provides a platform for future investment planning. |
| Risk | Y | The security risk is the risk of failure of a counterparty. The liquidity risk is that there are liquidity constraints that affect the interest rate performance. The yield risk is regarding the volatility of interest rates/inflation.<br><br>The Council has adopted the CIPFA Code Of Practice for Treasury Management and produces an Annual Treasury Management Strategy and Investment Strategy in accordance with CIPFA guidelines.<br><br>The Council engages a Treasury Management advisor and a prudent view is always taken regarding future interest rate movements. Investment interest income is reported quarterly to SLT and Members. |
| Supporting Corporate Strategy | | The income from treasury management supports all the Council's corporate strategy themes. |

| | | |
|---|---|---|
| Climate Change - Carbon / Biodiversity Impact | | No direct carbon/biodiversity impact arising from the recommendations. |
| Comprehensive Impact Assessment Implications | | |
| Equality and Diversity | N | None directly arising from this report. |
| Safeguarding | N | None directly arising from this report. |
| Community Safety, Crime and Disorder | N | None directly arising from this report. |
| Health, Safety and Wellbeing | N | None directly arising from this report. |
| Other implications | N | None directly arising from this report. |

**Supporting Information**

**Appendices:**

Appendix A – Lending list as at 25 March 2022
Appendix B - Prudential and Treasury Indicators 2021/22

**Background Papers:**

Annual treasury strategy in advance of the year (Council 30 March 2021 – CM44)
A mid-year treasury update report (Audit Committee 7 December 2021 –AC19)

## APPENDIX A

| Counterparty as at 25th March 2022 | | Fitch Rating | | | | | Moody's Ratings | | | S&P Ratings | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| United Kingdom | | Long Term | | Short Term | Viability | Support | Long Term | | Short Term | Long Term | | Short Term | Suggested Duration |
| AAA Rated and Government Backed Securities | Collateralised LA Deposit* | | | | | | | | | | | | Y - 60 mths |
| | Debt Management Office | | | | | | | | | | | | Y - 60 mths |
| | Multilateral Development Banks | | | | | | | | | | | | Y - 60 mths |
| | Supranationals | | | | | | | | | | | | Y - 60 mths |
| | UK Gilts | | | | | | | | | | | | Y - 60 mths |
| | Al Rayan Bank PLC | SB | | | | | SB | A1 | P-1 | | | | R - 6 mths |
| | Bank of Scotland PLC (RFB) | SB | A+ | F1 | a | WD | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths |
| | Barclays Bank PLC (NRFB) | SB | A+ | F1 | a | 5 | SB | A1 | P-1 | PO | A | A-1 | R - 6 mths |
| | Barclays Bank UK PLC (RFB) | SB | A+ | F1 | a | 1 | SB | A1 | P-1 | PO | A | A-1 | R - 6 mths |
| | Close Brothers Ltd | SB | A- | F2 | a- | 5 | NO | Aa3 | P-1 | | | | R - 6 mths |
| | Clydesdale Bank PLC | SB | A- | F2 | bbb+ | 5 | SB | Baa1 | P-2 | SB | A- | A-2 | G - 100 days |
| | Co-operative Bank PLC (The) | SB | B+ | B | b | WD | PO | Ba3 | NP | | | | N/C - O mths |
| | Goldman Sachs International Bank | SB | A+ | F1 | | 1 | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths |
| | Handelsbanken Plc | SB | AA | F1+ | | 1 | | | | SB | AA- | A-1+ | O - 12 mths |
| | HSBC Bank PLC (NRFB) | NO | AA- | F1+ | a | 1 | SB | A1 | P-1 | SB | A+ | A-1 | O - 12 mths |
| | HSBC UK Bank Plc (RFB) | NO | AA- | F1+ | a | 1 | SB | A1 | P-1 | SB | A+ | A-1 | O - 12 mths |
| | Lloyds Bank Corporate Markets Plc (NRFB) | SB | A+ | F1 | | WD | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths |
| | Lloyds Bank Plc (RFB) | SB | A+ | F1 | a | WD | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths |
| | National Bank of Kuwait (International) PLC | SB | A+ | F1 | | WD | | | | NO | A | A-1 | R - 6 mths |
| | NatWest Markets Plc (NRFB) | SB | A+ | F1 | WD | WD | PO | A2 | P-1 | SB | A- | A-2 | R - 6 mths |
| | Santander Financial Services Plc (NRFB) | SB | A+ | F1 | | WD | SB | A1 | P-1 | SB | A- | A-2 | R - 6 mths |
| | Santander UK PLC | SB | A+ | F1 | a | WD | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths |
| | SMBC Bank International PLC | NO | A | F1 | | 1 | SB | A1 | P-1 | SB | A | A-1 | R - 6 mths |
| | Standard Chartered Bank | NO | A+ | F1 | a | 5 | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths |
| Building Societies | Coventry Building Society | SB | A- | F1 | a- | WD | SB | A2 | P-1 | | | | R - 6 mths |
| | Leeds Building Society | SB | A- | F1 | a- | WD | SB | A3 | P-2 | | | | G - 100 days |
| | Nationwide Building Society | SB | A | F1 | a | WD | SB | A1 | P-1 | SB | A+ | A-1 | R - 6 mths |
| | Principality Building Society | SB | BBB+ | F2 | bbb+ | WD | SB | Baa2 | P-2 | | | | N/C - O mths |
| | Skipton Building Society | SB | A- | F1 | a- | WD | SB | A2 | P-1 | | | | R - 6 mths |
| | West Bromwich Building Society | | | | | | SB | Ba3 | NP | | | | N/C - O mths |
| | Yorkshire Building Society | SB | A- | F1 | a- | WD | SB | A3 | P-2 | | | | G - 100 days |
| Nationalised and Part Nationalised Banks | National Westminster Bank PLC (RFB) | SB | A+ | F1 | a | WD | SB | A1 | P-1 | SB | A | A-1 | B - 12 mths |
| | Royal Bank of Scotland Group Plc (RFB) | SB | A+ | F1 | a | WD | SB | A1 | P-1 | SB | A | A-1 | B - 12 mths |

**Key**

| Watches and Outlooks | | Duration | |
|---|---|---|---|
| SB | Stable Outlook | Yellow - Y | 60 Months |
| NO | Negative Outlook | Blue - B | 12 Months |
| NW | Negative Watch | Orange - O | 12 Months |
| PO | Positive Outlook | Red - R | 6 Months |
| PW | Positive Watch | Green - G | 100 Days |
| EO | Evolving Outlook | | |
| EW | Evolving Watch | | |

# APPENDIX B

**PRUDENTIAL AND TREASURY INDICATORS 2021/22**

The Council's capital expenditure plans are the key driver of treasury management activity. The outputs of the capital expenditure plans are reflected in prudential indicators, which are designed to assist members to overview and confirm capital expenditure plans.

## Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The tables below show the actual capital expenditure and how this was financed.

| **Capital Expenditure** | **2020/21 Actual £000** | **2021/22 Estimate £000** | **2021/22 Actual £000** |
|---|---|---|---|
| General Fund services | 1,008 | 2,559 | 1,103 |
| Housing | 0 | 0 | 0 |
| **TOTAL** | **1,008** | **2,559** | **1,103** |

In 2021/22 there was some slippage of capital projects in terms of timing.

| **Capital Expenditure and Financing** | **2020/21 Actual £000** | **2021/22 Estimate £000** | **2021/22 Actual £000** |
|---|---|---|---|
| Capital Expenditure | 1,008 | 2,559 | 1,103 |
| **Financed by:** | | | |
| External sources | (648) | (1,924) | (607) |
| Own resources | (360) | (635) | (334) |
| **Unfinanced capital expenditure** | **0** | **0** | 162 |

**The Council's Borrowing Need (the Capital Financing Requirement)**

The Council's cumulative outstanding amount of debt finance is measured by the Capital Financing Requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt.

| CFR | 2020/21 Actual £000 | 2021/22 Estimate £000 | 2021/22 Actual £000 |
|---|---|---|---|
| Opening balance | 25,972 | 25,361 | 25,361 |
| Add unfinanced capital expenditure (as above) | 0 | 0 | 162 |
| Less MRP/VRP | (611) | (623) | (623) |
| **Closing balance** | **25,361** | **24,738** | **24,900** |

**The Council's Gross Debt and the Capital Financing Requirement**

Statutory guidance states that debt should remain below the capital financing requirement, except in the short-term. As can be seen from the indicator below, the debt is slightly higher than the CFR by £3.44m in 2021/22. This is only a short term position as this will finance future capital expenditure which will be incurred within the time frame of the forward approved Capital Financing Requirement estimates.

| | 2020/21 Actual £000 | 2021/22 Estimate £000 | 2021/22 Actual £000 |
|---|---|---|---|
| Debt | 28,945 | 28,341 | 28,341 |
| Capital Financing Requirement | 25,361 | 24,738 | 24,900 |
| Over/(under) funding of CFR | 3,584 | 3,603 | 3,441 |

**AFFORDABILITY PRUDENTIAL INDICATORS**

The previous sections cover the overall capital and control of borrowing prudential indicators, but within this framework prudential indicators are required to assess the affordability of the capital investment plans.

These provide an indication of the impact of the capital investment plans on the Council's overall finances. The Council is asked to approve the following indicators:

**Ratio of financing costs to net revenue stream**

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

| | 2020/21 Actual | 2021/22 Estimate | 2021/22 Actual |
|---|---|---|---|
| Financing costs (£) | 1,332,162 | 1,263,502 | 1,333,593 |
| Proportion of net revenue stream | 17.3% | 17.3% | 18.3% |

**TREASURY INDICATORS: LIMITS TO BORROWING ACTIVITY**

**The Operational Boundary** – This is the limit beyond which external debt is not normally expected to exceed. This is the maximum level of external debt for cash flow purposes.

| Operational Boundary | 2020/21 | 2021/22 |
|---|---|---|
| | £ | £ |
| Borrowing | 47,500,000 | 47,500,000 |
| Other long term liabilities | - | - |
| Total | 47,500,000 | 47,500,000 |

**The Authorised Limit for External Debt** – A further key prudential indicator represents a control on the overall level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by Full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

This provides headroom over and above the operational boundary for unusual cash movements. This is the maximum amount of money that the Council could afford to borrow.

This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although no control has yet been exercised.

| **Authorised limit** | **2020/21** | **2021/22** |
|---|---|---|
| | **£** | **£** |
| Borrowing | 50,000,000 | 50,000,000 |
| Other long term liabilities | - | - |
| Total | 50,000,000 | 50,000,000 |

West Devon Borough Council's current level of borrowing as at 31 March 2022 was £28.34 million.

The maturity analysis of fixed rate borrowing is as follows, with the maximum and minimum limits for fixed interest rates maturing in each period:

| **Refinancing rate risk indicator** | **Approved minimum limits** | **Approved maximum limits** | **Actual 31 March 2021** | | **Actual 31 March 2022** | |
|---|---|---|---|---|---|---|
| | **%** | **%** | **£million** | **%** | **£million** | **%** |
| Less than 1 year | 0% | 10% | 0.603 | 2.1 | 0.615 | 2.2 |
| Between 1 and 2 years | 0% | 10% | 0.616 | 2.1 | 0.713 | 2.5 |
| Between 2 and 5 years | 0% | 30% | 2.101 | 7.3 | 2.057 | 7.3 |
| Between 5 and 10 years | 0% | 30% | 2.355 | 8.1 | 2.185 | 7.7 |
| Between 10 and 20 years | 0% | 50% | 4.970 | 17.2 | 5.018 | 17.7 |
| 20 years and above | 0% | 100% | 18.300 | 63.2 | 17.753 | 62.6 |
| **Total** | | | **28.945** | **100** | **28.341** | **100** |