

# TREASURY MANAGEMENT OUTTURN 2021/22

Date: 22nd June 2022

Report of: Chief Officer Financial Services

Report to: Executive Board

Will the decision be open for call in?

☒ Yes ☐ No

Does the report contain confidential or exempt information?

☐ Yes ☒ No

## What is this report about?

- 1.1 This report sets out for Members' approval the Treasury Management Outturn Report for 2021/22.
- 1.2 This report shows that net external debt at 31st March 2022 was £2,165m £201m lower than the February 2022 forecast. This movement is due to higher than anticipated revenue balances of £170m and a decrease in assumed treasury borrowing of £31m for the capital programme. There were a number of factors affecting the higher than projected revenue balances, including an additional £25m of capital grants not yet applied due to slippage in the capital programme, and the £48m received from the government in March 2022 to fund the Council Tax rebate scheme in 2022/23. The level of debt and liabilities should be viewed in the context of the Council's long-term assets which were valued at £6.342bn as at 31st March 2021. The value of assets as at 31st March 2022 are pending the completion of the Council's draft balance sheet and statement of accounts which are not finalised at this time.
- 1.3 The level of debt has remained within the Authorised Limit and Operational Boundary as approved by the Council in February 2022.
- 1.4 The average rate of interest paid on the Council's external debt was 3.28% for 2021/22 the same as 2020/21.
- 1.5 The outturn position for debt costs within the revenue budget was an underspend of £4.8m. This arose primarily as a result of opportunities to borrow at lower interest rates during the year, and the lower than anticipated overall borrowing requirement referred to in 1.2 above.

## Recommendations

That the Executive Board:

- 2.1 Note the Treasury Management outturn position for 2021/22 and that treasury activity has remained within the treasury management strategy and policy framework

## Why is the proposal being put forward?

- 3.1 This Treasury Management Outturn Report for 2021/22 provides a final update on loans undertaken to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in an overall saving to the revenue budget as detailed in 6.2.

## What impact will this proposal have?

### Wards Affected:

Have ward members been consulted? ☐ Yes ☒ No

- 4.1 The 2021/22 treasury management strategy was approved by Executive Board on 10th February 2021. This report provides members with a final update on Treasury Management strategy and operations in 2021/22.

## What consultation and engagement has taken place?

- 5.1 This report is an update on strategy as presented to Executive Board in February 2022, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.
- 5.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the February capital programme report approved by /full Council.

## What are the resource implications?

- 6.1 This update on the treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the General Fund and HRA.
- 6.2 A surplus of £4.8m has been generated, primarily by taking advantage of lower interest rates as the opportunity arose and by lower borrowing activity due to higher than anticipated revenue balances.

## **What are the legal implications?**

- 7.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. In particular:
- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with several Prudential Indicators.
  - Any in year revision of these limits must be approved by Council.
  - Policy statements are prepared for approval by the Council at least two times a year.
- 7.2 Updated versions of both the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice were published in December 2021, with the accompanying guidance notes for practitioners being published in late January 2022. Although the new Codes apply immediately, the Prudential Code states that the changes to reporting requirements that they introduce can be deferred until the 2023/24 financial year. These new reporting requirements include changes to the capital strategy, prudential indicators, and investment reporting. Work is underway to evaluate the new requirements with the aim of introducing them during 2022/23. Full adoption and compliance with the new Codes is therefore expected to be in place for the 2023/24 Financial year.

## **What are the key risks and how are they being managed?**

- 8.1 This report sets out the performance against the 2021/22 Treasury strategy. The execution of the strategy and associated risks are kept under regular review through:
- Monthly reports to the officer led Finance Performance Group.
  - Quarterly strategy meetings with the Chief Officer Financial Services and the Council's treasury advisors and
  - Regular market, economic and financial instrument updates, and access to real time market information.
- 8.2 The above monitoring mitigates the directorate level risk of "Failure to recover money invested in other financial institutions" and in addition the Treasury Management Strategy is linked to the corporate risk on 'Financial Forecasting'.

### **Review of Strategy 2021/22**

- 8.3 Table 1, shows that net borrowing in 2021/22 was £2,165m, £201m lower than the February 2022 forecast. This movement is due to higher than anticipated revenue balances of £170m, and a decrease in assumed treasury borrowing of £31m for the capital programme. There were a number of factors affecting the higher than projected revenue balances, including an additional £25m of capital grants not yet applied due to slippage in the capital programme, and the £48m received from the government in March 2022 to fund the Council Tax rebate scheme in 2022/23. The actual movement in the capital programme is explained in the revenue outturn report elsewhere on the agenda.

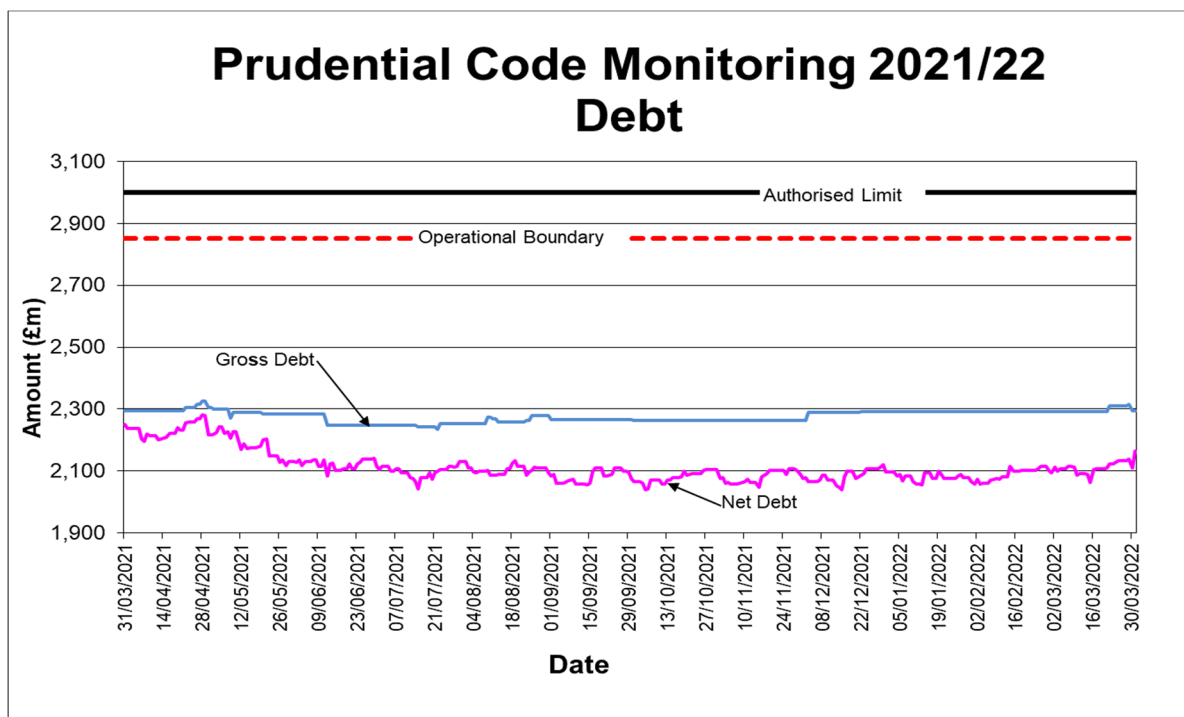
**TABLE 1**

	<b>2021/22 Nov 21 Report</b>	<b>2021/22 Feb 22 Report</b>	<b>2021/22 This Report</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>ANALYSIS OF BORROWING 2021/22</b>			
<b>Net Borrowing at 1 April</b>	2,252	2,252	<b>2,252</b>
New Borrowing for the Capital Programme – GF	159	153	<b>129</b>
New Borrowing for the Capital Programme – HRA	51	29	<b>22</b>
Debt redemption costs charged to Revenue (Incl HRA)	(56)	(57)	<b>(57)</b>
Reduced/(Increased) level of Revenue Balances	43	(11)	<b>(181)</b>
<b>Net Borrowing at 31 March</b>	2,449	2,366	<b>2,165</b>
<b>Capital Financing Requirement*</b>			<b>2,682</b>
<b>Other long term liabilities capital financing requirement</b>			<b>550</b>
Net Borrowing 31st March comprised as follows			
Long term Fixed	2,239	2,283	2,295
Variable (less than 1 Year)	10	10	0
New Borrowing	197	113	0
Short term Borrowing	43	0	0
Total External Borrowing	2,489	2,406	2,295
Less Investments	40	40	130
<b>Net External Borrowing</b>	<b>2,449</b>	<b>2,366</b>	<b>2,165</b>
% borrowing funded by short term and variable rate loans	10%	5%	0%
Limit for variable rate Borrowing	40%	40%	40%

\* The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

- 8.4 The level of debt and liabilities should be viewed in the context of the Council's assets which were valued at approximately £6.342bn as at 31st March 2021. The value of assets as at 31st March 2022 are pending the completion of the Council's draft balance sheet and statement of accounts which are not finalised at this time. The Capital programme outturn position is reported in the June Financial Performance - Outturn Report to Executive Board elsewhere on the agenda.
- 8.5 In 2021/22 the level of debt remained within Authorised limits during the year and this is shown in Graph 1. The Authorised Limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2021/22. The Operational Boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the Authorised Limit from being breached. Treasury management activity has resulted in no breach of its prudential indicators, which are detailed in Appendix A. All other prudential indicators are within the normal tolerance levels of treasury management.

**Graph 1**



- 8.6 The 2021/22 borrowing strategy continued to fund the capital programme borrowing requirement from longer term borrowing to reduce interest rate risk, taking advantage of long term funding opportunities when they arise during the year. Short term borrowing is used during the year to temporarily fund the borrowing requirement where necessary, ensuring that long term borrowing is not undertaken at unfavourable rates. Whilst this approach continues to deliver lower costs of financing, the proportion of borrowing funded by short terms loans has been reduced to 0% (Table1) due to an increase in the use of the Council's balance sheet to fund its borrowing requirement from the start of the year. As a result of this strategy, the exposure to interest rate refinancing has decreased from 2020/21
- 8.7 Since the economic update to Members in February, the uncertainty surrounding the impact of the Covid-19, Ukraine and continuing supply chain disruption have provided the backdrop for the economic performance outlined below. Inflation is expected to remain high well into 2023 due to supply side shortages, labour shortages, commodity price inflation, and the impact of the Russian invasion of Ukraine and the subsequent Western sanctions.
- The Monetary Policy Committee (MPC) increased the bank rate from its emergency level of 0.10% to 0.25% on 16/12/2021, then to 0.50% 04/02/2022 and 0.75% on 17/03/2022. A further increase to 1.00% was recorded on 05/05/2022 marking the highest level since 2009. In addition, the MPC has issued total Quantitative Easing (QE) of £895bn. Interest rate expectations remain volatile with markets pricing in a rise to circa 2.5%, however the Council's advisors are currently forecasting a peak of 1.75% to 2.00% by the end of 2022/23.

- During the latter half of 2021/22 inflation pressures were becoming apparent and these have squeezed household disposable incomes. A 54% increase in utilities in April 2022 as well as rises in oil prices, a 1.25% increase in National insurance and other CPI components are likely to prove a bigger drag on real incomes and therefore on economic growth.
- As inflation has risen GDP has subsequently fallen. After rebounding strongly from the COVID outbreak in 2020 GDP has fallen back and recorded a monthly fall in March 2022 of -0.1% however GDP is still 1.2% above the pre-coronavirus level of February 2020.
- Inflation as measured by the CPI index, rose to 6.2% pa in April and is now expected to peak at over 10% later in 2022/23.
- In the United States the hawkish comments from Federal Open Markets Committee (FOMC) members in March has led to markets pricing in 225bp of further rate tightening during 2022 from its currently level of 0.25% to 0.50%. The FOMC is also expected to begin unwinding its stock of QE held on its balance sheet.
- Like the UK, the recent spike in inflation is thought to be negative for US household disposable incomes and will probably constrict growth therefore as with the MPC the FOMC has a fine balance to strike between containing inflation without causing a recession. More positively the US economy has been adding approximately 550k of jobs per month during the 1<sup>st</sup> Quarter of 2022 and unemployment stands at 3.8%.
- In Europe, the inflation rate jumped to 7.5% and the ECB is likely to raise interest rates faster than previously indicated. The ECB is also expected to prematurely end its QE programme although this remains a policy tool depending on circumstances. The largest economy in the EU, Germany suffered a contraction of GDP in Q4 2021 and may have done the same in Q1 2022 which is a technical recession. Overall EU growth in Q1 is however expected to be +0.3% and with unemployment across the area falling to 6.8%.
- In China 2021 has seen the economy negatively impacted due to the government's policies and in particular the strong response to COVID outbreaks which has seen cities like Shanghai enduring a local lockdown to combat the outbreak. Official GDP forecast is for growth of 4% but other data suggest this may be optimistic.
- In Japan growth was tepid rising only 0.5% although it is noted Q4 2021 posted a minor contraction. Policy interest rates remains at 0.1% and inflation is sub 1% and unemployment at 2.7% but inflation pressures are building.
- World growth is estimated to have expanded by 8.9% in 2021/22 following a contraction of 6.6% in 2020/21 however inflation headwinds are noted. Globalisation, a predominant factor for most of the last 30 years with the rise of China as an economic power, is being challenged as extended supply chains have proven to be fragile and a period of decoupling may now be a factor going forward.

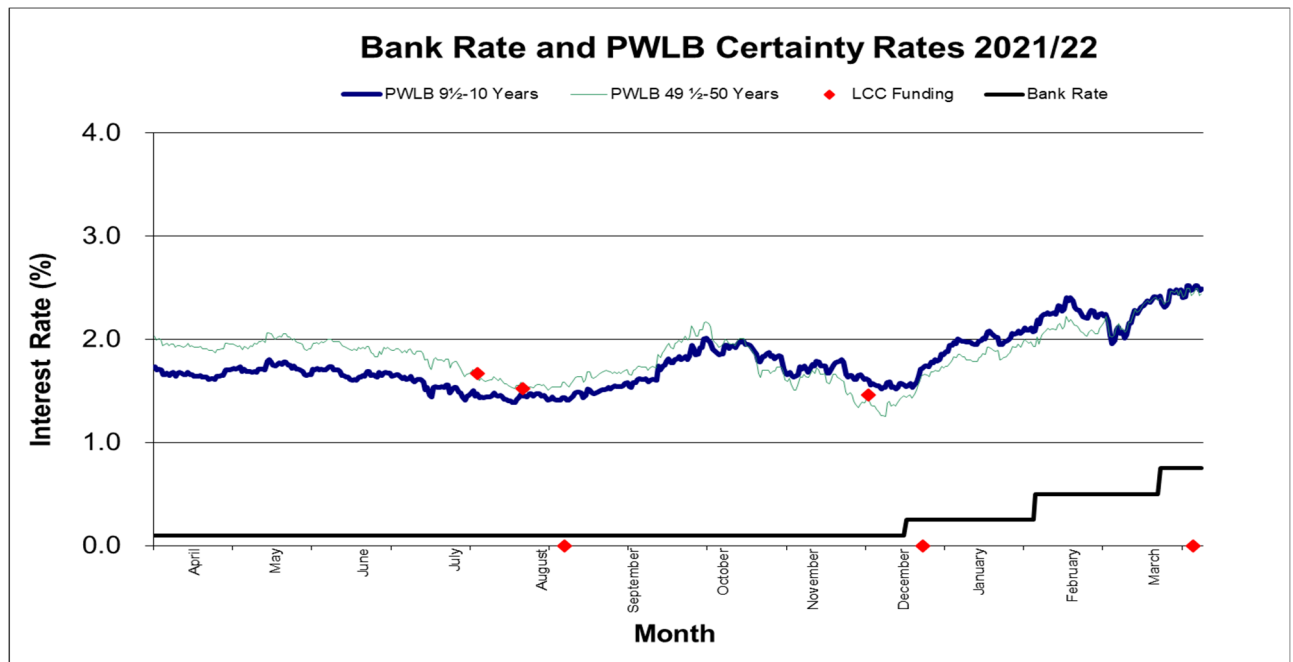
8.8 Graph 2 shows the movement in PWLB interest rates over the year. Underlying Gilt yields have risen during 2021/22 by around 0.4% over the year in longer dated periods. It should be noted that PWLB borrowing is now only accessible for new borrowing provided the Council states that it is not investing in capital assets primarily for yield. Longer term PWLB rates (49½-50 year) have varied during the year but ended the year at 2.44% and achieved a low point of 1.25% which occurred in mid-December. Shorter term rates (9½-10 year) have also risen from the start of the year and again hit a low point in mid-August. PWLB rates can now be summarised as follows

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

- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

Graph 2 also shows the long-term funding activity undertaken as detailed in Table 2.

**Graph 2**



- 8.9 The strategy for 2021/22 has resulted in a surplus of £4.8m, primarily due to funding at lower rates than anticipated and by lower borrowing activity due to higher than anticipated revenue balances.
- 8.10 Table 2 shows £91.6m of longer-term borrowing was secured during the year with £80m of this being from the PWLB together with £11.6m of SALIX funding. The table also shows that while no market loans options were exercised during the entire year, £0.4m of normal EIP (Equal Instalment of Principal) repayments were made on SALIX loans, whilst £26.4m of PWLB loans reached maturity during the period. Approximately half of market loans outstanding are termed Lenders Option Borrowers Option (LOBO) and contain clauses which allows the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty.

**Table 2**

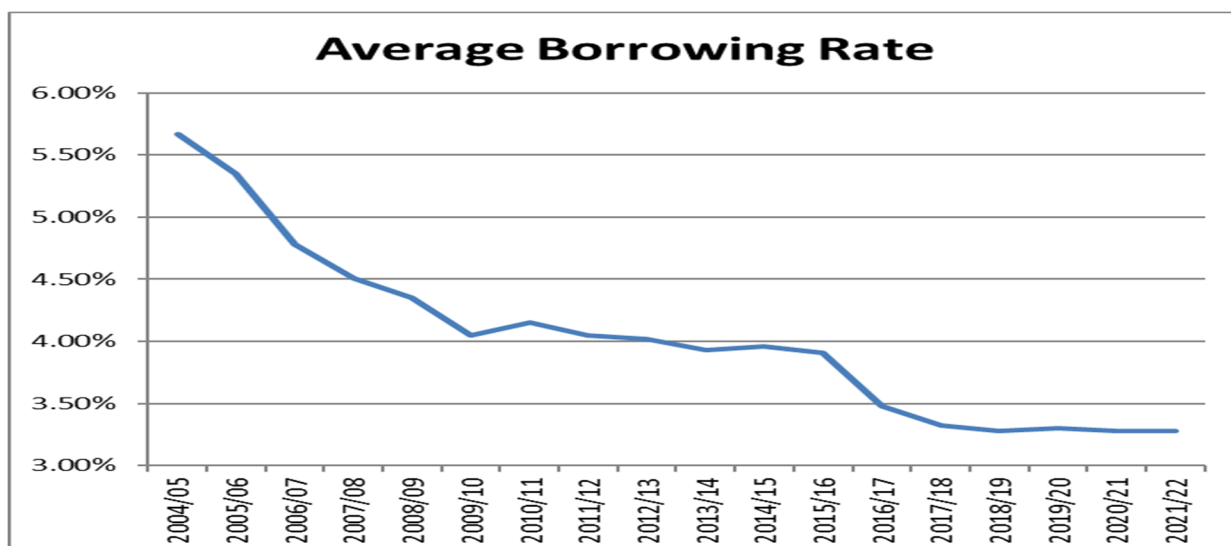
Loan repayments and borrowing 2021/22								
Loan Repayments					New Borrowing			
Date	Lender	Amount (£m)	Original Rate (%)	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans					PWLB			
12/06/2021	PWLB	26.436	3.97%	n/a	23/07/2021	20.000	50	1.67
					09/08/2021	20.000	50	1.52
					03/12/2021	40.000	50	1.46
<b>Sub Total</b>		<b>26.436</b>					<b>80.000</b>	
Non PWLB Loans					Non PWLB Loans			
01/10/2021	SALIX PH1	0.315	0.00	n/a	SALIX PH2	5.959	8	0.00
15/09/2021	SALIX WLL	0.024	0.00	n/a	SALIX PH2	1.776	8	0.00
01/03/2022	SALIX WLL	0.024	0.00	n/a	SALIX PH2	2.161	8	0.00
					SALIX PH3	1.710	8	0.00
<b>Sub Total</b>		<b>0.363</b>					<b>11.606</b>	
<b>Total</b>		<b>26.799</b>			<b>Total</b>		<b>91.606</b>	

\* Taken for the HRA account  
Salix repayments are EIP Instalments

### Interest Rate Performance and Average Maturity Profile

- 8.11 The average rate of interest paid on the Council's external debt was 3.28% (the same as for 2020/21) as shown in Graph 3. This stability in the average rate is due to the relatively low level of new long term or short-term borrowing required during the year, largely resulting from the increased level of revenue balances.

**Graph 3**



- 8.12 Whilst the average borrowing rate remains relatively low it is important to note the average maturity profile of the Council's debt. The average length of all loans to final maturity including temporary loans is 35.4 years. The average length of all loans to the next option date including temporary loans is 30.1 years. This provides a large degree of funding certainty within the overall debt portfolio. Appendix B analyses debt as at 31<sup>st</sup> March 2022 by interest rate band and the year of maturity or first option date for LOBO loans. The final maturity of LOBO loans is shown as a memo item in the table at the bottom of Appendix B.



## Does this proposal support the council's 3 Key Pillars?

☒ Inclusive Growth

☒ Health and Wellbeing

☒ Climate Emergency

- 9.1 The Treasury Management strategy secures funding to support the Council's Policies and City Priorities as set out in the Council's capital programme and is consistent with the Best City Ambition and 3 key pillars.
- 9.2 Equality, diversity, cohesion, and integration requirements are addressed as part of individual capital scheme and programme approvals. The borrowing to deliver these capital schemes is executed through treasury strategy and as such there are no further equality, diversity, cohesion, and integration issues.

## Options, timescales and measuring success

### a) What other options were considered?

This report provides the outturn position for the 2021/22 Treasury Management strategy. This update is provided to Executive Board regarding Treasury Management operation and activity. As such other options are not considered in this report.

### b) How will success be measured?

Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2017 and revised CIPFA guidance notes issued in 2018. All borrowing and investments undertaken have been compliant with the governance framework. The updated CIPFA Codes published in December 2021 are being reviewed to identify any changes which are necessary for the Council to continue to comply with them, and it is intended that any such changes will be introduced during 2022/23, in line with the required timescales. The full adoption of the codes is required for the 2023/24 financial year. Success will therefore be the continued optimal performance of the Treasury Management function within this framework.

Benchmarking of Treasury Management activity is only undertaken on an ad-hoc basis as the structure of debt portfolios and balance sheets of similar authorities often reflect the timing of past spending and financing decisions and therefore can lead to anomalies. The CIPFA Prudential Code makes it clear that prudential indicators should not be used for benchmarking purposes for this reason. The latest benchmarking exercise was undertaken in January 2021 as at the balance sheet date of 31/03/2020 for a comparison of external debt in relation to fixed assets for the core cities and significant variations in the resultant metrics were noted.

### c) What is the timetable for implementation?

This report is to confirm the successful operation of the Treasury Management strategy within the established legal and operational framework and is a continuous and on-going process.

## **Appendices**

- |    |            |   |
|----|------------|---|
| 1. | Appendix A | Prudential indicators 2021/22 to 2024/25  |
| 2. | Appendix B | Prudential Code Monitoring 2021/22 - Debt |

## **Background papers**

None

No.	PRUDENTIAL INDICATOR	Feb 21 Report	Feb 22 Report	Outturn (This Report)
<b>(1). EXTRACT FROM BUDGET AND RENT SETTING REPORTS</b>				
<b>Ratio of Financing Costs to Net Revenue Stream</b>				
1a	General Fund (Borrowing Only)	20.58%	20.75%	20.64%
1b	General Fund (Borrowing and Other Long Term Liabilities)	30.25%	30.42%	30.31%
2a	HRA (Borrowing Only)	11.45%	11.40%	11.52%
2b	HRA (Borrowing and Other Long Term Liabilities)	18.14%	18.12%	18.33%
5	<b>Gross external borrowing requirement (Gross Debt and CFR)</b> The Net Borrowing Requirement should not exceed the capital financing requirement ( <b>Note 3</b> )	2,496,690 OK	2,406,949 OK	2,294,992 OK
<b>Estimate of total capital expenditure (including PFI)</b>				
6	General Fund	£'000 367,147	£'000 414,366	£'000 370,327
7	HRA	160,045	138,321	116,469
	<b>TOTAL</b>	<b>527,192</b>	<b>552,687</b>	<b>486,796</b>
<b>Capital Financing Requirement (as at 31 March)</b>				
8	General Fund	£'000 2,433,735	£'000 2,418,248	£'000 2,398,529
9	HRA	860,834	839,989	833,302
	<b>TOTAL</b>	<b>3,294,569</b>	<b>3,258,237</b>	<b>3,231,831</b>
<b>(2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>				
10	<b>Authorised limit for external debt - (Note 3)</b>	£'000	£'000	£'000
	borrowing	3,000,000	3,000,000	2,800,000
	other long term liabilities	670,000	670,000	700,000
	<b>TOTAL</b>	<b>3,670,000</b>	<b>3,670,000</b>	<b>3,500,000</b>
11	<b>Operational boundary - (Note 3)</b>			
	borrowing	2,850,000	2,850,000	2,650,000
	other long term liabilities	650,000	650,000	680,000
	<b>TOTAL</b>	<b>3,500,000</b>	<b>3,500,000</b>	<b>3,330,000</b>
14	<b>Upper limit for fixed interest rate exposure</b> expressed as either:- Net principal re fixed rate borrowing / investments OR:-	115%	115%	115%
15	<b>Upper limit for variable rate exposure</b> expressed as either:- Net principal re variable rate borrowing / investments OR:- Net interest re variable rate borrowing / investments	40%	40%	40%
17	<b>Upper limit for total principal sums invested for over 364 days</b> (per maturity date)	£'000 150,000	£'000 150,000	£'000 150,000
18	<b>Net Debt as a Percentage of gross Debt</b>	<b>98.40%</b>	<b>98.34%</b>	<b>94.32%</b>

16	Maturity structure of fixed rate borrowing 2021/22	Lower Limit	Upper Limit	Actual 31/03/22	
	under 12 months	0%	15%	2%	
	12 months and within 24 months	0%	20%	6%	
	24 months and within 5 years	0%	35%	6%	
	5 years and within 10 years	0%	40%	7%	
	10 years and within 20 years			5%	
	20 years and within 30 years			1%	
	30 years and within 40 years	25%	90%	34%	79%
	40 years and within 50 years			33%	
	More Than 50 Years			6%	
				100.0%	

## Notes.

- The indicator for the ratio of financing costs to net revenue stream for General Fund is now calculated based on the External Borrowing costs only and Borrowing and Other long term Liabilities (PFI and leasing)
- The Changes to the Prudential Code 2017 retired the Indicator 3 and 4 on the incremental impact of New Capital decision on HRA and GF as well as Indicator 13 the need to explicitly adopt the Code of Practice. In addition Indicator 9 the relating to the MHCLG imposed HRA borrowing debt ceiling has been recinded and is therefore no longer reported
- In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council should ensure that gross external borrowing does not exceed the total capital financing requirement in the preceding year plus estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence and was changed from Net Borrowing to gross borrowing under the update to the Codes in 2017.
- Prudential indicator 12 relates to actual external debt at 31st March, which will be reported in the Treasury Management Annual Report.
- Indicators 14 and 15 are no longer explicit within the updated codes however these have been but have been retained pending further review
- Indicator 17 relates solely to Treasury Management investments made under Section 12 of the Local Government act 2003

# Prudential Code Monitoring 2021/22

## Debt

