

23 June 2022

**TREASURY MANAGEMENT STEWARDSHIP ANNUAL REPORT 2021/22**

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

Recommendation: that the Committee be asked to note the report and consider whether it wishes to make any further comments to Cabinet on the 2021/22 Treasury Management outturn position.

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**1. Summary**

- 1.1. The County Council has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. The policy requires the Council to agree an annual treasury strategy report, setting out the strategy and plans to be followed in the coming year, as part of the budget process. The Treasury Management and Investment Strategy for 2021/22 was agreed by Council in February 2021 and forms part of the published budget book for the year.
- 1.2. The purpose of this report is to show the outturn position, review performance and inform members of any key matters arising from the Council's Treasury and Debt Management activities during the 2021/22 financial year.

**2. Minimum Revenue Position**

- 2.1 Each year the Council has a statutory obligation to charge to the revenue account an annual amount of Minimum Revenue Provision (MRP), which is a charge to make provision for the repayment of the authority's external debt and internal borrowing. The charge is based on the historic borrowing required to fund the Council's capital programme.
- 2.2 The current policy is to charge MRP based on the period of benefit of the capital investment, i.e. straight line, over the life of the asset. However, all supported borrowing up to 1st April 2008 is charged over the life of the assets, calculated using the annuity method. The final outturn for MRP for 2021/22 was £13.9 million.

### 3. Treasury Management Outturn Position 2021/22 - Borrowing

- 3.1. The overall aims of the borrowing strategy are to achieve:
- Borrowing at the lowest rates possible in the most appropriate periods;
  - The minimum borrowing costs and expenses;
  - A reduction in the average interest rate of the debt portfolio.
- 3.2. Since 2009 the Council has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. Therefore, the Medium Term Financial Strategy (MTFS) assumption was that no new long-term borrowing would be required.
- 3.3. In accordance with the MTFS, no long-term borrowing was undertaken during the 2021/22 financial year. Instead all borrowing required to fund capital expenditure was met from internal cash balances.
- 3.4. Active treasury management and the maintenance of levels of liquidity have ensured that no short-term borrowing was required during the financial year. Cash positions are monitored daily and modelled over a monthly horizon to ensure that anticipated liquidity levels are forecast accurately.
- 3.5. No opportunities arose during the 2021/22 financial year to repay outstanding debt without incurring substantial premium penalties, which would negate any benefit of repaying the debt. The Public Works Loan Board (PWLB) sets premature repayment rates, and where the interest rate payable on a current loan is higher than the repayment rate, the PWLB policy imposes premium penalties for early repayment. Therefore, it will only make financial sense to repay debt early if the PWLB changes its current policy, or if interest rates rise and cancel out the repayment premiums.
- 3.6. At 31st March 2022 the level of long term debt stood unchanged at £507.85m as detailed in the table below.

#### Analysis of Long Term Debt

|                                 | <b>Actual</b>   | <b>Interest</b> | <b>Actual</b>   | <b>Interest</b> |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                 | <b>31.03.21</b> | <b>Rate</b>     | <b>31.03.22</b> | <b>Rate</b>     |
|                                 | <b>£'m</b>      | <b>%</b>        | <b>£'m</b>      | <b>%</b>        |
| <b>Fixed Rate Debt</b>          |                 |                 |                 |                 |
| PWLB                            | 436.35          | 4.99            | 436.35          | 4.99            |
| Money Market                    | 71.50           | 5.83            | 71.50           | 5.83            |
| <b>Variable Debt</b>            |                 |                 |                 |                 |
| PWLB                            | 0.00            |                 | 0.00            |                 |
| Money Market                    | 0.00            |                 | 0.00            |                 |
| <b>Total External Borrowing</b> | <b>507.85</b>   | <b>5.11</b>     | <b>507.85</b>   | <b>5.11</b>     |

- 3.7. The carrying amount for long term debt figure presented in the Statement of Accounts for 2021/22, comprising PWLB, LOBO and market debt, is £510.9 million, £3 million higher than the figure stated above. This difference is due

to an accounting standard adjustment which requires us to record the value of our long term debt at its Net Present Value in the Statement of Accounts. The LOBOs (Lender Option Borrower Option) have stepped interest rates and are revalued annually based on the effective interest rate for the duration of the loan. The revaluation has the effect of smoothing the stepping of the interest over the life of the loans.

#### 4. Treasury Management Outturn Position 2021/22 - Investments

4.1. The overall aim of the Council's investment strategy is to:

- Limit the risk to the loss of capital;
- Ensure that funds are always available to meet cash flow requirements;
- Maximise investment returns, consistent with the first two aims;
- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

4.2. The following table shows the County Council's fixed and variable rate investments as at the start and close of the financial year, and at the end of October.

##### Schedule of Investments

|                                                  | Actual<br>31.03.21 | Interest<br>Rate | Actual<br>31.10.21 | Interest<br>Rate | Actual<br>31.03.22 | Interest<br>Rate |
|--------------------------------------------------|--------------------|------------------|--------------------|------------------|--------------------|------------------|
| Maturing in:                                     | £'m                | %                | £'m                | %                | £'m                | %                |
| <b>Bank, Building Society &amp; MMF Deposits</b> |                    |                  |                    |                  |                    |                  |
| <b>Fixed Rates</b>                               |                    |                  |                    |                  |                    |                  |
| Term Deposits < 365 days                         | 80.00              | 0.86             | 157.50             | 0.17             | 127.50             | 0.48             |
| 365 days & >                                     | 18.00              | 1.13             | 26.00              | 0.90             | 31.00              | 0.86             |
| <b>Variable Rate</b>                             |                    |                  |                    |                  |                    |                  |
| Call Accounts                                    | 20.46              | 0.03             | 28.62              | 0.03             | 49.01              | 0.58             |
| Notice                                           | 70.00              | 0.16             | 50.00              | 0.19             | 40.00              | 0.32             |
| Money Market Funds (MMF's)                       | 0.00               | 0.00             | 0.00               | 0.00             | 16.86              | 0.55             |
| <b>Property Fund</b>                             | 10.00              | 4.21             | 10.00              | 4.14             | 10.00              | 3.72             |
| <b>All Investments</b>                           | <b>198.46</b>      | <b>0.72</b>      | <b>272.12</b>      | <b>0.37</b>      | <b>274.36</b>      | <b>0.64</b>      |

4.3. During the early part of the year rates continued to remain at very low levels, and new term deposits were made at even lower rates than had been possible 6-12 months previously. This is reflected in the lower average rate being earned at 31 October 2021 than at the beginning of the year. The Bank of England's Base Rate started to rise in December 2021 in response to increasing inflation, which meant we were beginning to see higher rates being offered towards the year end. The base rate had reached 0.75 by the end of March 2022.

- 4.4. The average interest rate earned on investments, excluding the CCLA property fund, for the year was 0.36%, against the full year budget target return of 0.30%. The CCLA property fund has yielded an average rate of 3.96% for the same period against a full year budget target of 3.8%. The combined total return from all investments was 0.50%. When the Council set a target interest rate of 0.30% for 2021/22, it did so with a view that the Bank of England base rate would remain at 0.10 for the foreseeable future. As rates increased from the Autumn onwards it has been possible to achieve higher returns than anticipated.
- 4.5. Revenue lending during 2021/22, including the use of term deposits, call accounts and property funds, earned interest of £1.095 million against a full year budget of £800,000. The surplus achieved over budget can be attributed both to the higher rates of interest earned compared to the target rate, and to higher than expected cash balances, mostly as a result of advance receipt of Government grants. The interest figure quoted is the return from the Council's Treasury Management activity and is different from the figure presented in the Outturn Report and the Statement of Accounts which also includes interest generated from a number of other sources.
- 4.6. All lending has been carried out in accordance with the Council's Treasury Management Strategy and with institutions on the list of approved counterparties.

## 5. Prudential Indicators

- 5.1. Linked to its Treasury Management Strategy, the County Council is required to monitor its overall level of debt in line with the CIPFA Code of Practice. Part of the code requires consideration of a set of Prudential Indicators in order to allow the Council to form a judgement about the affordable, prudent and sustainable level of debt.
- 5.2. The purpose of the indicators is to demonstrate that:
  - Capital expenditure plans are affordable;
  - All external borrowing and other long term liabilities are within prudent and sustainable levels;
  - Treasury management decisions are taken in accordance with professional good practice.
- 5.3. Three Prudential Indicators control the overall level of borrowing. They are:
  - **The authorised limit** - this represents the limit beyond which any additional borrowing is prohibited until the limit is revised by the County Council. Revision may occur during the year if there are substantial and unforeseen changes in circumstances, for example, a significant delay in achieving forecast capital receipts. In normal circumstances this limit will not require revision until the estimate for the following year is revised as part of the budget setting process.
  - **The operational boundary** – this indicator is based on the probable external debt and other long term liabilities during the year. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable.

- **The upper limit for net debt** - the Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement.
- 5.4. During the Budget process, the following Borrowing Limits were set for 2021/22:
- Maximum borrowing during the period (Authorised Limit) £766.193 million.
  - Expected maximum borrowing during the year (Operational Limit) £741.13 million.
  - Maximum amount of fixed interest exposure (as a percentage of total) 100%.
  - Maximum amount of variable interest exposure (as a percentage of total) 30%.
- 5.5. Members are asked to note that during 2021/22 the Council remained within its set Borrowing Limits and complied with the interest rate exposure limits.

## **6. 2022/23 Update**

- 6.1. As the world continued to emerge from the Covid pandemic, increasing consumer demand and supply chain struggles in the second half of 2021 began to fuel increases in inflation. The invasion of Ukraine by Russia and the consequent impact on energy and food prices has pushed inflation up further. The Consumer Prices Index (CPI) rose by 9.0% in the 12 months to April 2022, and is expected to peak at over 10% in the last quarter of 2022.
- 6.2. The Bank of England therefore started to raise interest rates from December 2021 in an attempt to control inflation, with economists predicting that rates could rise to 3% by September 2023.
- 6.3. From an investment point of view, the increase in interest rates provides the opportunity to earn higher returns on the Council's cash balances, and as a result the interest income earned in 2022/23 is likely to be higher than budgeted. However, given the current level of inflation, the value of the Council's reserves will decline in real terms. Should the Council be required to take out external borrowing then the rate of interest payable will also be higher than the rates available in recent years.
- 6.4. The Medium Term Financial Strategy (MTFS) and Treasury Management Strategy set by the Council in February continued to assume that, over the three year period, no new long-term borrowing will be required, but noted that:
- The margin between the actual external debt and the minimum requirement for external debt to fund the Council's capital priorities was narrow and would need to be kept under review.
  - The growing deficit on the High Needs Block (HNB) in relation to Special Educational Needs (SEND) was likely to put significant strain on the Council's cash resources which would need to be resolved at some point.

- If key priorities cannot be delivered due to a reduced availability of external funding, the Authority's cash resources, or capital receipts, then external borrowing may be required. This would need to be balanced against the ability to support additional capital financing costs from within the revenue budget.
- 6.5. Subsequently, in May, the Cabinet agreed in April to support proposals for the creation of the Plymouth and South Devon Freeport. The final Business Case has now been presented to Government and is awaiting approval. The proposal includes the requirement for the Council to externally borrow up to £15 million for the capital works needed. This borrowing will be ringfenced to the Freeport, and all the associated capital financing costs will be funded by the excess business rate income derived from the scheme. While the borrowing will not be required until 2023/24 it may be useful to forward agree loans at a fixed rate of interest once the business case has been approved by Government, given the expectation that rates will continue to rise from current levels.
- 6.6. Discussions are also taking place with the Department for Education around resolving the deficit position on the HNB. The conclusion of those discussions may require the Council to review its cash resources and whether further external borrowing is required to meet its capital priorities.

## **7. Summary**

- 7.1. No long term or short-term borrowing was undertaken during 2021/22.
- 7.2. No opportunities arose during the 2021/22 financial year to repay outstanding debt without incurring substantial premium penalties, which would negate the benefit of repaying the debt.
- 7.3. Investment income of £1.095 million was achieved in 2021/22 against a full year budget of £800,000. This represented a return of 0.50%, including the Property Fund investment. Successful prudent management of the Council's short-term cash reserves has delivered a surplus of £0.3 million for the 2021/22 financial year.

Angie Sinclair  
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Electoral Divisions: All

### **Local Government Act 1972:**

**List of Background Papers: Nil**

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