APPENDIX A

Annual Treasury Management Report

2021/22

June 2022

1 Introduction and Background

1.1 The Council is required through 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 the year. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 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 (Council 24th February 2021)
- a mid-year treasury update report (Council 13th October 2021)
- an annual treasury report (this report).

In addition, this Council has received quarterly treasury management update reports (Audit & Accounts Committee 25th June 2021 and 11th February 2022). Scrutiny to all treasury management reports was provided by the Audit & Accounts Committee before being reported to the full Council.

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of Treasury Management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.4 This report covers:

- Capital expenditure and the overall borrowing need
- The Council's treasury position at the end of the year
- Strategy & Economy for the year
- Borrowing outturn
- Capital loan (service investment – housing)
- Investment performance & portfolio, including Ethical investing

1.5 Treasury Limits and Treasury management and Prudential Indicators were set within the Treasury Management Strategy 2021/22. The Council has complied with all indicators. Details of these are embedded throughout this report.

2 The Council's Capital Expenditure & Borrowing Requirement 2021/22

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

- through the application of capital or revenue resources (including capital receipts, capital grants, revenue contributions etc.); this form of financing does not impact on the Council's borrowing need; or
- by borrowing, where there is insufficient internal resource or where a decision is taken to finance expenditure externally.

2.2 Capital expenditure constitutes one of the required prudential indicators. The table below shows actual capital expenditure for 2021/22 and how this was financed:

	31st March 2021	2021/22	31st March 2022
	Actual	Budget	Provisional Outturn*
Capital expenditure	**£3,097,305**	**£4,689,000**	**£13,044,920**
Financed by:			
External contributions	£949,143	£1,512,000	£1,136,616
Capital & earmarked reserves	£741,355	-	£2,415,153
Capital Receipts	£93,616	£25,000	£3,221,750
Unfinanced capital expenditure/ borrowing need	**£1,313,191**	**£3,152,000**	**£6,271,401**

** Subject to change as Closure of Accounts process ongoing at time of writing*

2.3 The increase in the provisional outturn of the capital expenditure compared to the budget is owing to the capital loan (service investment – housing) of £10milllion to Your Housing Limited. This is described in more detail at paragraph 6. It is partly funded by the £3.4million capital receipt from the maturing Ascent Housing LLP debenture and £1.1million from the Ascent reserve, with the remainder increasing the borrowing need.

2.4 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the cumulative capital activity of the Council in the current and prior years which is as yet unfinanced, i.e. has not yet been paid for by revenue or other resources.

2.5 The 2021/22 capital expenditure (provisional outturn) is partly funded by capital receipts, reserves and external contributions; the remainder has created a provisional outturn borrowing need of £6,271,401, which increases the CFR.

2.6 The Treasury Management team plans the Council's cash position to ensure sufficient cash is available to meet capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Public Works Loan Board or the money markets), or utilising temporary cash resources within the Council.

2.7 The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a revenue repayment of the cumulative borrowing need.

2.8 The CFR can also be reduced by the application of additional capital financing resources, such as unapplied capital receipts; or charging more than the statutory revenue charge (MRP) through a Voluntary Revenue Provision (VRP).

2.9 The Council's 2021/22 MRP Policy was approved (as required by the Department of Levelling Up, Housing and Communities (DLUHC) guidance) as part of the Treasury Management Strategy Statement 2021/22 on 24th February 2021.

2.10 During the life of the Loan facility provided to Ascent Housing LLP (£14million), MRP was not provided for this item of capital expenditure due to the expectation that the loan would be repaid in full upon maturity. The loan was repaid in full in January 2022; therefore the £14million capital receipt has been applied as VRP to reduce the CFR.

2.11 The Council's CFR for the year is shown below, and represents a key prudential indicator.

	31st March 2021	**2021/22**	**31st March 2022**
Capital Financing Requirement	Actual	Budget	Provisional Outturn*
Opening balance	£16,828,071	£18,163,000	£18,081,986
Unfinanced capital expenditure/ borrowing need	£1,313,190	£3,152,000	£6,271,401
Less MRP/VRP	-£59,275	-£87,000	-£14,085,538
Closing balance	**£18,081,986**	**£21,228,000**	**£10,267,849**

** Subject to change as Closure of Accounts process ongoing at time of writing*

2.12 Borrowing activity is constrained by Prudential Indicators for gross borrowing and the CFR, and by the Authorised Limit. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the current year (2021/22) plus the estimates of any additional CFR for the next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The indicator allows the Council some flexibility to borrow in advance of its immediate capital needs.

2.13 The table below highlights the Council's borrowing position against the CFR:

	31st March 2022	**31st March 2023**	**31st March 2024**
	Provisional	Forecast*	Forecast*
Gross borrowing position	£12,604,400	£10,104,400	£11,104,400
CFR	£10,267,849	£11,987,213	£13,773,350
Over/ (under) borrowed	**£2,336,551**	**-£1,882,813**	**-£2,668,950**

** Per MTFP February 2022, updated for current year provisional outturn borrowing need*

2.14 At the end of 2021/22 the gross borrowing position exceeds the CFR by £2,336,551 due to borrowing undertaken in February 2022 with the PWLB to align with the capital loan (service investment – housing) to Your Housing Limited, described in more detail in paragraph 6. Repayment of local authority loans maturing in 2022/23 will reduce the borrowing position below the CFR, therefore the Council has complied with the prudential indicator.

2.15 The Authorised Limit is set in the Treasury Management Strategy in advance of each year, as required by s3 of the Local Government Act 2003; once set the Council does not have power to borrow above this level. The Operational Boundary, also set in the Treasury Management Strategy, is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary are acceptable subject to the authorised limit not being breached. The table below shows the Council has maintained gross borrowing within its authorised limit and operational boundary.

2.16 The 'financing costs as a proportion of net revenue stream' is used as an indicator to identify the trend in the cost of capital (borrowing costs, net of investment income) against the net revenue stream of the Council. The negative percentage shows that financing costs are a net income.

	2021/22	**31st March 2022**
	Budget	Provisional Outturn*
Authorised limit	**£34,549,000**	**£34,549,000**
Maximum gross borrowing position during the year	£17,076,000	£15,000,000
Operational boundary	**£33,049,000**	**£33,049,000**
Average gross borrowing position	£17,076,000	£11,781,425
Financing costs as a proportion of net revenue stream	-3.38%	-2.53%

3 The Current Treasury Position

3.1 The Council's treasury management debt and investment position is organised by the treasury team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity in accordance with the Council's Treasury Management Practices. The table below shows the Council's treasury position at the end of 2021/22 and a comparison with the previous year:

	2021/22			**2020/21**		
	Principal at 31st March	*Average annual principal*	Average annual interest rate/ return	Principal at 31st March	*Average annual principal*	Average annual interest rate/ return
Debt						
PWLB	£4,604,400	£630,740	2.07%			
Local Authority Loans	£8,000,000	£11,150,685	0.80%	£15,000,000	*£13,538,356*	0.88%
Total	**£12,604,400**	*£11,781,425*	**0.87%**	**£15,000,000**	*£13,538,356*	**0.88%**
*Capital Financing Requirement**	*£10,267,849*			*£18,082,603*		
Over/ (under) borrowed	*£2,336,551*			*-£3,082,603*		
**current year subject to change as Closure of Accounts process ongoing at time of writing*						
Capital Loan (service investment - Housing)						
Your Housing Limited	-£10,000,000	*-£1,534,247*	3.07%			
Ascent Housing LLP (Debenture)	£0	*-£4,232,877*	1.88%	-£5,000,000	*-£5,000,000*	2.00%
Ascent Housing LLP (Loan)	£0	*-£11,852,055*	2.88%	-£14,000,000	*-£14,000,000*	3.60%
Total	**-£10,000,000**	***-£17,619,178***	**2.66%**	**-£19,000,000**	***-£19,000,000***	**3.18%**
Treasury management investments	**-£27,286,096**	*-£21,389,659*	**0.20%**	**-£18,399,000**	*-£19,719,937*	**0.22%**
Net Debt/ *(income)*	**-£24,681,696**	*-£27,227,412*	**1.50%**	**-£22,399,000**	*-£25,181,581*	**2.10%**

4 2021/22 Treasury Management Strategy & Economic Conditions

4.1 The expectation for interest rates amongst forecasters at the time of setting the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.10% following the emergency cut at the start of the Covid-19 pandemic for the medium term and therefore returns on the Council's balances would be very low, with borrowing rates similarly depressed.

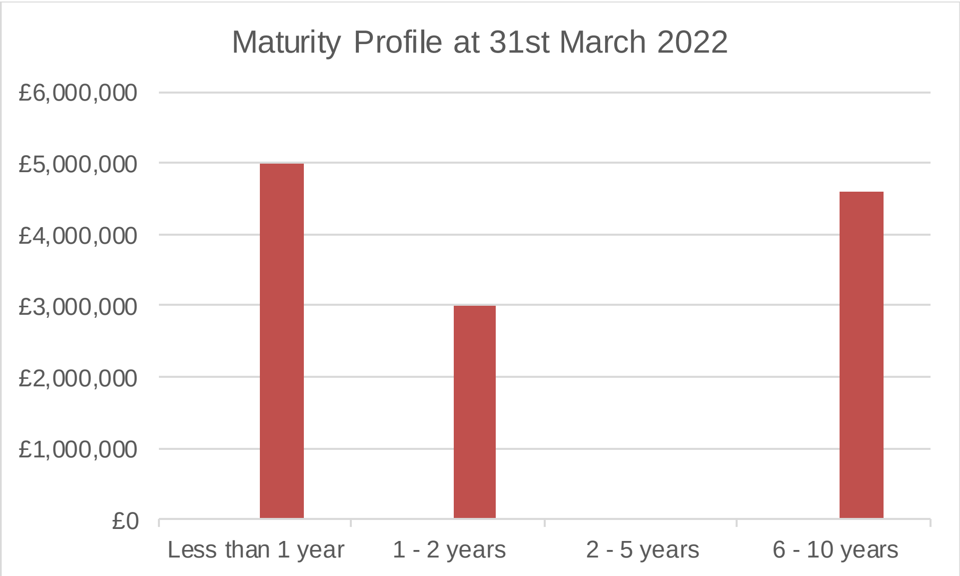
4.2 This was indeed the case for much of the year with the average interest rate achieved in the first three quarters being 0.14%, boosted only by the Council's notice accounts. Towards the end of the year, with growing inflationary pressures, the Bank of England raised the base rate three times: to 0.25% on 16th December 2021; 0.50% on 3rd February 2022; and 0.75% on 17th March 2022. The impact of this began to trickle through to the Council's investments and notice and instant access accounts resulting in an average investment income in quarter four of 0.33%, increasing the overall average for the year to 0.20%.

4.3 Cash balances remained high during the year whilst the Council was in receipt of Central Government funding to deliver various schemes to support residents and businesses during the Covid-19 pandemic and the current increasing inflation climate. The counterparty limits in the Treasury Management Strategy Statement for 2021/22 were set to be flexible to respond to this situation specifically; reporting any instance where the limits were exceeded in the quarterly treasury management update reports, as opposed to generally extending the limits which would have reduced the controls over counterparty risk. There were three such instances: the current account limit was exceed by a maximum 15% for 3 days in April; 3% for 2 days in August; and 11% for 4 days in October 2021.

5 Borrowing Outturn

5.1 External borrowing activity during 2021/22 and the maturity profile at year end are shown in the tables below:

Amount	Lender	Interest Rate	Term	Month
£15,000,000	***External borrowing 1st April 2021***			
Matured Loans				**Maturing**
£2,000,000	Bridgend County Borough Council	0.15%	6 months	May
£1,000,000	Police & Crime Commissioner for West Midlands	0.40%	1 year	August
£1,000,000	Mid Devon District Council	0.22%	1 year	October
£2,000,000	Lichfield District Council	0.25%	1 year	November
£1,000,000	Ryedale District Council	0.25%	1 year	December
£7,000,000	**Total**			
New Loans				**Starting**
£4,604,400	PWLB	2.07%	10 years	February
£4,604,400	**Total**			
£2,395,600	*Net decrease in external borrowing*			
£12,604,400	***External borrowing 31st March 2022***			
	Average borrowing during the year			
£630,740	PWLB	2.07%		
£11,150,685	Local Authority Loans	0.80%		
£11,781,425	**Total**	**0.87%**		



Maturity structure of borrowing	Fixed rate		Variable rate	
	Upper limit set 2021/22	As at 31st March 2022	Upper limit set 2021/22	As at 31st March 2022
under 12 months	100%	40%	100%	0%
12 months to 2 years	100%	24%	50%	0%
2 to 5 years	100%	0%	0%	0%
5 to 10 years	100%	37%	0%	0%
more than 10 years	100%	0%	0%	0%

5.2 External borrowing from other local authorities during the year supported the loan to Ascent Housing LLP and other general fund capital expenditure. Borrowing from the Public Works Loan Board (PWLB) was undertaken in February 2022 for a period of 10 years. This borrowing was in advance of need (pending the maturity of local authority loans in 2022) and was taken in order to align with the capital loan (service investment – housing) to Your Housing Limited, which is described in more detail in paragraph 6, to avoid the risk of interest rate fluctuation at a later date. The carrying cost of the difference between interest paid on such debt and interest received from temporarily investing the resulting surplus funds is partially being negated by increasing interest rates following the Bank of England base rate rises.

5.3 The cost of borrowing in the year was £189,780. The budget for the year was set at £224,580 with an anticipation of a greater borrowing requirement and associated costs, therefore an underspend of £34,600 is reported.

5.4 There has been no rescheduling of debt during the year.

6 Capital Loan (Service Investment – Housing)

6.1 The Council had provided a £14million priority loan (from a £20million facility) and a £5million debenture capital investment to Ascent Housing LLP, a joint venture between the Council and Your Housing Group Limited providing affordable housing throughout the Staffordshire Moorlands. Interest was chargeable in the year on the loan at an average 2.88% and on the debenture at 1.88%. On 26th January 2022, the Ascent Housing LLP portfolio of properties was sold, and the Council’s membership transferred, to Your Housing Limited. Upon the sale, a Capital receipt of £17,144,500 was received (£14million relating to the priority loan; and £3,144,500 to the impaired debenture (losses shared equally between the Council and Your Housing Group Limited)).

6.2 A new capital loan (service investment – housing) of £10million was made to Your Housing Limited on 4th February 2022, with a maturity term of 10 years. The purpose of the loan is to support the maintenance of and provision of affordable housing within the Staffordshire Moorlands District. Interest is chargeable at a fixed rate of 3.07% (including a 0.80% risk premium).

6.3 Interest payments receivable by the Council from Ascent Housing LLP for the year were £341,193 for the loan and £79,781 for the Debenture; and from Your Housing Limited £47,101. The combined average interest rate return for the year was 2.66%. The budget for the year was set at £522,880 anticipating a continuation of the existing loan value. The reduction to £10million compounded by falling interest rates resulted in an income shortfall of £54,805.

7 Investment Performance & Portfolio

7.1 The investment performance of the Treasury Management function is dependent upon a number of factors, including the size of available investment balances; the market interest rates available; the timing of capital spend; and the restrictions placed on the Council by its approved Lending List.

7.2 The Council achieved an overall average interest rate of 0.20% on its investment portfolio:

	Q1	Q2	Q3	Q4	2021-22
Long term investments > 364 days	n/a	n/a	n/a	n/a	n/a
Short term investments < 364 days	0.35%	0.37%	0.34%	0.51%	0.40%
Instant Access Cash	0.01%	0.01%	0.02%	0.22%	0.07%
Total	**0.14%**	**0.14%**	**0.14%**	**0.33%**	**0.20%**
Bank of England base rate at end of period	*0.10%*	*0.10%*	*0.25%*	*0.75%*	*0.75%*

7.3 The Council manages its investments in-house, investing only with institutions that meet the Council's approved minimum lending criteria. The lending list is constructed based on credit ratings provided by the three main credit agencies supplemented by additional market data, using the Link Creditworthiness analysis (see Annex A for lending limits applied in 2021/22).

7.4 Money was invested with nine institutions during the year. All investments were placed in line with the Council's approved lending limits. The table below summarises the institutions that the Council invested funds with during the financial year. It also indicates the average daily investment, interest earned and the associated average interest rates. Interest rates vary depending on the length and timing of investments. The investment funds include those held short-term in the Council's instant access accounts. The average daily investment during 2021/22 was £21.4million.

Financial Institution	ESG linked	Country of Domicile	Duration	Interest earned	Average daily investment	Rate of return
Money market funds	No	UK	Instant access	£3,956	£6,555,205	0.06%
Santander	No	UK	95 & 180 day notice	£24,110	£4,506,954	0.53%
NatWest Bank	No	UK	Instant access	£449	£4,493,314	0.01%
Barclays	Yes	UK	65 and 95 day notice	£3,558	£1,501,370	0.24%
Bank of Scotland	No	UK	Instant access	£3,431	£1,185,170	0.29%
Standard Chartered	Yes	UK	90-184 days	£4,473	£1,156,164	0.39%
Lloyds Bank	No	UK	95 day notice	£500	£1,000,999	0.05%
Handelsbanken	No	UK	Instant access	£1,808	£924,728	0.20%
Nationwide Building Society	No	UK	92 to 153 days	£469	£60,274	0.78%
NatWest Bank Certificate of Deposit	No	UK	184 days	£71	£5,479	1.30%
Total				**£42,825**	**£21,389,659**	**0.20%**
ESG proportion	12.42%			£8,031	£2,657,534	0.30%
Barclays	*Linked to Barclays' Green Bond Purchasing Programme which covers 'a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction'.*					
Standard Chartered	*Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.*					

7.5 The average maturity of investment during the year was necessarily short to allow for continuing uncertainties over cashflow during the Covid-19 situation. The budget was set with an expectation of very low interest rate returns during the year. The investment income for the year was £43,039 (including £214 from local loans) against the budget of £20,710. The £22,329 surplus has been achieved as a result of the base rate rises and consequent increased interest earning investment opportunities in quarter 4.

7.6 Investments held at the 31st March 2022 are shown in the table below. All investments are for a period of one year or less:

Financial Institution	**ESG linked**	**Country of Domicile**	**Principal invested at 31st March 2022**	**Fixed/ variable**
Money market funds	No	UK	£8,500,000	Variable
Santander	No	UK	£4,500,000	Variable
Standard Chartered	Yes	UK	£4,500,000	Fixed
Nationwide Building Society	No	UK	£3,000,000	Fixed
Handelsbanken	No	UK	£2,500,000	Variable
NatWest	No	UK	£786,096	Variable
NatWest Bank Certificate of Deposit	No	UK	£1,000,000	Fixed
Barclays	Yes	UK	£1,500,000	Variable
Lloyds Bank	No	UK	£1,000,000	Variable
Total			**£27,286,096**	
ESG proportion	21.99%		£6,000,000	

	2021/22	**31st March 2022**
	Treasury Management Strategy	Actual
Principal sums invested >365 days	£3,500,000	£0

ANNEX A

Current Lending Limits

	UK			International (AAA)	
	Individual		Group	Individual	
Category (per Link's creditworthiness model)	**Principal Limit**	**Maximum Length**	**Principal Limit**	**Principal Limit**	**Maximum Length**
NatWest (the Council's main bank account)	£9.50m	1 year	n/a	n/a	n/a
Money market funds	£6.25m	1 year	£9.50m	n/a	n/a
Yellow	£6.25m	5 years	n/a	n/a	n/a
Purple	£6.25m	2 years	£9.50m	£5.00m	2 years
Orange	£5.00m	1 year	£7.50m	£4.50m	1 year
Red	£4.50m	6 months	£6.75m	£3.75m	6 months
Green	£3.75m	100 days	£5.75m	£3.00m	100 days
No colour	-	Not to be used		-	Not to be used
Local Authority	£2.00m	1 year	£6.25m	n/a	n/a