

# COUNCIL

## 14 SEPTEMBER 2022

### ANNUAL TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT 2021-22

#### 1. Introduction

The Treasury Management Policy and Strategy for 2021-22 was approved by Council on 3<sup>rd</sup> March 2021. Section B 1.1(2) stated that a year end annual report would be produced.

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) and outlines the Treasury Management activities in 2021-22 financial year.

#### 2. Investments

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Funds, Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily with the approved counterparties either via brokers on the Money Markets or direct. The security of the investments is the main priority, appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

For 2021-22 investments to individual counterparties were limited to:

|   | Maximum to Lend £m |
|---|--------------------|
| <b>Upper Limit</b><br>Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term or AA-, Aa3 or AA- long term | 10                 |
| <b>Middle Limit</b><br>Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term                             | 7                  |
| <b>UK Banks Part Nationalised</b><br>Included as investment counterparties, as long as they continue to have appropriate UK Government support          | 7                  |
| Any one Local Authority   | 5                  |
| Any one AAA Rated Money Market Fund   | 5                  |
| Debt Management Office*   | 100                |

\* The DMADF (DMO) limit was increased in April 2021 to £100m from £70m by the Director of Corporate Services (under Emergency powers) following approval by the Cabinet Member for Resources and the Chief Executive.

The total investments at 1st April 2021 and 31st March 2022 are shown in the following table:

| Investments                              | 01.04.21        |              |               |            | 31.03.22        |              |               |            |
|--|-----------------|--------------|---------------|------------|-----------------|--------------|---------------|------------|
|  | Call and notice | Fixed Term   | Total         |            | Call and notice | Fixed Term   | Total         |            |
|  | £m              | £m           | £m            | %          | £m              | £m           | £m            | %          |
| Banks and 100% Wholly Owned Subsidiaries | 34.50           | 7.53         | 42.03         | 36         | 39.50           | 0.00         | 39.50         | 25         |
| Building Societies                       | 0.00            | 0.00         | 0.00          | 0          | 0.00            | 7.00         | 7.00          | 4          |
| Money Market Funds                       | 25.00           | 0.00         | 25.00         | 22         | 25.00           | 0.00         | 25.00         | 15         |
| DMADF (DMO)                              | 0.00            | 36.50        | 36.50         | 31         | 0.00            | 57.00        | 57.00         | 36         |
| Local Authorities                        | 0.00            | 13.00        | 13.00         | 11         | 0.00            | 32.00        | 32.00         | 20         |
| <b>TOTAL</b>                             | <b>59.50</b>    | <b>57.03</b> | <b>116.53</b> | <b>100</b> | <b>64.50</b>    | <b>96.00</b> | <b>160.50</b> | <b>100</b> |

The total investment figure of £160.50m at 31<sup>st</sup> March 2022 includes £34.83m Swansea Bay City Deal.

An analysis of the daily cash schedules indicates that the minimum balance lent over the twelve month period was £116.53m and the maximum balance lent was £193.02m. The average balance for the year was £153.10m.

The total investments made by the Council and repaid to the Council (the turnover) amounted to £1,475.03m. This averaged approximately £28.29m per week or £4.04m per day. A summary of the turnover is shown below:

|  | £m            |
|--|---------------|
| Total Investments 1st April 2021         | 116.53        |
| Investments made during the year         | 759.50        |
| Sub Total                                | 876.03        |
| Investments Repaid during the year       | (715.53)      |
| <b>Total Investments 31st March 2022</b> | <b>160.50</b> |

The main aim of the Treasury Management Strategy is to manage the cash flows of the Council and the risks associated with this activity. Lending on the money market secures an optimum rate of return, allows for diversification of investments and consequently reduction of risk, which is of paramount importance in today's financial markets.

The benchmark return for the money market was the "7 day LIBID rate" up to 31<sup>st</sup> December 2021 and the SONIA rate from 1<sup>st</sup> January 2022 to 31<sup>st</sup> March 2022. For 2021-22 the Council has compared its performance against these rates. The average rate was 0.04% whereas the actual rate the Council earned was 0.09%, an out performance of 0.05%.

This outperformance can be quantified as £71k additional interest earned compared to the average rate.

The gross interest earned on investments for 2021-22 amounted to £0.142m, which was more than the estimated figure of £0.100m. The Bank of England Official rate was increased from 0.25% to 0.50% on 3<sup>rd</sup> February 2022, and a further increase was made during the year on the 17<sup>th</sup> March 2022 to 0.75%.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

### **3. Update on the investments with Kaupthing Singer & Friedlander (KSF)**

The latest position with the Council's investments with KSF was reported in the Treasury Management and Prudential Indicator Reports to Executive Board during the year.

The Administrators confirmed that the dividend received on 19th August 2021 was the final dividend, hence the sum of £3.48m principal and £213k interest was the final total received. This equates to 87.03% of the claim submitted.

### **4. Security, Liquidity and Yield (SLY)**

Within the Treasury Management Strategy Statement for 2021-22, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is still considered appropriate to keep investments short term to cover cash flow requirements.

Attached at Appendix 1 is a list of the individual investments held as at the 31<sup>st</sup> March 2022 together with their credit ratings, historic risk of default and the risk weighting attached to each investment.

### **5. Borrowing**

As Members are aware the Authority has a capital investment programme. For 2021-22 actual capital expenditure was £82.91m. This was financed from:

|                                 | £m           |
|---------------------------------|--------------|
| Borrowing                       | 6.36         |
| Grants and Contributions        | 63.13        |
| Usable Capital Receipts Applied | 1.39         |
| Revenue and Reserves            | 12.03        |
| <b>Total</b>                    | <b>82.91</b> |

Under the Treasury Management Strategy it was resolved:

- To borrow to meet the funding requirements of the Authority, after allowing for capital grants, capital receipts and capital contributions, and to stay within the Prudential Indicators to ensure affordability, prudence and sustainability.
- To borrow when interest rates are at their most advantageous, after considering cash flow requirements.

The following loans were borrowed during 2021-22 to fund the capital programme:

| Loan Reference | Amount (£m) | Interest Rate | Start Date        | Period | Maturity Date |
|----------------|-------------|---------------|-------------------|--------|---------------|
| Salix          | 0.36        | 0.00%         | 16th April 2021   | 8yrs   | 01/04/2029    |
| TCL            | 2.00        | 0.00%         | 7th February 2022 | 35yrs  | 31/03/2037    |
| <b>Total</b>   | <b>2.36</b> |               |                   |        |               |

(TCL – Town Centre Loans)

The total loans outstanding at 1<sup>st</sup> April 2021 and 31<sup>st</sup> March 2022 were:

| Loans                             | Balance at 01.04.21<br>£m | Balance at 31.03.22<br>£m | Net Increase/<br>(Net Decrease)<br>£m |
|-----------------------------------|---------------------------|---------------------------|---------------------------------------|
| Public Works Loan Board (PWLB)    | 403.38                    | 387.61                    | (15.77)                               |
| Market Loan                       | 3.00                      | 3.00                      | 0.00                                  |
| Salix, Invest-to-Save, HILS & TCL | 7.46                      | 10.13                     | 2.67                                  |
| <b>Total</b>                      | <b>413.84</b>             | <b>400.74</b>             | <b>(13.10)</b>                        |

The total external interest paid in 2021-22 amounted to £16.68m, which compares favourably with the budget of £19.30m. The savings have arisen due to under borrowing on the capital programme and borrowing at lower than anticipated interest rates.

## 6. Treasury Management Prudential Indicators

Under the requirements of the Prudential Code of Practice for Capital Finance in Local Authorities, the Council are required to set a number of treasury management prudential indicators for the year 2021-22. The indicators set and the performance against those indicators is shown below:

**6.1** The estimated and actual interest exposure limits as at 31<sup>st</sup> March 2022 were:

|                                   | Estimate 31.03.22<br>£m |                        |               | Actual 31.03.22<br>£m |                        |               |
|-----------------------------------|-------------------------|------------------------|---------------|-----------------------|------------------------|---------------|
|                                   | Fixed Interest Rate     | Variable Interest Rate | Total         | Fixed Interest Rate   | Variable Interest Rate | Total         |
| Borrowed                          | 460.00                  | 3.00                   | 463.00        | 397.74                | 3.00                   | 400.74        |
| Invested                          | (20.00)                 | (30.00)                | (50.00)       | (96.00)               | (64.50)                | (160.50)      |
| <b>Net</b>                        | <b>440.00</b>           | <b>(27.00)</b>         | <b>413.00</b> | <b>301.74</b>         | <b>(61.50)</b>         | <b>240.24</b> |
| Proportion of Total Net Borrowing | 107%                    | (7%)                   | 100%          | 125%                  | (25%)                  | 100%          |
| <b>Limit</b>                      | <b>125%</b>             | <b>5%</b>              |               | <b>125%</b>           | <b>5%</b>              |               |

**6.2** Maximum principal sums invested > 365 days

|  | 2021-2022<br>Limit<br>£m | 2021-2022<br>Actual<br>£m |
|--|--------------------------|---------------------------|
| Maximum principal sums invested > 365 days | 10                       | NIL                       |

**6.3** Interest rate exposure limits

|   | 2021-22<br>Limit<br>£m | 2021-22<br>Actual<br>£m |
|---|------------------------|-------------------------|
| Limits on fixed interest rates based on net debt    | 516.00                 | 301.74                  |
| Limits on variable interest rates based on net debt | 52.00                  | (61.50)                 |

**6.4** The upper and lower limits set for the maturity structure of borrowing along with the actual maturity structure as at 31<sup>st</sup> March 2022.

|                      | <b>Estimated<br/>Upper<br/>Limit<br/>2021-2022<br/>%</b> | <b>Estimated<br/>Lower<br/>Limit<br/>2021-2022<br/>%</b> | <b>Actual<br/>31.03.22<br/>%</b> |
|----------------------|--|--|----------------------------------|
| Under 12 months      | 15   | 0  | 2.79                             |
| 12 months to 2 years | 15   | 0  | 1.82                             |
| 2 years to 5 years   | 50   | 0  | 6.95                             |
| 5 years to 10 years  | 50   | 0  | 9.14                             |
| 10 years to 20 years | 50   | 0  | 21.37                            |
| 20 years to 30 years | 50   | 0  | 20.84                            |
| 30 years to 40 years | 50   | 0  | 23.13                            |
| 40 years and above   | 50   | 0  | 13.96                            |
| <b>Total</b>         |  |  | <b>100.00</b>                    |

Details of the above maturity structure are shown below:

| <b>Loan Maturities</b>               | <b>PWLB<br/>Debt<br/>£m</b> | <b>Average<br/>Interest<br/>Rate<br/>%</b> | <b>Market<br/>Loans/<br/>Invest to<br/>Save/Salix/<br/>HILS/TCL<br/>£m</b> | <b>Average<br/>Interest<br/>Rate<br/>%</b> | <b>Total Debt<br/>Outstanding<br/>£m</b> |
|--------------------------------------|-----------------------------|--|--|--|--|
| Before 1st April 2023                | 11.00                       | 5.97                                       | 0.17   | 0  | 11.17                                    |
| 1st April 2023<br>to 31st March 2024 | 7.00                        | 5.25                                       | 0.29   | 0  | 7.29                                     |
| 1st April 2024<br>to 31st March 2027 | 26.98                       | 4.65                                       | 0.86   | 0  | 27.84                                    |
| 1st April 2027<br>to 31st March 2032 | 32.82                       | 4.12                                       | 3.80   | 0  | 36.62                                    |
| 1st April 2032<br>to 31st March 2042 | 80.60                       | 4.31                                       | 5.02   | 0  | 85.62                                    |
| 1st April 2042<br>to 31st March 2052 | 83.50                       | 4.10                                       | 0  | 0  | 83.50                                    |
| 1st April 2052<br>to 31st March 2062 | 89.70                       | 4.96                                       | 3.00   | 4.72                                       | 92.70                                    |
| After March 2062                     | 56.00                       | 2.34                                       | 0  | 0  | 56.00                                    |
| <b>Total as at 31.03.22</b>          | <b>387.60</b>               |  | <b>13.14</b>   |  | <b>400.74</b>                            |

## 7. Prudential Indicators

### 7.1 Affordability

#### 7.1.1 Actual and estimated ratio of financing costs to net revenue stream.

| Ratio of Financing Costs to Net Revenue Stream |                            |                          |
|--|----------------------------|--------------------------|
|  | 2021-2022<br>Estimate<br>% | 2021-2022<br>Actual<br>% |
| Non-HRA  | 4.50                       | 4.66                     |
| HRA  | 32.71                      | 31.79                    |

The indicator shows the proportion of income taken up by capital financing costs.

### 7.2 Prudence

#### 7.2.1 The Capital Financing Requirement (CFR).

|              | 31.03.2022<br>Estimate<br>£m | 31.03.2022<br>Actual<br>£m |
|--------------|------------------------------|----------------------------|
| Non-HRA      | 284                          | 264                        |
| HRA          | 182                          | 159                        |
| HRAS         | 70                           | 70                         |
| <b>Total</b> | <b>536</b>                   | <b>493</b>                 |

The Capital Financing Requirement reflects the underlying need to borrow for capital purposes.

#### 7.2.2 Gross Borrowing against the Capital Finance Requirement indicator.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. Gross borrowing must not exceed the CFR for 2021-22 plus the expected changes to the CFR over 2022-23 and 2023-24 but can in the short term due to cash flows. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

| £m  | 2021-2022<br>Estimate | 2021-2022<br>Actual |
|---|-----------------------|---------------------|
| Debt at 1 <sup>st</sup> April 2021              | 433                   | 414                 |
| Expected Change in Debt                         | 46                    | (13)                |
| <b>Gross debt at 31<sup>st</sup> March 2022</b> | <b>479</b>            | <b>401</b>          |
| <b>CFR</b>                                      | <b>536</b>            | <b>493</b>          |
| <b>Under / (Over) borrowing</b>                 | <b>57</b>             | <b>92</b>           |

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2021-22.

### 7.2.3 The Authorised Limit and Operational Boundary.

The Authorised Limit is the “Affordable Borrowing Limit” required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2021-22 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

|   | 2021-2022<br>£m |
|---|-----------------|
| Authorised Limit                                      | 589.00          |
| Gross borrowing                                       | 400.74          |
| Operational Boundary                                  | 517.00          |
| Average gross borrowing position                      | 410.58          |
| Financing costs as a proportion of net revenue stream | 7.43%           |

### 8. Leasing

No finance leases were negotiated during the year.

### 9. Rescheduling

No rescheduling was undertaken during the year.

### 10. Conclusion

This report demonstrates compliance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

### 11. Recommendations

It is recommended that this report be received by Cabinet.