

REPORT OF THE OVERVIEW & SCRUTINY COMMITTEE

1 TREASURY MANAGEMENT ANNUAL REVIEW 2021/22

1.1 This item of business was referred by the Overview & Scrutiny Committee on 6 July 2022 to Council recommending the contents of the report on the treasury management annual review 2021/22. An extract of the key elements of the report to the Review Committee is attached in Appendix 1.

1.2 It is proposed that Council **RESOLVES**

To note the contents of the Treasury Management Annual Report 2021/22 report.

If you would like this report in large print, Braille or another language please contact 01702 318111.

TREASURY MANAGEMENT ANNUAL REVIEW 2021/22

1 SUMMARY

- 1.1 This report sets out a summary of the Council's Treasury Management activity for the 2021/22 financial year.
- 1.2 The council is required by the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities to produce an annual review of its treasury management activities.
- 1.3 Overview & Scrutiny Committee is asked to consider the contents of this report and recommend it for approval by Full Council on 26 July 2022.
- 1.4 The council's income from treasury management activities in 2021/22 was £31,055 against a nil budget.

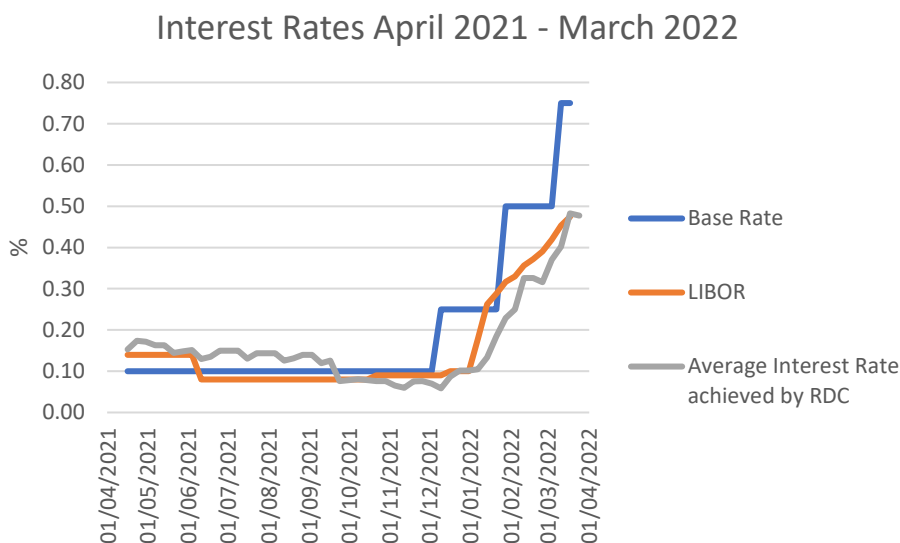
2 INTRODUCTION AND BACKGROUND

- 2.1 Treasury management is defined as "The management of the local authority's investments, 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."
- 2.2 All decisions on borrowing, investment or financing are delegated to the Section 151 Officer as the Chief Finance Officer and this delegation is documented in the Financial Regulations.
- 2.3 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. Member training on treasury management issues was undertaken during the year on 14/09/2021 in order to support members' scrutiny role.
- 2.4 The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and report on the actual prudential and treasury indicators each year. 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).
- 2.5 The minimum reporting requirements are that Council should receive the following reports:
 - An Annual Treasury Strategy in advance of the year (Council 22/02/2022)
 - A Mid-Year Treasury Update Report (Council 7/12/2021)

- An Annual Review following the end of the year describing how actual activity compares to the Strategy (this report)

3 INVESTMENT PERFORMANCE FOR 2021/22

- 3.1 Investment returns remained close to zero for much of 2021/22. The expectation for interest rates within the treasury management strategy for 2021/22 was that Bank Rate would remain at 0.1% but noting there was an up-side risk if economic growth strengthened more quickly than anticipated post COVID-19.
- 3.2 Nationally, the Bank of England and the Government introduced various monetary and fiscal measures during 2021/22, supplying the banking system and the economy with significant amounts of cheap credit so that banks could help cash-starved businesses to survive the various COVID-19 lockdowns and associated 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 that central banks, including the Bank of England, would need to lift interest rates to combat the second-round effects of rising inflation (CPI was 6.2% in February) leading to three rises in the base rate, up to 0.75% by the end of the financial year.
- 3.3 The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Rate); this shows the correlation in the average interest rate the Council achieved compared to the Bank of England Base rate. There was a spike in December due to the Bank Rate increasing from 0.10% to 0.25%, and average interest rates achieved by the Council continued to increase over the last quarter following another increase in Bank Rate in February to 0.50% and a further increase in March to 0.75%.



4 INVESTMENT POSITION

4.1 The Council's investment position at the beginning and the end of the year, as shown on the Council's Balance Sheet, was as follows:

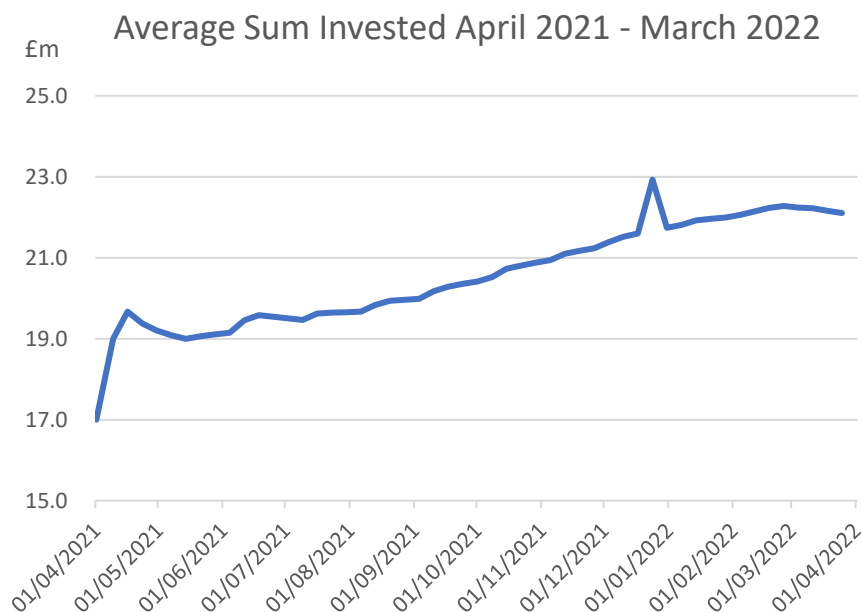
Balance as at 31 March 2021 £17.0 m

Balance as at 31 March 2022 £22.0 m

4.2 The breakdown of the investments held at 31 March 2022 are shown in the table below:

Investment held at 31 st March 2022	Amount	Term	Interest
Handelsbanken	£6,000,000	Instant	0.54%
Money Market – Deutsche	£5,000,000	Instant	0.28%
Santander	£6,000,000	95 Days	0.35%
Money Market – Aberdeen	£2,000,000	Instant	0.35%
Money Market – HSBC	£3,000,000	Instant	0.53%

4.3 The graph below shows the Council's average balances over the year. The balance increased sharply at the beginning of the year when the government paid the Council c£3m to distribute in grants to businesses. Further COVID-19 grants, Council Tax rebate monies and Business Rate reliefs monies were received throughout the year, increasing the balances the Council held. It is important to note that most of these COVID-19 monies have to be returned to government if not fully spent/distributed and therefore these artificially inflate the Council's underlying level of available cash balances.



4.4 Total external interest earned in 2021/22 was £31,005 compared to £68,017 in 2020/21. The decrease was due to the decline in average interest rates paid on investments compared to 2020/21.

4.5 In line with the Treasury Management Strategy agreed by Council the Authority takes advice from its Treasury Management Advisors Link Asset Services, which uses a combination of credit ratings and market intelligence, in order to decide which banks and financial institutions to deposit funds with.

5 COMPLIANCE WITH TREASURY LIMITS

5.1 During the financial year, the Council exceeded the £5m limit on its current account for the period between 15th – 17th February due to administrative error. It should be noted that the £5m is an internal limit set within the Council’s Treasury Management Strategy, rather than an external limit set by the bank and therefore no additional costs/fees were incurred as a result.

5.2 The outturn position against the 2021/22 Prudential Indicators estimated in the Council’s Treasury Management Strategy in February 2021, are shown below

PRUDENTIAL INDICATOR	2020/21	2021/22	2021/22
	Actual	Original Budget	Actual (subject to audit)
Capital Expenditure £000s	1,169	3,604	1,173

Ratio of Financing Costs to Net Revenue Stream	(0.71%)	0.00%	0.00%
Capital Financing Requirement as at 31 March £000s	777	777	777
Incremental Impact of Capital Investment Decisions - (Reduction) in Council Tax (band D) per annum £000	0.00	0.06	0.00

6 ENVIRONMENTAL IMPLICATIONS

6.1 None.

7 RESOURCE IMPLICATIONS

7.1 The Council has not undertaken any external borrowing during the year and therefore no interest costs were incurred. Investment income remains a relatively small overall source of income to the Council; however, the Council continues to seek the best returns available within its agreed risk appetite.

7.2 The Council's current Treasury Management Advisors are Link Asset Services (LAS). The contract cost for 2021/22 was £8,250 which represents good value for money via the provision of specialist advice and training to the Council officers and members which enables sound investment decisions to be made.

8 RISK IMPLICATIONS

8.1 The Council's agreed Treasury Management Strategy sets out in detail the risks involved in making investments and in particular the risk that a counter party may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must adopt a prudent approach.

9 LEGAL IMPLICATIONS

9.1 None