NORTH WEST LEICESTERSHIRE DISTRICT COUNCIL

CABINET – TUESDAY, 19 JULY 2022

Title of Report	**TREASURY MANAGEMENT STEWARDSHIP REPORT 2021/22**	
Presented by	Councillor Nick Rushton Corporate Portfolio Holder	
Background Papers	Capital Strategy 2022/23 – Council 1 February 2022 Treasury Management Strategy Statement 2022/23 and Prudential Indicators 2021/22 to 2023/24 – Council 1 February 2022 Investment Strategy – Service and Commercial 2022/23 – Council 1 February 2022 Budget and Council Tax 2022/2023 – Council 1 February 2022 Treasury Management Activity Report April 2021 to December 2021 – Audit and Governance 19 January 2022	**Public Report:** Yes **Key Decision:** No
Financial Implications	A total of £47,000 in investment interest was earned on balances. This is mainly split between the General Fund £26,000, Housing Revenue Account £15,000 and S106 Fund £6,000. Annual principal repayment of £14.2 million was paid on PWLB loans for the Housing Revenue Account. In addition, interest on loans of £2.7m was paid on external debt, of which £2.2m was for the Housing Revenue Account and £400k for the General Fund. The above has an impact on the financial resources available to the Council. **Signed off by the Section 151 Officer**: Yes	
Legal Implications	**The Council is required to report Treasury Management activity to Cabinet** **Signed off by the Monitoring Officer**: Yes	
Staffing and Corporate Implications	**Signed off by the Head of Paid Service:** Yes	
Purpose of Report	To inform Cabinet of the Council's Treasury Management activity undertaken for the financial year 2021/22.	

Reason for Decision	Informing Cabinet of the Council's Treasury Management activity is a statutory requirement.
Recommendations	**THAT CABINET APPROVE THIS REPORT.**

1.0 BACKGROUND

1.1 Treasury Management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("the code"), which requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement annually on the likely financing and Investment activity.

1.2 This report fulfils the council's legal obligation under the Local Government Act 2003, to have regard to both the CIPFA Code and the Statutory Guidance on Local Government Investments.

1.3 In 2021/22, Council approved its Capital Strategy (included in the Budget and Council Tax report) and Treasury Management Strategy Statement, including the Borrowing Strategy, Debt Rescheduling Strategy, Annual Investment Policy and Strategy, Interest Apportionment Policy, Prudential Indicators and Annual Minimum Revenue Position Statement in its meeting on 23 February 2022.

1.4 Investing or borrowing activities expose the council to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risks are therefore central to the council's treasury management strategy.

2.0 THE U.K. ECONOMY AND OTHER FACTORS

2.0 An economic update and interest rate forecast, as follows, has been provided by our Treasury advisors Arlingclose on 4 April 2022.

Economic Commentary

Economic background: The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns, inflation then was believed to be temporary. Thereafter price rises slowly became more widespread, as a combination of rising global costs and strong demand was exacerbated by supply shortages and transport dislocations. The surge in wholesale gas and electricity prices led to elevated inflation expectations. CPI for February 2022 registered 6.2% year on year, up from 5.5% in the previous month and the highest reading in the National Statistic series. Core inflation, which excludes the more volatile components, rose to 5.2% y/y from 4.4%.

The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2%

in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.

In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022, even higher than forecast only a month before in the February Monetary Policy Report. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

GDP growth in the euro zone increased by 0.3% in calendar Q4 2021 following a gain of 2.3% in the third quarter and 2.2% in the second. Headline inflation remains high, with CPI registering a record 7.5% year-on-year in March, the ninth successive month of rising inflation. Core CPI inflation was 3.0% y/y in March, was well above the European Central Bank's target of 'below, but close to 2%', putting further pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at a downwardly revised annualised rate of 6.9% in Q4 2021, a sharp in increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated it plan to reduce its asset purchase programme which could start by May 2022.

Financial markets: The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10-year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%.

The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

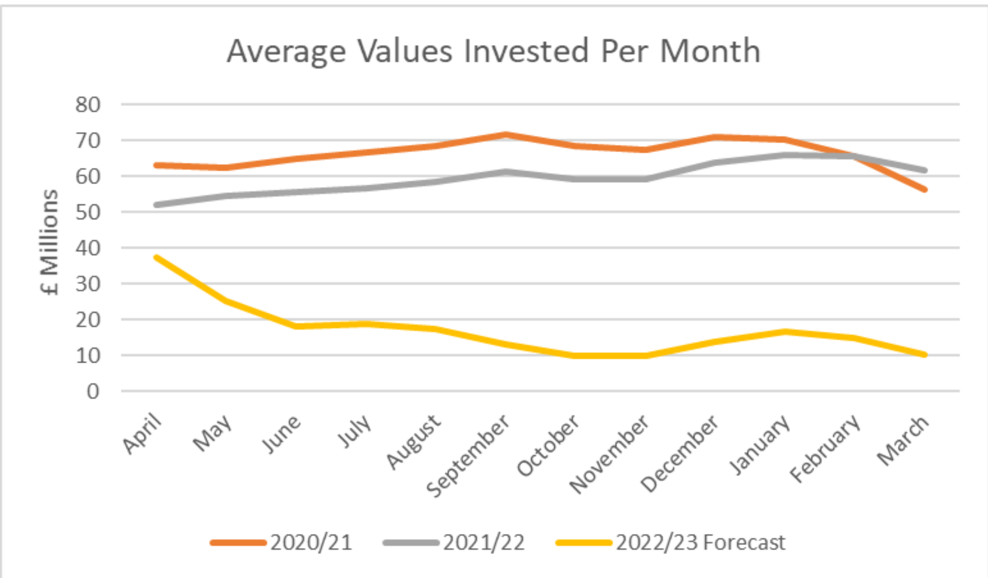
3.0 THE COUNCIL'S TREASURY POSITION.

3.1 The Council's current strategy is to use internal borrowing to reduce risk and keep interest costs low. The treasury management position and the change over the reporting period is shown in the table below.

	01.04.21 Balance £m	Movement £m	31.03.22 Balance £m	31.03.22 Rate %
Long-term borrowing	79.05	-14.19	64.86	3.37%
Short-term borrowing	0.00	0.00	0.00	0
Total borrowing	**79.05**	**-14.19**	**64.86**	**3.37%**
Long-term investments	0.00	0.00	0	0
Short-term investments	33.00	-2.00	31.00	0.67%
Cash and cash equivalents	14.50	3.50	18.00	0.38%
Total investments	**47.50**	**1.50**	**49.00**	**0.55%**
Net Borrowing - Investments	31.55		15.86	

3.2 The average value of treasury balances per month are shown in the graph below. The forecasted balances for 2022/23 based on expected cash flows are also shown in the graph. The 2022/23 levels are significantly lower than previous years largely due to:

- The repayment of £14m of HRA PWLB loans on the 28 March 2022;
- A £1m bond repayment is due to Cornwall County Council in September 2022;
- Covid 19 and energy rebate grant payments; and
- The delivery of capital programmes.



4.0 BORROWING ACTIVITY.

4.1 The Council's Borrowing Strategy 2022/23 incorporates a prudent and pragmatic approach to borrowing to minimise borrowing costs without compromising the longer-term stability of the portfolio, consistent with the Council's Prudential Indicators.

4.2 In 2021/22 two HRA PWLB loans matured at a value of £13m on the 28 March 2022. Additionally, two HRA PWLB annuity loans that require a part of the principle to be repaid each year were repaid at a value of £1.2m. £2.7m has been paid in interest on existing loans split over both the GF and the HRA.

4.3 The Treasury Management Strategy Statement (TMSS) identified that borrowing would potentially be required during 2022/23 to maintain MIFID investment levels of £10m. Maintaining £10m in investment balances allows the Council to keep its professional investment status giving greater access to investment opportunities and higher level advice from our treasury advisors Arlingclose. A decision has been made by a previous Head of Finance to keep balances at a minimum £10m for this reason. If borrowing is required during 2022/23 short term investments will be used to maintain balances and keep borrowing costs down until the time at which it is identified that a longer period of borrowing is required.

4.4 The Council had approximately £16m of internal debt at 31 March 2022. This is the cumulative value of internal cash balances used to finance new capital expenditure instead of financing through unsupported borrowing. This is currently judged to be the most cost-effective means of funding the capital programme.

4.5 The estimated Minimum Revenue Provision (MRP) is intended to ensure that the capital financing debt is paid off over the longer term. The MRP charge made to General Fund revenue account for 2020/21 is £962k.

4.6 The Housing Revenue Account is not required to make MRP charges. However, the Council classes the principal repayments made in respect of the two PWLB annuity loans taken out as part of the housing self-financing in 2011/12, as MRP. In 2021/22, this repayment was £14.2m.

5.0 DEBT RESCHEDULING ACTIVITY.

5.1 The Council's Debt Rescheduling Strategy 2021/2022 established a flexible approach where the rationale for rescheduling could be one or more of the following:

- Savings in interest costs with minimal risk.
- Balancing the volatility profile (i.e. the ratio of fixed to variable rate debt) of the debt portfolio.
- Amending the profile of maturing debt to reduce any inherent refinancing risks.

5.2 No opportunities for debt rescheduling were identified which conformed to the above rationale. Accordingly, the council has undertaken no debt rescheduling activity during the year.

5.3 The council's portfolio of eleven loans - eight PWLB loans and three market loans continue to be monitored alongside Arlingclose for debt rescheduling opportunities.

6.0 TREASURY MANAGEMENT INVESTMENT ACTIVITY.

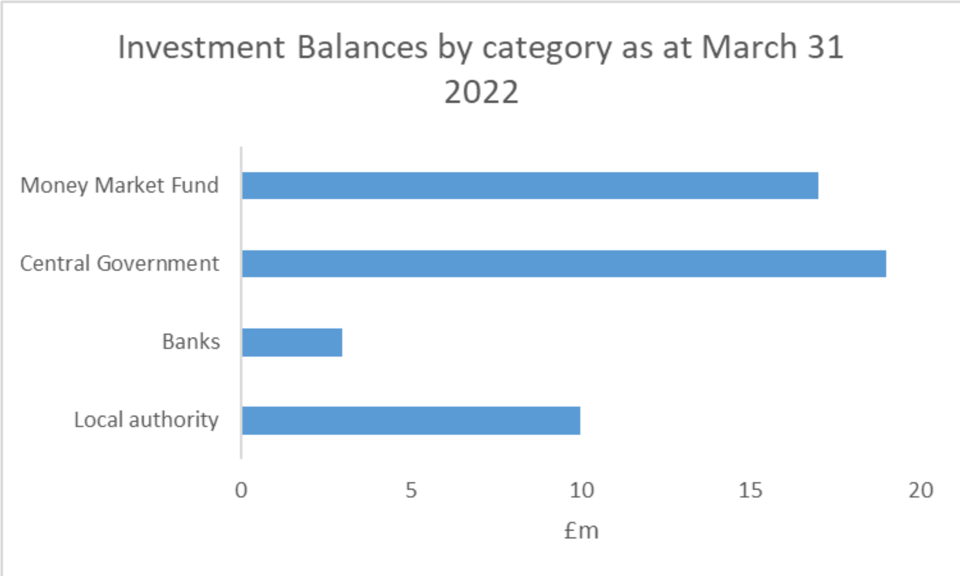
6.1 The main objective of the council's Investment Policy and Strategy 2021/22 is to invest its surplus funds prudently.

6.2 The council's investment priorities (S.L.Y.) are:

- **S**ecurity of the invested capital;
- Sufficient **L**iquidity to permit investments; and,

- Optimum **Y**ield which is commensurate with security and liquidity.

6.3 To lower the inherent investment risk, the Council has set limits for the amount invested in each type of investment. This can be found in the Treasury Management Strategy Statement for 2021/22 and has been updated for the next financial year in the Treasury Management Strategy Statement 2022/23. A range of lengths of investment from overnight to 304 days are currently utilised to ensure that the principles of security, liquidity and yield are followed. The table below shows the range of counterparties used by the council and the values invested at 31 March 2022.



6.4 The counterparties that the council currently use all meet the criteria set out in the Treasury Management Strategy Statement 2021/22 and are monitored by the Treasury Management Advisors. A detailed list of the counterparties used and amounts currently invested can be seen in Appendix A.

6.5 The Council's investments are made with reference to the Council's cash flow forecast, the outlook for the UK Bank Rate, money market rates, the economic outlook and advice from the Council's treasury adviser.

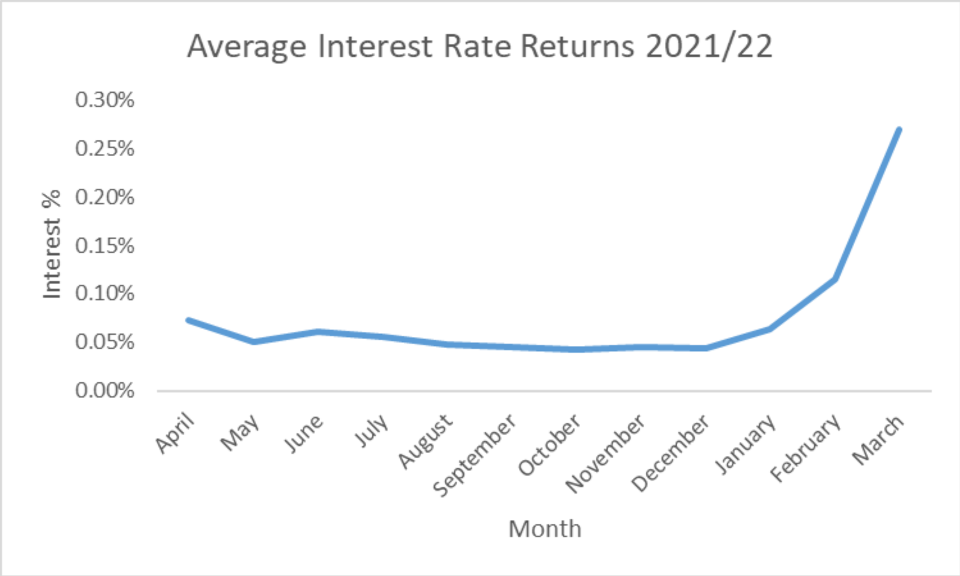
6.6 The Council exercises due diligence by assessing the organisation's financial stability. This is achieved by reviewing their credit status, most recent audited financial statements, auditor's report, budget report and current news which is financial in nature. All decisions are signed off the by the Section 151 Officer or the Deputy Section 151 Officer.

6.7 The average rate of return on the Council's investment balances for the year was 0.08%. For comparison purposes, the average benchmark return, SONIA (Sterling Overnight Index Average), for the year was 0.14%. The Councils returns are lower than comparison largely due to taking a very low risk approach in addition to not having funds invested in longer term, higher yield investments due to forecasts expecting the Council to enter into a borrowing position during the next financial year.

6.8 Paragraph 6.7 above explains that the current average rate of return of 0.08% has been achieved. This was an over performance from the budgeted interest of 0.03%, this was achieved in part due to the increased bank rate from 0.1% to 0.25% in December 2021 increasing investment income across the board. Bank rate was also increased in February 2022 to 0.5% and again to 0.75% in March 2022. The effects of the later increases can be seen in an increased investment return towards the end of the year shown in the below graph (6.10).

6.9 Investment return for the year was £47,000 which is £36,000 above the budgeted figure of £11,000. This was largely due to the unanticipated bank rate increases which led to increased investment income.

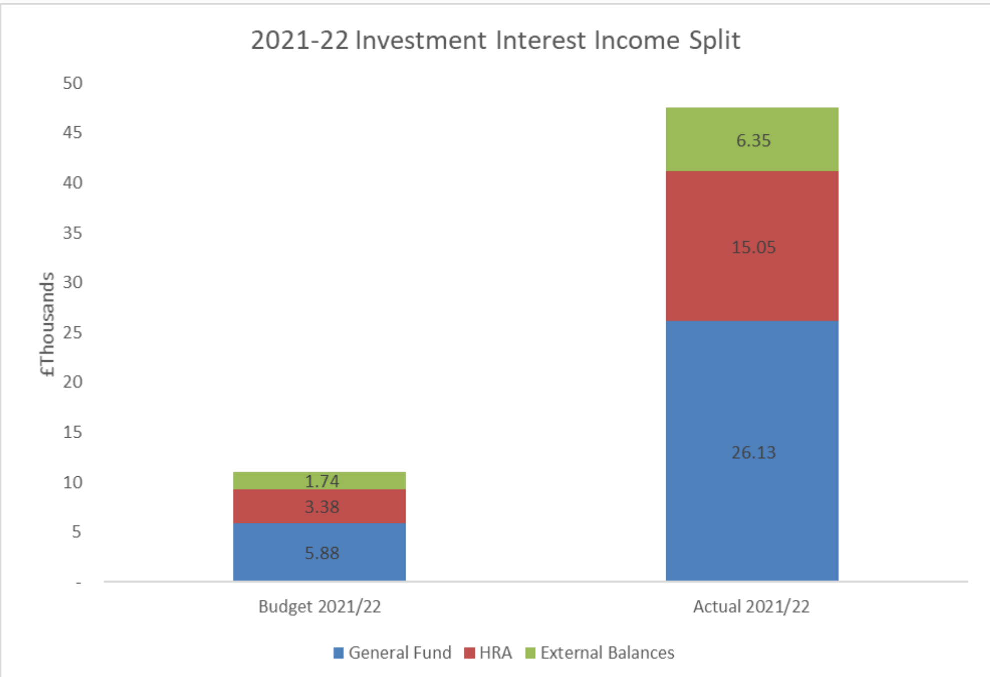
6.10 Average investment percentage returns for the year are shown in the graph below.



6.11 Of the income achieved, an element is applied to balances held on external income. This external income largely represents balances from S106 contributions that have not yet been spent. The amount to be applied is forecast at £6,000. This is not budgeted for as S106 contributions are only achieved when specific conditions are met and are anticipated to be spent.

6.12 The remaining balance of £41,000 is apportioned between the General Fund which will receive £26,000 and Housing Revenue Account which will receive £15,000.

6.13 The budgeted and actual levels of investment income to be apportioned amongst various funds are represented in the table below.



6.14 There were two breaches of investment limits in the year. These have been reported in year to the Audit and Governance Committee:

1. On 20 July 2021 an expected repayment of a loan from a Local Authority was not received resulting in an overdrawn balance of £4.7m. The Local Authority was contacted and funds repaid the following day along with the Authority being invoiced the charge for the overnight overdraft.
2. On 1 December 2021 the bank balance limit of £5m was exceeded by £79,000 this was due to an unexpected, large payment of rates being received into the Council's bank account late in the day.

7.0 NON-TREASURY INVESTMENT ACTIVITY

7.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in Statutory Investment Guidance, in which the definition of investments is further broadened to include all such assets held partially for financial return.

7.2 The following list represents the council's current investments in this area.

Property or Type	**Value at 31 Mar 2022**
Industrial Units	£6.5 million
Markets	£0.2 million
Land	£0.6 million
Whitwick Business Centre	£1.8 million

7.3 More detailed information can be found in the "Investment Strategy – Service and Commercial" which was presented to Council on 24 February 2022.

8.0 SUMMARY

8.1 For the financial year 2021/22, the council can confirm that it has complied with its Prudential Indicators, which were approved as part of the council's Treasury Management Strategy Statement

8.2 The Council can confirm that during the financial year, other than the breach of prescribed limit detailed in paragraph 6.14, it has complied with its Treasury Management Practices.

Policies and other considerations, as appropriate	
Council Priorities:	Value for Money
Policy Considerations:	Treasury Management Strategy Statement
Safeguarding:	Not Applicable
Equalities/Diversity:	Not Applicable
Customer Impact:	Not Applicable
Economic and Social Impact:	Not Applicable
Environment and Climate Change:	Not Applicable
Consultation/Community Engagement:	Audit Committee – 20 April 2022
Risks:	Borrowing and investment both carry an element of

	risk. This risk is mitigated through the adoption of the Treasury and Investment Strategies, compliance with the CIPFA code of Treasury Management and the retention of Treasury Management Advisors (Arlingclose) to proffer expert advice
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APPENDIX A

Counterparties and Investment Summary as at 31/03/2022

Investments as of 31/03/2022			
Counterparty	**Length**	**Amount**	**Interest Rate**
Goldman Sachs MMF	Overnight	1,000,000.00	0.50%
Blackrock MMF	Overnight	5,000,000.00	0.32%
Aberdeen Asset Management MMF	Overnight	5,000,000.00	0.43%
Federated Investors MMF	Overnight	2,000,000.00	0.41%
CCLA MMF	Overnight	4,000,000.00	0.30%
Santander Notice Account	95 days	2,000,000.00	0.55%
Lloyds Market Call Account	Overnight	1,000,000.00	0.01%
Birmingham City Council	304 days	5,000,000.00	0.18%
London Borough of Southwark	184 days	5,000,000.00	0.75%
DMADF	Various	19,000,000.00	0.39%
Total		**49,000,000.00**	**0.54%**