

ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY 2021/22

Presented by the Head of Finance

EXECUTIVE SUMMARY

This report provides a summary of treasury management investment and borrowing activity during 2021/22.

RECOMMENDATIONS

- Members Note: (1) treasury management activity during 2021/22; and
- Members Approve: (2) a target rate of return of 0.50% on investments in 2022/23, as detailed in paragraph 20 of this report.

BACKGROUND

- 1 Treasury management is the management of the Authority's cash flows, banking, investment, and borrowing decisions and the effective control of the risks associated with those activities, with the aim of optimising performance/returns whilst minimising the associated risks.
- 2 This report looks at the Authority's performance over the past year.

ANNUAL PERFORMANCE

- 3 Treasury management activity is governed by the Authority's Treasury Management Policy, which has the aim of managing risk, avoiding volatility and optimising returns, while maintaining a high degree of accessibility from the accounts to enable the cash requirements of the Authority to be met. Members of the Authority last reviewed and approved the Treasury Management Policy in April 2021 (Paper A/4297/21).
- 4 Capital investment in 2021/22 on the Ice Centre Redevelopment has been funded from short-term borrowing; loans repayable within 12 months. The remainder of the capital programme has been funded from the Authority's accumulated cash balances.

- 5 The Authority's cash position is reviewed on a daily basis and funds are invested or withdrawn as necessary in order to minimise the level of un-invested cash/bank overdraft.
- 6 During the course of this year around 260 transactions have been completed, mainly through the Special Interest Bearing Account (SIBA) of the Authority's current bankers (Nat West).
- 7 Short term investments have ranged in size from £10,000 to £5 million; and from periods of one day to six months. Interest earned in 2021/22 will total £6,412.

2021/22 INVESTMENT PORTFOLIO

8 Short to Medium Term Investments

The Authority uses an investment firm (Tullet Prebon) to invest funds, in line with the Treasury Management Policy in the short to medium term (up to 2 years) at the best achievable rate. The sums invested during 2021/22 were:

Investment	Amount	Interest Rate	Comments
Principality BS	£2.0m	0.03%	Matured April 2021
Principality BS	£2.0m	0.06%	April 2021
Principality BS	£3.0m	0.06%	May 2021
Principality BS	£3.0m	0.06%	June 2021
Principality BS	£3.0m	0.06%	July 2021
Principality BS	£4.0m	0.06%	August 2021
Principality BS	£4.0m	0.06%	September 2021
Principality BS	£1.5m	0.06%	October 2021
Principality BS	£1.5m	0.07%	November 2021
Principality BS	£3.0m	0.12%	January 2022
Principality BS	£5.0m	0.37%	Two months to March 2022
West Brom BS	£2.2m	0.18%	Matured May 2021
West Brom BS	£2.2m	0.10%	Six months to November 2021
West Brom BS	£2.0m	0.28%	February 2022

9 Day to Day Investments

These are managed on a day to day basis with the Authority's bankers, Nat West. Surplus funds are moved on a day to day basis between the current account and a SIBA, currently achieving a rate of 0.10%. Funds currently stand at approximately £3.2 million.

- 10 On six occasions during 2021/22 the Authority breached its limit of £5million held at any one institution. On these occasions this was due to cash flow timing, where cash was held overnight at Nat West either awaiting payment of invoices relating to the Ice Centre, or monies awaiting re-investment.

INVESTMENT PERFORMANCE 2021/22

- 11 At this time last year (Paper E/725/21) Members of this Committee agreed to a target return on investments of 0.10% for 2021/22. The main accounts achieved the following:

Account	Period of Investment	Average Interest Rate Achieved During 2020/21	Average Interest Rate Achieved During 2021/22
		%	%
Nat West SIBA	On-Call	0.07	0.01
Principality BS	1 month	0.22	0.14
Coventry BS	9 months	0.74	n/a
West Bromwich BS	6months	0.18	0.13
Weighted Average		0.24	0.08

- 12 The Authority's average rate of investment return for 2021/22 was 0.08% (0.10% target rate). The annual return was lower than target as the Authority initially utilised its cash reserves for capital expenditure, rather than incur additional borrowing costs, due to the low return being received.
- 13 The Bank of England base rate was held at 0.10% from 19 March 2020 during the Covid-19 pandemic, but has moved a number of times since 16 December 2021 in response to the increase in inflation. At 31 March 2022 it was 0.75%, but this was increased again to 1.00% on 5 May 2022.

In their May 2022 Monetary Policy Report the Bank of England stated that because of the impact of the global supply problems, and rising energy prices, they expect inflation to rise to around 10% this year. However, they expect that it will begin to fall next year, although they present a more cautious approach to when they are likely to return to their near target rate of 2%, and don't expect this to be for several years

BORROWING PERFORMANCE 2021/22

- 14 Members agreed the redevelopment of the Ice Centre would be funded from external borrowing. The approved strategy is for a mix of short-term, up to 12 months, and longer term borrowing.
- 15 During the initial build period from April to December 2021, the Authority utilised its own cash reserves to reduce the borrowing costs. We have since been able to access Local Authority lending, and during 2021/22 we borrowed £10million in short term cash. We have since borrowed a further £5million in May 2022, and will borrow up to another £15million in either short or long term loans during the remainder of the year.
- 16 The borrowing during 2021/22 is profiled below:

Lender	Amount	Rate	Loan Period
Cambridge & Peterborough CA	£5m	0.45%	22/12/21 – 21/12/22
Gloucestershire CC	£5m	0.70%	07/02/22 – 21/12/22

OUTLOOK FOR 2022/23

- 17 The increase in inflation, and the responding increases to interest rates presents a number of challenges and uncertainties over the coming year.

We are likely to see an increase in general costs, and whilst we do have certainties in some areas through fixed contract prices (Grounds Maintenance, Utilities to October 2022), we are expecting increases elsewhere.

Coupled with a slowdown in economic growth, and increase in costs of all commodities, this may result in less income flow to the Authority. This will continue to be reported to Members on a regular basis at the quarterly Revenue and Capital Outturn reporting cycle.

- 18 From a Treasury Management perspective, there are both pros and cons to this. On the positive side, we would expect to see increases in borrowing rates which in turn will result in an increase in investment income. However, with potentially less cash to invest, the monetary value will be reduced.
- 19 The increase in rates also impact the lending rates, and the Authority is in a position where it needs to borrow up to £30m to fund the Ice Centre redevelopment. Current long-term interest rates have remained at the same level as they were before the most recent interest rate increase, and are 2.87% as at 12 May 2022. Any increase will have an impact on the interest costs repayable, and result in less cash available to invest.
- 20 The financial budget for 2022/23 which was approved by Members in January (Paper A/4312/22) set an investment income budget of £10,000, with a return of 0.15%, which was based on the lower interest rates at that time. With the increase in interest rates over the past few months, it is likely that we will be able to achieve returns in excess of this.

Current rates range from around 0.50% to 1.40% for periods from 1 to 12 months. However, with the Authority's current cash holding, and requirement for short term cash to fund revenue and capital programmes, we are unlikely to be able to invest for periods longer than three months. Therefore, an updated target return rate of 0.50% is proposed.

- 21 Officers continue to monitor both short and long-term lending rates to be able to make the best Treasury decisions for the Authority.

ENVIRONMENTAL IMPLICATIONS

- 22 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 23 These are dealt with in the main body of the report.
- 24 The Annual Investment Strategy forms one part of the wider Capital Strategy, along with the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision Statement, as well as the Revenue and Capital Budgets. These were approved by Members at Authority in January 2022 (Paper A/4314/22).

HUMAN RESOURCE IMPLICATIONS

- 25 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

- 26 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 27 The risk of investment is considered within the existing Treasury Management Policy. The Authority tries to minimise risk by capping the total investment with any one financial institution to £5 million and limiting investments to UK clearing banks and the top seven building societies or where the building society assets exceed £10 billion.
- 28 Treasury Management is audited by the internal auditors to ensure procedures and investment decisions comply with the Policy and Investment Strategy approved by Members. The audit was last conducted in January 2021, and the internal auditors provided a “substantial assurance” rating to the Authority, with one recommendation to review the Treasury Management policy following the retirement of the Director of Finance. This was done in April 2021 and approved by Members (Paper A/4297/21).

The work carried out by the internal auditors is also tested by the external auditors.

EQUALITY IMPLICATIONS

- 29 There are no equality implications arising directly from the recommendations in this report.

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BACKGROUND REPORTS

CIPFA “Treasury Management in the Public Services Code of Practice & 2021 Cross Sectoral Guidance Notes”

PREVIOUS COMMITTEE REPORTS

Authority	A/4314/22	Capital Strategy 2021/22 to 2025/26	20 January 2022
Executive	E/725/21	Annual Report on Treasury Management Activity 2020/21 & Annual Investment Strategy 2021/22	27 May 2021
Authority	A/4297/21	Treasury Management Policy	29 April 2021
Executive	E/671/20	Annual Report on Treasury Management Activity 2019/20 & Annual Investment Strategy 2020/21	21 May 2020
Executive	E/625/19	Annual Report on Treasury Management Activity 2018/19 & Annual Investment Strategy 2019/20	23 May 2019

LIST OF ABBREVIATIONS

CIPFA	Chartered Institute of Public Finance and Accountancy
SIBA	Special Interest Bearing Account

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