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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>9 August 2022</b>
<b>Report By:</b>	<b>Interim Director Finance &amp; Corporate Governance</b>	<b>Report No:</b>	<b>FIN/45/22/KJ/AP</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>Treasury Management – Annual Report 2021/22</b>		

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## **1.0 PURPOSE AND SUMMARY**

1.1  For Decision  For Information/Noting

1.2 The purpose of this report is:

- a. To advise the Committee of the operation of the treasury function and its activities for 2021/22 as required under the terms of Treasury Management Practice 6 (“TMP6”) on “Reporting Requirements and Management Information Arrangements”.
- b. To request that the Committee remits the report to the Full Council for their approval.

1.3 As at 31 March 2022 the Council had gross external debt (including PPP) of £246,163,995 and investments of £34,338,655. This compares to gross external debt (including PPP) of £257,757,141 and investments of £39,905,732 at 31 March 2021.

1.4 The Council operated within the required treasury limits and Prudential Indicators for the year set out in the Council’s Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.

## **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee notes the contents of the annual report on Treasury Management for 2021/22 and the ongoing work to seek to ensure the delivery of financial benefits for the Council during the current uncertainty and beyond.

2.2 It is requested that the Committee remits the report to the Full Council for approval.

2.3 It is recommended that the Committee notes that a Member training session on Treasury Management has been arranged for 6 September.

**Alan Puckrin**  
**Interim Director Finance & Corporate Governance**

### 3.0 BACKGROUND AND CONTEXT

- 3.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021/22.
- 3.2 Treasury Management in this context is defined as: “The management of the local authority’s 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.”
- 3.3 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). Paragraphs 3.16 to 3.18 of the report include information on Loan Fund Advances required by regulations that came into effect on 1 April 2016.
- 3.4 The treasury management issues arising during the year were:
- a. The Council’s debt (including PPP) reduced during the year by £11.593m whilst Council investments reduced by £5.567m. The reduction in debt was due to repaying maturing debt without undertaking new borrowing.
  - b. The Council remained within its Prudential Indicator and Treasury Management limits during 2021/22.
  - c. As at 31 March 2022 the Council had under borrowed against its capital financing requirement by £39.016m. This under borrowing is £4.941m higher than at the end of 2020/21.
  - d. In February 2021 the Treasury Consultants forecast that the Bank Rate would remain at the historic low of 0.10% through to at least March 2024 but concerns over inflation led the Bank of England to increase the rate to 0.25% in December 2021, 0.50% in February 2022, 0.75% in March and with further increases to 1.00% and then 1.25% in May and June. Further increases are forecast during 2022/23.
  - e. PWLB rates for new borrowing were expected to increase by 0.30% during the year. Rates for short-term loans increased by up to 1.24% with the level of increase tapering down to 0.38% for some long-term loans. Much of the increase in short-term rates comes from market concerns on inflation.
  - f. Rates for investments were low for much of the year due to the 0.10% Bank Rate but are now higher and increasing following the Bank Rate increases since December.
  - g. The Council’s investments earned a rate of return of 0.244% during the year and outperformed the benchmark return of 0.171% resulting in additional income to the Council of £30,000.
  - h. All investments were in accordance with the Council’s investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the year.
  - i. The Council’s investment performance is due to undertaking fixed term and notice account investments at interest rates that were above the benchmark with counterparties which have high creditworthiness (the Bank of Scotland, Santander UK, and Nationwide Building Society) and in accordance with the Council’s investment strategy.
- 3.5 The Covid-19 crisis continued to cause economic uncertainty in the UK and around the world during 2021/22 with additional uncertainty and concerns later in the financial year from inflation and the conflict in Ukraine.

The economic situation continues to be closely monitored.

3.6 The Council's Year End debt position was as follows:

	At 31 March 2021	At 31 March 2022
	£	£
Total Excluding PPP	198,761,141	188,748,995
PPP Debt	58,996,000	57,415,000
Total Including PPP	257,757,141	246,163,995

Further detail is given in the following table:

	At 31 March 2021		At 31 March 2022		Movement 2021/22
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	99,065		89,029		(10,036)
- Market *	56,000		71,000		15,000
	155,065	3.67%	160,029	3.84%	4,964
Variable Rate Funding:					
- PWLB	0		0		0
- Market *	43,400		28,400		(15,000)
- Temporary #	296		320		24
	43,696	4.91%	28,720	4.87%	(14,976)
Total Debt (Excl PPP)	198,761	3.94%	188,749	4.00%	(10,012)
PPP Debt	58,996		57,415		(1,581)
Total Debt (Incl PPP)	257,757		246,164		(11,593)

\* - Market Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of Market Loans has not changed between financial years, just the split between fixed and variable.

# - Temporary Loans includes funds held by the Council on behalf of the Common Good and Trust Funds and that are to be treated as borrowing for Treasury Management purposes under Scottish Government requirements.

3.7 The Council's cash balances investment position was as follows:

	At 31 March 2021		At 31 March 2022		Movement 2021/22
	Principal	Return	Principal	Return	Principal
	£000		£000		£000
Investments:					
- Fixed Term Deposits	10,000	0.25%	0	0.00%	(10,000)
- Notice Accounts	14,534	0.40%	14,594	0.55%	60
- Deposit Accounts	15,372	0.01%	19,745	0.66%	4,373
Totals	39,906	0.21%	34,339	0.61%	(5,567)

Investments as at 31 March 2022: £34,338,655  
 Maximum level of investments in 2021/22: £60,355,118 on 17 August 2021  
 Minimum level of investments in 2021/22: £21,611,755 on 14 March 2022  
 Daily average for the year 2021/22: £41,039,742

The Council's forecast and actual Investment Balances for 2021/22 for "investments" as defined in the Investment Regulations (including loans/holdings not managed under the treasury function) are shown in Appendix 1.

### 3.8 2021/22 Outturn Compared to Estimates in 2021/22 Strategy

The 2021/22 outturn compared to the estimates in the 2021/22 strategy:

	2021/22 Estimate	2021/22 Outturn
<u>Borrowing Requirement</u>	£000	£000
New borrowing	0	0
Alternative financing requirements	0	0
Replacement borrowing	7,500	0
TOTAL	7,500	0
<u>Prudential/Treasury Management Indicators</u>	£000	£000
Gross external debt including PPP (As at 31 March 2022)	255,357	246,164
Capital financing requirement (CFR) (As at 31 March 2022)	285,800	285,180
(Under)/over borrowing against CFR	(30,443)	(39,016)
	£000	£000
Gross capital expenditure	18,072	21,602
Ratio of financing costs (including PPP) to net revenue stream	11.27%	10.16%
Ratio of net debt (debt and PPP less investments) to net revenue stream	111.5%	97.1%

3.9 The table in paragraph 3.8 above shows that as at 31 March 2022 the Council had under borrowed against its capital financing requirement by £39.016m. Under borrowing means that the Council is using cash it already has (e.g. in earmarked reserves and other balances) to cash flow capital expenditure and maturing debt rather than bringing in new funds from borrowing. The level of under borrowing is considered manageable but is kept under review in light of Council capital financing and other funding requirements.

### 3.10 2021/22 Outturn Compared to Limits in 2021/22 Strategy

The 2021/22 outturn compared to limits in the 2021/22 strategy:

	2021/22 Limits	2021/22 Outturn
<u>Prudential/Treasury Management Indicators</u>		
Authorised limit for external debt	£000	£000
• Borrowing	232,000	188,749
• Other long term liabilities	61,000	57,415
	293,000	246,164

Operational boundary for external debt

- Borrowing
- Other long term liabilities

Upper limit on sums invested for periods longer than 365 days (Actual is maximum in period)

Limits on fixed and variable rate borrowing maturing in each period at 31 March 2022 (LOBOs included based on call dates and not maturity dates)

- Under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and within 30 years
- 30 years and within 50 years
- 50 years and within 70 years

Council Policy Limits

Maximum Percentage of Debt Repayable In Any Year (Actual is as at 31 March 2022 and relates to Financial Year 2077/78)

Maximum Proportion of Debt At Variable Rates (Actual is as at 31 March 2022)

Maximum Percentage of Debt Restructured In Year (Actual is as at 31 March 2022)

2021/22 Limits		2021/22 Outturn	
£000		£000	
214,000		188,749	
61,000		57,415	
275,000		246,164	
£000		£000	
10,000		0	
Fixed	Var.	Fixed	Var.
45%	35%	4.0%	15.2%
45%	35%	20.4%	0%
45%	35%	0.0%	0%
45%	35%	6.0%	0%
45%	35%	9.3%	0%
45%	35%	23.9%	0%
45%	35%	21.2%	0%
25%		21.2%	
45%		15.2%	
30%		0%	

3.11 The Prudential Code requires that the Council states how interest rate exposure is managed and monitored.

The position in 2021/22 was that all of the Council's PWLB debt was at fixed rates. The Market debt contained some debt at fixed rates, some small elements at variable rates and some where the rates could change (but none did). The Council's investments, which were all for less than 1 year, were all variable or regarded as variable under the treasury management rules.

During 2021/22, these interest rate exposures were managed and monitored by the Council through management reports on treasury management that were received and reviewed by the Interim Director Finance & Corporate Governance.

3.12 The forecast from the Treasury Consultants in the Strategy for the Bank Rate as at 31 March and the latest forecast (produced on 21 June 2022) are:

	Forecast Per 2021/22 Strategy	Actual/ Latest Forecast
2021/22	0.10%	0.75% (Actual)
2022/23	0.10%	2.75% (Forecast)
2023/24	0.10%	2.50% (Forecast)

3.13 The Council's Loans Fund Pool Rate for Interest is used to allocate interest charges to the General Fund and reflects the actual cost of the Council's Treasury activities. The rates for the last 5 years (excluding expenses) are as follows:

Year	Loans Fund Pool Rate
2017/18	3.557%
2018/19	3.608%
2019/20	3.436%
2020/21	3.362%
2021/22	3.363%

It is expected that there will be a further small increase in the Pool Rate in the medium term.

3.14 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was implemented in the annual investment strategy approved by the Council on 22 April 2021 (after review by the Policy & Resources Committee on 23 March 2021). The policy sets out the approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps, bank share prices etc.

All investments in 2021/22 and 2022/23 to date were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full.

3.15 The result of the investment strategy undertaken by the Council in 2021/22 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3 month LIBID un compounded)
£41,039,742	0.244%	0.171%

The Council has outperformed the benchmark by 0.073% resulting in additional income to the Council of £30,000.

3.16 Where capital expenditure is funded by borrowing (referred to as loans fund advances), the debt financing costs are paid from the Revenue Budget as loan charges comprised of the repayments of debt along with interest and expenses costs on the borrowing.

The Council is required to set out its policy for the repayment of loans fund advances.

- a. For loans fund advances made before 1 April 2016 the policy will be to maintain the practice of previous years and use the Statutory Method (option 1) with annual principal repayments being calculated using the annuity method.
- b. The same method was used for loans fund advances made after 1 April 2016 for the permitted 5 year transitional period to the end of 2020/21. In applying the annuity method to new advances in any year, the interest rate used in the annuity calculation is the Council's loans fund pool rate for the year (including expenses) as rounded up to the nearest 0.01%.
- c. Of the options available for new capital expenditure from 1 April 2021 onwards, it was approved by the Full Council on 22 April 2021 to maintain the use of the annuity method as set out in option b. above.

3.17 The outstanding loans fund advances (representing capital expenditure still to be repaid from the Revenue Budget) are:

	2021/22
	Actual
	£000
Balance As At 1 April	232,386
Add: Advances For The Year	2,918
Less: Repayments For The Year	8,275
Balance As At 31 March	227,029

3.18 For the loans fund advances outstanding as at 31 March 2022, the liability to make future repayments (excluding debt interest and expenses) is as follows:

	£000
Year 1	8,181
Years 2-5	31,640
Years 6-10	40,482
Years 11-15	39,253
Years 16-20	34,619
Years 21-25	34,477
Years 26-30	21,682
Years 31-35	9,552
Years 36-40	3,192
Years 41-45	1,142
Years 46-50	1,090
Years 51-55	1,001
Years 56-60	158
Years 61-65	39
Years 66-70	47
Years 71-75	56
Years 76-80	67
Years 81-85	79
Years 86-90	95
Years 91-95	113
Years 96-100	64
TOTAL	227,029

## 4.0 PROPOSALS

- 4.1 It is proposed that the Committee consider the contents of Section 3 of the report, seek any assurances from Officers, and thereafter remit the Annual Report to the Council for approval.
- 4.2 An all Member training session on Treasury Management has been arranged for 6 September. The session will be delivered by Link Treasury Services Ltd.

## 5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO	N/A
Financial		X	
Legal/Risk		X	
Human Resources			X
Strategic (LOIP/Corporate Plan)			X
Equalities & Fairer Scotland Duty			X
Children & Young People's Rights & Wellbeing			X
Environmental & Sustainability			X
Data Protection			X

## 5.2 Finance

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

## 5.3 Legal/Risk

None.

## 5.4 Human Resources

None.

## 6.0 CONSULTATION

- 6.1 This report includes the latest advice from the Council's treasury consultants (Link Treasury Services Limited).



## **7.0 BACKGROUND PAPERS**

- 7.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition
- Inverclyde Council – Treasury Management Strategy Statement and Annual Investment Strategy 2021/22-2024/25.

**FORECAST OF INVESTMENT BALANCES  
ESTIMATE FOR 2021/22 AND ACTUAL AT 31 MARCH 2022**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2021/22 and the actual as at 31 March 2022 are:

	<b>2021/22 Estimate</b>	<b>2021/22 Actual At 31 March 2022</b>
	£000	£000
Cash balances managed in-house		
- At 1 April 2021	40,000	39,906
- At 31 March 2022	31,337	34,339
- Change in year	(8,663)	(5,567)
- Average daily cash balances	35,669	41,040
Holdings of shares, bonds, units (includes local authority owned company)		
- At 1 April 2021	2	2
- Purchases	0	0
- Sales	0	0
- At 31 March 2022	2	2
Loans to local authority company or other entity to deliver services		
- At 1 April 2021	442	398
- Advances	0	0
- Repayments	43	45
- At 31 March 2022	399	353
Loans made to third parties		
- At 1 April 2021	1,402	1,409
- Advances	0	10
- Repayments	1,290	1,298
- At 31 March 2022	112	121
Total of all investments		
- At 1 April 2021	41,846	41,715
- At 31 March 2022	31,850	34,815
- Change in year	(9,996)	(6,900)

The movements in the forecast investment balances shown above are due largely to ongoing treasury management activity in accordance with the Council's treasury management strategy or, for loans made to third parties, in accordance with Council decisions made in respect of such loans.

All of the Council's cash balances are managed in-house with no funds managed by external fund managers.

The "holdings of shares, bonds, units (includes authority owned company)" are historic and relate to the Common Good.

The Loans made to third parties includes a £50,000 loan to Shared Interest Society Limited ("Shared Interest") as approved by the Policy & Resources Committee in August 2017, Shared Interest being a company that uses funds invested by individuals and organisations to allow it to provide loans to fair trade businesses around the world.