Report to:	**Cabinet**
Date:	**13 December 2022**
By:	**Chief Operating Officer**
Title of report:	**Treasury Management Annual Report 2021/22 and mid-year report 2022/23**
Purpose of report:	**To present a review of the Council's performance on Treasury Management for the year 2021/22 and Mid-Year Review for 2022/23.**

RECOMMENDATION:

Cabinet is recommended to:

Note the Treasury Management performance in 2021/22, incorporating the Mid-Year Review for the first half of 2022/23.

1. Background

1.1 The annual stewardship report presents the Council's treasury management performance for 2021/22 and Mid-Year performance for 2022/23, as required by the Code of Practice for Treasury Management.

2. Supporting Information

2.1 The Council's treasury management activities are regulated by a variety of professional codes, statutes and guidance. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates the treasury management function in compliance with this Code. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis and treasury management practices demonstrate a low risk approach. The Code requires the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and
- Review actual activity for the preceding year (this Stewardship Report).
- A mid-year performance review (this Stewardship Report).

2.2 This report sets out:

- A summary of the original strategy agreed for 2021/22 and the economic factors affecting this strategy (Appendix A).
- The treasury management activity during the year 2021/22 (Appendix B);
- The treasury management midyear activity for 2022/23 (Appendix C);
- The Prudential Indicators, which relate to the Treasury Management function, Minimum Revenue Policy (MRP) and compliance with limits (Appendix D).

3. The economic conditions compared to our Strategy for 2021/22

3.1 The original 2021/22 strategy was set against a back drop of low Bank of England (BoE) interest rates and modest increases to that rate over the medium term. The economic environment remained a challenging one with concerns over the UK, European and Global economies. The global impact of the coronavirus pandemic, and the national recovery from measures taken during that period, weighed heavily on the economy as a whole.

3.2 The economic situation since the original strategy formulation has seen heightened uncertainties in the UK economy, particularly from inflationary, geopolitical and domestic political factors. Inflationary pressure has been driven by the price of fuel and the fallout from the conflict in the Ukraine. Energy security has put further pressure on inflationary concerns across Europe since January 2022. The Fiscal Event on 23 September 2022 saw gilt yields surge and sterling fall, as markets reacted to the announcements made. Despite the subsequent change of approach market sentiment is still in the direction of a higher interest rate environment for the UK in the near term, with a potential BoE base rate of 5% by March 2023 currently forecast.

3.3 The strategy and the economic conditions prevailing in 2021/22 are set out in Appendix A with an updated economic summary set out in Appendix C.

4. Treasury Management activity during 2021/22

<u>The Treasury Management Strategy</u>

4.1 The strategy for 2021/22, agreed in February 2021, continued the prudent approach and ensured that all investments were only to the highest quality rated institutions with regard to security, liquidity and yield. Treasury Management officers have explored ways in which the Council's cash balances can be utilised to support Environmental, Social and Governance (ESG) factors.

<u>Short term lending</u>

4.2 The Bank of England (BoE) Base Rate increased three times during 2021/22. By March 2022 the rate was 0.75%. These marginal increases reflected the concern, at the time, that inflationary pressures could result in headline inflation being above 2%.

4.3 The total amount received in short term interest for 2021/22 was £1.2m at an average rate of 0.38%. This was above the average base rate in the same period (0.19%) and above the average returns achieved with peer authorities from treasury advisors (Link Asset Services) investment benchmarking. The Return for 2021/22 was against a backdrop of ensuring, as far as possible in the financial climate, the security of principal and the minimisation of risk about liquidity to support the Council's cashflow should it be required.

<u>Longer term lending</u>

4.4 During 2021/22 a number of longer term local authority investments were placed with the aim of locking in certainty of return. These investments have secured a fixed level of return without compromising credit quality in a low interest rate environment.

<u>Long term borrowing</u>

4.5 Details of long term borrowing are included in Appendix B of the report. The important points are:

- No new borrowing was undertaken in 2021/22.
- The average interest rate of all debt at 31 March 2022 (£232.9m) was 4.63%.
- Public Works Loan Board (PWLB) Debt maturing during 2021/22 totalled £3.6m and was at an average rate of 6.84%.

<u>Minimum Revenue Provision (MRP)</u>

4.6 Full details of the 2021/22 MRP policy are set out in appendix D.

5. Treasury Management 2022/23 Mid-Year Review.

5.1 The Treasury Management and Annual Investment Strategy for 2022/23 was approved by Full Council on 8 February 2022 and was prepared within the context of the financial challenge being faced by the County Council.

5.2 The Bank of England Base Rate as of 30 September 2022 is 2.25%. During the first 6 months of the year, it has increased four times. The latest economic commentary provided by Link Asset Services (LAS) is set out in Appendix D.

5.3 Opportunities to place fixed term deposits during the period have been undertaken to secure a fixed rate of return on a laddered maturity profile in a rising interest rate environment. During the period fixed term bank deposits totalling £80m were placed at rates between 1.50% and 3.90%. Deposits included £30m with Standard Chartered Bank that are ringfenced within a sustainable lending ESG framework. These investments fulfilled the key principals of security, liquidity and yield with the overlay of ESG included.

5.4 The total amount received in short term interest for 6 months to 30 September 2022 was £1,650,000 at an average rate of 1.07%. This was below the average base rates in the same period (1.28%) and with peer authorities through benchmarking. The laddered approach to investment maturities will result in a pick up in return in the next 6 months.

5.5 No PWLB borrowing was undertaken in the period, with the Council's long-term debt at 30 September 2022 being £228.7m.

5.6 Opportunities for cost effective repayment of existing debt and restructuring opportunities are constantly monitored but none emerged in the first six months of the year. However, during October 2022, a LOBO loan with Commerzbank was repaid early in full at par value £6.45m. This was following a call option date where the lender proposed a new rate of interest on the loan. The Council had the options to either accept the new rate, a movement from 3.75% to 4.50%, or repay in full at no additional cost. Following advice from the Treasury Management Team's external advisors the loan was repaid on the 11 October 2022.

6. Prudential Indicators which relate to the Treasury function and compliance with limits

6.1 The Council is required by the CIPFA Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set out in Appendix D, the Council is fully compliant with these indicators.

7. Conclusion and reason for recommendation

7.1 This report fulfils the requirement to submit an annual/half yearly report in the form prescribed in the Treasury Management Code of Practice. Short term lending throughout the 18 month period covered achieved returns between 0.35% and 1.40%. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to increase investment income whilst minimising costs and maintaining security, in a period of significant uncertainty.

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