Committee: Cabinet		**Date:**
Title:	Treasury Management Outturn 2021/22	Thursday, 20 October 2022
Portfolio Holder:	Councillor Neil Hargreaves, Portfolio Holder for Finance and Budget	
Report Author:	Angela Knight, Assistant Director - Business and Change Management aknight@uttlesford.gov.uk	**Key decision:** No

Summary

1. The Authority has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code).

2. Treasury risk management at the Authority is conducted within the framework of the CIPFA Code, which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. The attached report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. The Authority's treasury management strategy for 2021/22 was approved at a meeting on 22 February 2021. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remain central to the Authority's treasury management strategy.

4. Treasury Management is the activity of the Council's finance function which manages cash flows, bank accounts, deposits, investments and borrowing. The objective is to manage risk effectively in order to ensure the security of funds, sufficient liquidity to enable commitments to be met, to generate income and minimise cost.

5. The 2020/21 audit is currently in progress and this report is based on estimated opening balances; the balances cannot be confirmed until the audit is formally signed off. The 2021/22 audit will commence later in the year and the final outturn presented in this report will be subject to the auditors review and sign off for both 2020/21 and 2021/22 accounts. If any material changes to either of these years financial position are identified a revised report will be presented to Cabinet at a later date.

Recommendations

6. The Cabinet is recommended to note the 2021/22 Treasury Management Outturn attached as Appendix B.

Financial Implications

7. These are included in the body of the report and the associated Appendices.

Background Papers

8. None

Impact

9.

Communication/Consultation	CMT have been consulted
Community Safety	N/A
Equalities	N/A
Health and Safety	N/A
Human Rights/Legal Implications	N/A
Sustainability	N/A
Ward-specific impacts	N/A
Workforce/Workplace	N/A

Situation

10. Treasury management is defined as: "The management of the local authority's investments and 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."

11. The Council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management ("The Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy on the likely financing and investment activity.

12. The Treasury Management Strategy is approved by the Council as part of the annual budget setting process. Monitoring reports relating to investments are submitted to the Cabinet as part of the quarterly budget monitoring process.

13. The Council is supported in its treasury management activity by our independent financial advisers Arlingclose Limited.

14. All responsibility for decision making rests with the Council. Under the Council's constitution the Director of Finance and Corporate Services and the Assistant Director of Resources are authorised to make investment and borrowing decisions in line with the Treasury Management Strategy and the Treasury Management Practices – Principles and Schedules approved by the Council.

15. The Treasury Management Outturn Report is attached as Appendix B and provides more detail on the performance of Treasury Management from both the external and internal context. The report also compares actual in year activity to the 2021/22 Strategy set as part of the approved budget in February 2021.

16. Total net borrowing as of 31 March 2022 was £262.50 million, an increase from the previous year of £44.80 million. The increase in net borrowing is directly related to the investment activities in line with the approved Commercial Strategy. A breakdown of the borrowing and investments for the current year is set out in the table below and includes a comparison to the previous year.

	31 March 2021 £m	31 March 2022 £m	In year Movement £m
Housing Revenue Account	80.40	78.40	(2.00)
Pheonix Loan for Aspire (CRP) Ltd Investment	22.00	36.70	14.70
Local Authority more than 1 year	18.00	5.00	(13.00)
Total Long Term Borrowing	**120.40**	**120.10**	**(0.30)**
Short Term Borrowing	109.50	166.00	56.50
Total Borrowing	**229.90**	**286.10**	**56.20**
Short Term Investments	(11.00)	(18.60)	(7.60)
Cash and Cash Equivalents	(1.20)	(5.00)	(3.80)
Total Investments	**(12.20)**	**(23.60)**	**(11.40)**
NET BORROWING	**217.70**	**262.50**	**44.80**

17. The commercial properties and the associated capital cost during the 2021/22 financial year have been detailed in the following table showing further payments of £62.41 million during the year..

Commercial Property Costs	31 March 2021 £m	31 March 2022 £m
Skyway House, Parsonage Road, Takeley – Offices	20.81	20.81
Deer Park Road, Livingston, Scotland – Veterinarian Practice	5.24	5.24
Stane Retail Park, Colchester – Retail Park	8.34	27.12
Chorley – Regional Distribution Centre	58.30	58.30
Gloucester – Distribution Centre	6.73	33.90
Tewkesbury – Offices and warehouse	8.01	24.47
Total Capital Cost	**107.43**	**169.84**

18. Two of the assets had not completed by 31 March 2022, Amazon at Gloucester completed during April 2022 and MOOG at Tewkesbury is due to complete later this year.

19. The Council made advance payments on two of the commercial assets, Amazon and MOOG to support the construction stage of the buildings. The agreement was that the council would receive interest payments on the amounts advanced and these sums are set out separately in the table.

20. The following table sets out the Council's investment income and the associated cost of borrowing for 2021/22.

Investment Income Analysis	Budget £'000	Actual £'000	Variance £'000
Income			
Aspire (CRP)	(2,316)	(2,450)	(134)
Commercial Investments - rental income	(4,905)	(4,528)	377
Commercial Investments - interest on advance payments	0	(1,346)	(1,346)
	(7,221)	**(8,324)**	**(1,102)**
Treasury Management Costs			
Interest charged	1,814	1,343	(471)
Broker Fees	170	100	(70)
	1,984	**1,443**	**(541)**
Non Treasury Management Costs			
Commercial Consultancy and Fees	270	121	(149)
External Treasury Advice on long term borrowing options	0	55	55
	270	**176**	**(94)**
Total Net Revenue Income	**(4,967)**	**(6,704)**	**(1,737)**

21. The average rate of interest achieved for short term investments was 0.12% (excluding Money Market Funds) and for short term borrowing was 0.22% for the 2021/22 financial year. A full list of all the short-term investments and borrowing for the year are detailed in Appendix A.

22. The council has two long term loans;

- Housing Revenue Account - £78.407million outstanding balance (initial loan £88.407 million) to fund the purchase of the council's housing stock; this is a mix of fixed and variable rate loans. The annual interest payment for 2021/22 was £2.574 million with a current annual principal repayment of £2.000 million.

- General Fund - £37 million forward starting loan with Phoenix Life Limited at a fixed rate of 2.86% over 40 years, with no principal repayments until 5 January 2022 to fund part of the investment of £47.25 million in Aspire (CRP) Ltd. The loan profile was drawn down in three stages:
  - £10 million on 3 July 2017
  - £12 million on 3 July 2020
  - £15 million on 3 July 2021

23. The council has continued to support the development of Chesterford Research Park, which it purchased a 50% share of in May 2017 through its wholly owned company, Aspire (CRP). The following table provides details of all the loans to Aspire (CRP) and the balance outstanding as at 31 March 2022.

Drawdown Date	Loan Amount £'000	Loan Term	Loan Balance	Repayment Basis	Rate %
03/05/2017	47,250	50 years	47,250	Interest Only	4.0
26/03/2018	223	49 years 1 month	223	Interest Only	4.0
02/01/2019	2,518	48 years 4 months	2,518	Interest Only	4.0
20/08/2019	3,000	20 years	2,834	Repayment	4.5
09/06/2020	1,250	20 years	1,214	Repayment	4.5
01/07/2020	2,600	20 years	2,530	Repayment	4.5
15/03/2021	2,975	21 years	2,963	Repayment	4.5
26/08/2021	780	20 years	780	Interest Only	4.5
Total of	**60,596**		**60,312**		

24. The repayment basis of the loans is determined by the type of works it will fund. Interest only loans are for new buildings and infrastructure and principal and interest loans are for the refurbishment of existing buildings. The repayment schedules are set to align with the capital life of the asset and/or works.

Risk Analysis

Risk	Likelihood	Impact	Mitigating actions
Loss of council's funds	1 – minimal risk due to the policy, procedures and guidance in place	4 – significant sums	multi-function/level checking, authorisation and monitoring of all activities

1 = Little or no risk or impact
2 = Some risk or impact – action may be necessary.
3 = Significant risk or impact – action required
4 = Near certainty of risk occurring, catastrophic effect or failure of project

Appendix A

Borrowing – 1 April 2021 – 31 March 2022

Date of borrowing	Institution	Amount (£)	Date of Repayment	Interest Rate %
21-Apr-21	Hampshire County Council	3,000,000	20-Apr-22	0.13%
21-Apr-21	Devon County Council	2,500,000	20-Apr-22	0.13%
30-Apr-21	London Borough of Newham	5,000,000	29-Apr-22	0.13%
30-Apr-21	Brighton & Hove City Council	4,000,000	29-Apr-22	0.13%
20-Apr-21	West Yorkshire Combined Authority	3,500,000	12-Apr-22	0.12%
17-Jun-21	Newport City Council	2,000,000	01-Jul-21	0.02%
21-Jun-21	Middlesbrough Council	3,000,000	01-Jul-21	0.02%
09-Sep-21	Middlesborough Teeside Pension Fund	7,000,000	08-Sep-22	0.10%
22-Jul-21	Greater Manchester Combined Authority	4,500,000	02-Aug-21	0.02%
12-Aug-21	Vale of Glamorgan Council	2,000,000	11-Aug-22	0.06%
19-Aug-21	Middlesbrough Council	4,500,000	01-Sep-21	0.01%
26-Aug-21	Bedford Borough Council	1,000,000	02-Sep-21	0.03%
20-Sep-21	Cheshire West and Chester Council	5,000,000	01-Oct-21	0.02%
23-Sep-21	West Yorkshire Combined Authority	6,000,000	25-Jul-22	0.06%
21-Oct-21	Blaenau Gwent County Borough Council	4,000,000	01-Nov-21	0.02%
21-Oct-21	Hyndburn Borough Council	2,000,000	17-Oct-22	0.15%
21-Oct-21	New Forest District Council	1,000,000	17-Oct-22	0.15%
21-Oct-21	Blaenau Gwent County Borough Council	2,000,000	02-Nov-21	0.02%
22-Nov-21	Bridgend County Borough Council	3,000,000	21-Nov-22	0.25%
22-Nov-21	Somerset County Council Pension Fund	5,000,000	21-Nov-22	0.40%
22-Nov-21	Police & Crime Commissioner for Avon & Somerset	2,000,000	21-Nov-22	0.40%
22-Nov-21	Flyde Borough Council	2,000,000	21-Nov-22	0.35%
22-Nov-21	Ryedale District Council	2,000,000	21-Nov-22	0.35%
22-Nov-21	Camb. & Peterborough Combined Authority	7,000,000	24-Oct-22	0.35%
18-Nov-21	London Borough of Havering	4,000,000	01-Dec-21	0.02%
02-Dec-21	Comhairle Nan Eilean Siar	3,000,000	21-Nov-22	0.20%
16-Dec-21	Dudley Metropolitan Borough Council	4,000,000	04-Jan-22	0.01%
23-Dec-21	Cheshire West and Chester Council	4,000,000	21-Jan-22	0.05%
21-Jan-22	West Yorkshire Combined Authority	4,000,000	21-Nov-22	0.25%
20-Jan-22	Bedford Borough Council	1,000,000	27-Jan-22	0.07%
27-Jan-22	Bedford Borough Council	2,000,000	01-Feb-22	0.07%
17-Feb-22	Scarborough Borough Council	3,000,000	04-Apr-22	0.32%
08-Mar-22	Scarborough Borough Council	5,000,000	01-Aug-22	0.68%
17-Mar-22	Greater Manchester Pension Fund	2,000,000	03-May-22	0.50%
21-Mar-22	South Cambridgeshire District Council	2,000,000	30-Mar-22	0.58%
28-Mar-22	Newport City Council	3,000,000	04-Apr-22	0.59%
30-Mar-22	West Midlands Combined Authority	8,000,000	30-Sep-22	0.85%
30-Mar-22	Vale of Glamorgan Council	1,500,000	03-May-22	0.58%
Average interest rate				**0.22%**
05-Jul-21	Phoenix	15,000,000		2.86%

Appendix A continued….

Investments – 1 April 2021 – 31 March 2022

Date of Investment	Counterparty	Amount (£)	Date of Repayment	Interest Rate %
06-Apr-21	DMO	6,500,000	08-Apr-21	0.01%
08-Apr-21	DMO	2,800,000	12-Apr-21	0.01%
12-Apr-21	DMO	2,600,000	15-Apr-21	0.01%
13-Apr-21	DMO	1,500,000	19-Apr-21	0.01%
15-Apr-21	DMO	5,400,000	20-Apr-21	0.01%
20-Apr-21	Cornwall Council	3,000,000	20-Oct-21	0.04%
20-Apr-21	DMO	2,200,000	26-Apr-21	0.01%
26-Apr-21	DMO	3,000,000	29-Apr-21	0.01%
29-Apr-21	DMO	2,100,000	04-May-21	0.01%
21-May-21	Ashford Borough Council	3,000,000	22-Nov-21	0.04%
17-May-21	DMO	2,600,000	20-May-21	0.01%
11-Jun-21	Thurrock Borough Council	2,000,000	10-Jun-22	0.20%
15-Jun-21	DMO	5,000,000	17-Jun-21	0.02%
02-Jul-21	DMO	1,400,000	05-Jul-21	0.01%
05-Jul-21	DMO	2,500,000	08-Jul-21	0.01%
16-Aug-21	DMO	3,300,000	19-Aug-21	0.01%
15-Sep-21	DMO	4,000,000	16-Sep-21	0.01%
20-Oct-21	Cornwall Council	3,000,000	17-Jan-22	0.03%
22-Nov-21	DMO	12,500,000	01-Dec-21	-0.01%
22-Nov-21	DMO	3,000,000	21-Feb-22	0.04%
17-Jan-22	DMO	3,200,000	20-Jan-22	0.05%
17-Jan-22	DMO	3,000,000	15-Jul-22	0.22%
21-Feb-22	North Lanarkshire Council	3,000,000	21-Nov-22	0.75%
15-Feb-22	DMO	2,450,000	17-Feb-22	0.30%
01-Mar-22	DMO	1,650,000	03-Mar-22	0.30%
10-Mar-22	DMO	1,200,000	17-Mar-22	0.30%
15-Mar-22	DMO	2,600,000	17-Mar-22	0.33%
30-Mar-22	DMO	10,600,000	01-Apr-22	0.55%
Average interest rate				**0.12%**

Money Market Fund Balances – 1 April 2021 – 31 March 2022

Fund Name	Opening Balance (£)	Closing Balance (£)	No. of days invested	Average daily yield
Aberdeen Standard Liquidity Fund (Lux) - Sterling Fund	500,000	450,000	365	0.07%
Aviva Investors Sterling Liquidity Fund	400,000	750,000	364	0.07%
CCLA - The Public Sector Deposit Fund	1,050,000	800,000	362	0.11%
Federated Short-Term Sterling Prime Fund	500,000	450,000	365	0.07%
Invesco Sterling Liquidity Portfolio (Institutional)	500,000	0	325	0.02%

Appendix B

Treasury Management Outturn Report 2021/22

Introduction

The Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's treasury management strategy for 2021/22 was approved at a meeting on 22 February 2022. The Authority has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report.

The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 22 February 2022.

External Context

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 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 its 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.
Credit review: In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and

building societies on the Authority's counterparty list to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.
Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.
The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.
Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

The principles of the Prudential Code took immediate effect although the Authority has taken the option to defer fully introducing revised reporting requirements until 2023/24.
To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments. Authorities with existing commercial land and property may also invest in maximising its value and are permitted to carry out prudent active management and rebalancing of their portfolios.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

Local Context

On 31st March 2022, the Authority had net borrowing of £262.5m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.21 Actual £m	2021/22 Movement £m	31.3.22 Actual £m
General Fund CFR	13.4	4.6	18
HRA CFR	82.8	-2.2	80.6
Investments CFR	164.3	60.7	225.0
Total CFR	**260.5**	**63.1**	**323.6**
Less: Other debt liabilities *	-4.3	0.3	-4.0
Borrowing CFR	**256.2**	**63.4**	**319.6**
Less: Usable reserves	-31.4	-1.7	-33.1
Less: Working capital	-7.1	-16.9	-24.0
Net borrowing	**217.7**	**44.8**	**262.5**

* PFI liabilities that form part of the Authority's total debt

Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

The treasury management position at 31st March 2022 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m	31.3.22 Average Rate %
Long-term borrowing	120.4	-0.3	120.1	3.06
Short-term borrowing	109.5	56.5	166.0	0.31
Total borrowing	**229.9**	**56.2**	**286.1**	
Short-term investments	8.0	10.6	18.6	0.49
Cash and cash equivalents	4.2	0.8	5.0	0.26
Total investments	**12.2**	**11.4**	**23.6**	
Net borrowing	**217.7**	**44.8**	**262.5**	

The increase in the level of borrowing supports the Commercial Strategy and the funding of the commercial investments.

Borrowing Update

The Authority currently holds commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

There will be no further borrowing in order to acquire commercial investments primarily for yield, except where permitted by the Prudential Code (i.e. for prudent active management and rebalancing of the existing portfolio, for maximising the value of existing property assets, and for the refinancing of existing debt).

Borrowing strategy

At 31st March 2022 the Authority held £286.1m of loans, an increase of £56.2m since 31st March 2021, as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m	31.3.22 Weighted Average Rate %
Public Works Loan Board	80.4	-2	78.4	3.28
Phoenix Life Ltd	22	14.7	36.7	2.86
Local authorities (Long-term)	18	-13	5.0	1.20
Local authorities (short-term)	109.5	56.5	166.0	0.31
Total borrowing	**229.9**	**56.2**	**286.1**	

The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

With short-term interest rates remaining much lower than long-term rates, the Authority considered it more cost effective in the near term to use internal resources or borrowed rolling temporary / short-term loans instead. The net movement in short-term loans is shown in table 3 above.

Other Debt Activity

After £0.154m repayment of prior years' Private Finance Initiative liabilities, total debt other than borrowing stood at £4.0m on 31st March 2022, taking total debt to £290.1m.

Treasury Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use during normal business.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £10 million and £21 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m	31.3.22 Weighted Average Rate %	31.3.22 Weighted Average Maturity days
Government (incl. local authorities)	8.0	10.6	18.6	0.49	113
Money Market Funds	3.0	-0.5	2.5	0.26	42
Banks (unsecured)	0.5	2	2.5		
Total investments	**11.5**	**12.1**	**23.6**		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

Ultra-low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. At 31st March, the 1-day return on the Authority's MMFs ranged between 0.50% - 0.58% p.a.

Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1% but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return on the Authority's DMADF deposits was 0.10%.

Non-Treasury Investments

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

The Authority also held £60.3m of such investments in a loan to subsidiary, Aspire (CRP) Ltd, this generated £2.45m of investment income in 2021/22.

A full list of the Authority's directly owned property investments is shown below:

Table 5 – Commercial Properties

Commercial Property Costs	31 March 2021 £m	31 March 2022 £m
Skyway House, Parsonage Road, Takeley – Offices	20.81	20.81
Deer Park Road, Livingston, Scotland – Veterinarian Practice	5.24	5.24
Stane Retail Park, Colchester – Retail Park	8.34	27.12
Chorley – Regional Distribution Centre	58.30	58.30
Gloucester – Distribution Centre	6.73	33.90
Tewkesbury – Offices and warehouse	8.01	24.47
Total Capital Cost	**107.43**	**169.84**

These investments generated £6.704m of investment income for the Authority after taking account of direct costs.

Compliance

The Director of Finance and Corporate Services reports that the majority of the treasury management activities undertaken during the quarter complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. There was one area of non-compliance. As can be seen in table 7, the banks (unsecured) limit was breached, this happened on three occasions and was due to large unconfirmed payments being received after the external investment deadlines. Compliance with specific investment limits is demonstrated in table 6 below.

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	2021/22 Maximum £m	31.3.22 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied
Borrowing	286	286	416	416	✓
PFI	4	4	4	4	✓
TOTAL	**290**	**290**	**420**	**300**	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

Table 7: Investment Limits

	2021/22 Maximum £m	31.3.22 Actual £m	2021/22 Limit £m	Complied
Banks (unsecured)	2.5	2.5	2	x
UK Central Government	15.5	13.6	Unlimited	✓
UK Local Authorities including Police and Fire per authority	3	3	3	✓
UK Building Societies without credit ratings	0	0	2	✓
Saffron Building Society	0	0	0.5	✓
Money Market Funds, per fund	2	0.8	2	✓

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Security: The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.22 Actual	2021/22 Target	Complied
Portfolio average credit rating	AA-	A	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period.

	31.3.22 Actual	2021/22 Target	Complied
Total cash available within 3 months	3	£2m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

	31.3.22 Actual £'000	2021/22 Limit	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	897	£2m	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	897	£2m	✓

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.22 Actual	Upper Limit %	Complied
Under 12 months	59	70	✓
12 months and within 24 months	3	50	✓
24 months and within 5 years	4	50	✓
5 years and within 10 years	8	80	✓
10 years and within 20 years	19	80	✓
20 years and above	7	100	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	0	0	0
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied	✓	✓	✓

Other

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Authority intends to adopt the new standard on 1st April 2024.