Annual Treasury Management Review 2021-22

Cabinet	22 September 2022
Report Author	Chris Blundell, Acting Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Councillor David Saunders, Cabinet Member for Finance
Status	For Decision
Classification	Unrestricted
Previously Considered by	Governance and Audit Committee
Ward	Thanet Wide

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for 2021-22. However, the council's 2020-21 and 2021-22 accounts have not yet been audited and hence the figures in this report are subject to change. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, 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."*

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the 2021-22 year-end position for treasury activities.

Key reporting items to consider include:

- 2021-22 capital expenditure on long term assets was £12.7m (2020-21: £23.5m), against a budget of £31.0m.
- The council's gross debt, also called the borrowing position, at 31 March 2022 was £20.2m (31 March 2021: £24.4m).
- The council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), was £51.7m at 31 March 2022 (31 March 2021: £56.7m).
- Therefore it can be reported the council has complied with the requirement to hold less gross debt than its CFR.
- The maximum debt held by the council during 2021-22 was £24.4m, which was well within the statutory authorised limit of £96.0m

- At 31 March 2022 the council's investment balance was £51.3m (31 March 2021: £31.3m).
- A marked reduction in GF capital receipts which has implications for funding the future capital programme.

Recommendation(s):

That Cabinet:

1. Notes the actual 2021-22 prudential and treasury indicators in this report;
2. Makes comments as appropriate on this Annual Treasury Management Report for 2021-22;
3. Recommends this report to council for approval.

Corporate Implications

Financial and Value for Money

The financial implications are highlighted in this report.

Legal

Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Acting Deputy Chief Executive, and this report is helping to carry out that function.

Risk Management

Risk management is as per the provisions of the annual Treasury Management Strategy Statement, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Corporate

Failure to undertake this process will impact on the council's compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty

There are no equity and equalities implications arising directly from this report, but the council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

It is important to be aware of the council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by council.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth

- Environment
- Communities.

1. Introduction and Background

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, 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."*

1.2. The council is required to operate a balanced budget, which broadly means that cash raised during the year will meet cash expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the council's low risk appetite, providing adequate liquidity initially before considering investment return.

1.3. The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer-term cash flow planning, to ensure that the council can meet its capital spending obligations. This management of longer-term cash may involve arranging long or short-term loans, or using longer-term cash flow surpluses. On occasion, when it is prudent and economic, any existing debt may also be restructured to meet council risk or cost objectives.

2. Reporting Requirements

2.1. This council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2021-22. This report meets the requirements of both the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

2.2. During 2021-22 the minimum reporting requirements were that the full council should receive the following reports:

- an annual treasury strategy in advance of the year (council 11-02-2021): https://democracy.thanet.gov.uk/documents/s71302/Treasury%20Mgmt%20Strategy%202021-22%20Council.pdf
- a mid-year treasury update report (council 12-01-2022): https://democracy.thanet.gov.uk/documents/s74953/Mid%20Year%20Report%20Council%202021-22%201.pdf
- an annual review following the end of the year describing the activity compared to the strategy (this report).

2.3. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the 2021-22 year-end position for treasury activities and highlights compliance with the council's policies previously approved by members.

2.4. This council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Governance and Audit Committee before they were reported to the full council. Member training on treasury management issues was last undertaken on 24 March 2022 in order to support members' scrutiny role, and further training will be arranged as required. The council's external treasury management advisor is Link Group, Treasury Solutions (Link).

2.5. The council's 2020-21 and 2021-22 accounts have not yet been audited and hence the figures in this report are subject to change

3. The Council's Capital Expenditure and Financing

3.1. The council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure for the General Fund (GF) and the Housing Revenue Account (HRA) and how this was financed.

	2020-21 Provisional Actual £'000	**2021-22 Budget £'000**	**2021-22 Provisional Actual £'000**
Capital expenditure - GF	12,376	23,210	7,425
Capital expenditure - HRA	11,118	7,838	5,301
Capital expenditure - Total	**23,494**	**31,048**	**12,726**
Financed by:			
Capital receipts	3,259	6,140	933
Capital grants	4,169	11,715	5,660
Revenue and reserves	10,180	9,064	4,978
Borrowing	5,886	4,129	1,155
Total	**23,494**	**31,048**	**12,726**

3.2. Full details of capital expenditure and explanations of variances from budget will be reported within the Financial and Performance Monitoring Year-End Report to Cabinet in September. The council is committed to tackling the significant level of slippage in the capital programme as per the following extract from section 5 of the council's Capital Strategy document:

"Slippage will not be an acceptable norm. Capital schemes will be at risk of having their council funding re-directed should there be delays that cannot be substantiated (schemes that are externally funded may require more flexibility however)."

4. The Council's Overall Borrowing Need

4.1. The council's underlying need to borrow to fund its capital expenditure is termed the Capital Financing Requirement (CFR). The CFR can be thought of as the outstanding debt that still needs to be repaid in relation to the capital assets (buildings, vehicles etc) that the council has purchased or invested in. It can also be helpful to compare it to the outstanding balance that is still payable on a loan or a mortgage, in this case we are considering how much of the council's debt still needs to be paid for.

4.2 Part of the council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB], or the money markets) or utilising temporary cash resources within the council.

4.3 **Reducing the CFR** – the council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

4.4 The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

4.5 The Council's 2021-22 MRP Policy (as required by DLUHC Guidance) was approved as part of the Treasury Management Strategy Report for 2021-22 on 10 February 2022

4.6 The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes any PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against any such schemes as a borrowing facility is included in the contract.

CFR - GF	31 March 2021 Provisional Actual £'000	31 March 2022 Budget £'000	31 March 2022 Provisional Actual £'000
Opening balance	30,422	28,449	28,449
Add unfinanced capital expenditure (as above)	1,609	3,468	627
Less MRP/VRP*	(3,582)	(5,878)	(5,911)
Less PFI & finance lease repayments	0	0	0
Closing balance	28,449	26,039	23,165

CFR - HRA	31 March 2021 Provisional Actual £'000	31 March 2022 Budget £'000	31 March 2022 Provisional Actual £'000
Opening balance	24,200	28,236	28,236
Add unfinanced capital expenditure (as above)	4,277	525	528
Less MRP/VRP*	(241)	(250)	(250)
Less PFI & finance lease repayments	0	0	0
Closing balance	28,236	28,511	28,514

** Includes voluntary application of capital receipts*

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

4.7 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the council should ensure that its gross external borrowing (borrowing undertaken with financial institutions or external organisations) does not, except in the short term, exceed the total of the CFR in the preceding year (2021-22) plus the estimates of any additional capital financing requirement for the current (2022-23) and next two financial years.

4.8 This essentially means that the council is only borrowing to fund capital expenditure and is not borrowing to support revenue expenditure. Under statutory requirements councils are not allowed to borrow to fund their revenue budget activities.

4.9 By assessing this indicator over four years it allows the council some flexibility to borrow in advance of its immediate capital needs in 2021-22. The table below highlights the Council's gross borrowing position against the CFR and shows that the council has complied with this prudential indicator, as the council's gross debt of **£20.2m** is less than the **£51.679m** CFR at 31 March 2022.

	31 March 2021 Provisional Actual £'000	**31 March 2022 Budget £'000**	**31 March 2022 Provisional Actual £'000**
CFR GF	28,449	26,039	23,165
CFR HRA	28,236	28,511	28,514
Total CFR	**56,685**	**54,550**	**51,679**
Gross borrowing position	(24,394)	(34,455)	(20,216)
Underfunding of CFR	32,291	20,095	31,463

4.10 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the council does not have the power to borrow above this level.

4.11 **The operational boundary** – the operational boundary is the expected borrowing position of the council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached.

4.12 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

4.13 The table below shows that during 2021-22 the Council's maximum gross debt position was **£24.4m** and therefore it has maintained gross borrowing within its authorised limit and operational boundary.

	2021-22 £000
Authorised limit	96,000
Maximum gross borrowing position during the year	24,394
Operational boundary	86,000
Average gross borrowing position	22,119

	2021-22 %
Financing costs as a proportion of net revenue stream - GF	7.8
Financing costs as a proportion of net revenue stream -HRA	4.6

5. Treasury Position as at 31 March 2022

5.1. The council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the council's Treasury Management Practices. At the end of 2021-22 the council's treasury position (excluding any borrowing for PFI and finance leases) was as follows:

	31 March 2021 Principal £'000	Rate/ Return %	Average Life Years	31 March 2022 Principal £'000	Rate/ Return %	Average Life Years
Gross Debt Position						
GF debt	8,495	3.36%	14.9	7,629	3.44%	15.7
HRA debt	15,899	4.14%	7.6	12,587	4.24%	8.8
Total debt (all fixed rate)	**24,394**	**3.86%**	**10.1**	**20,216**	**3.95%**	**11.4**
CFR compared to Gross Debt						
GF CFR	28,449			23,165		
HRA CFR	28,236			28,514		
Total CFR	**56,685**			**51,679**		
Under-borrowing	**32,291**			**31,463**		
Net Debt / Investment						
Total debt	24,394	3.86%	10.1	20,216	3.95%	11.4
Total investments	(31,325)	0.23%		(51,308)	0.10%	
Net debt / (investment)	**(6,931)**			**(31,092)**		

5.2. This table shows that, as previously stated, gross debt was £20.216m and the CFR was £51.679m at the end of 2021-22. This means the Council is in an under borrowed position of £31.463m, as external gross debt is less than the CFR.

5.3. This table also shows that the council's investments totalled £51.308m at the 2021-22 year end and therefore was in a net investment position, as investments held exceeded gross debt by £31.092m.

5.4. All of the debt is from the Public Works Loan Board (PWLB), which is a facility operated by the UK Debt Management Office on behalf of HM Treasury and provides loans to local authorities, apart from the following two GF loans (as at 31 March 2022):

- Market: £4.5m principal at 4.19% with an average life of 0.5 years.
- Salix: £4k principal at 0.00% with an average life of 0.0 years.

5.5. The maturity structure of the debt portfolio, or the timeline of when the council's debt is repayable, was as follows:

	31 March 2021 actual £000	2021-22 upper limits £000	31 March 2022 actual £000
Under 1 year	8,679	10,108	4,834
1 year to under 2 years	334	10,108	259
2 years to under 5 years	2,833	10,108	2,662
5 years to under 10 years	2,356	10,108	2,356
10 years to under 20 years	7,272	10,108	7,185
20 years to under 30 years	1,920	10,108	1,920
30 years to under 40 years	0	10,108	0
40 years to under 50 years	1,000	10,108	1,000
50 years and above	0	10,108	0
Total debt	**24,394**		**20,216**

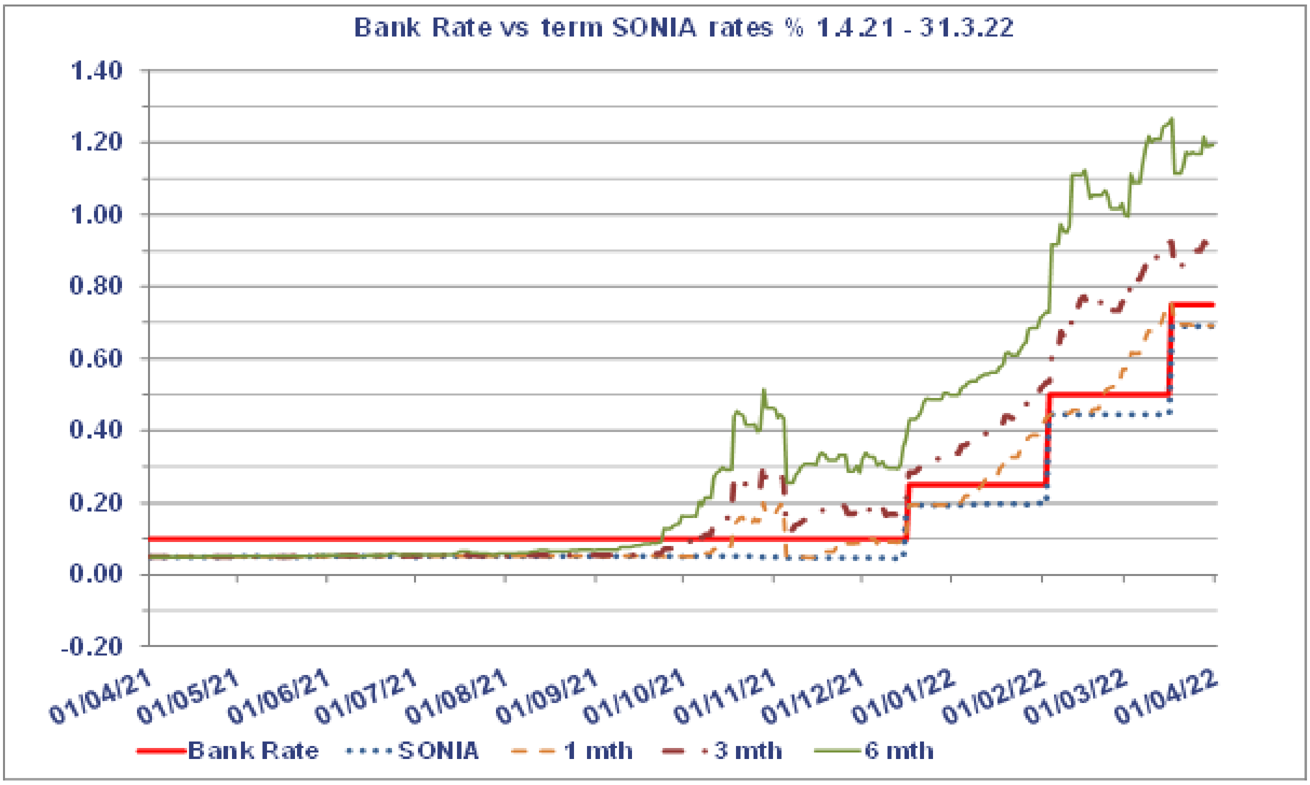
5.6. The following table shows the value of the type of investments the council was holding at year-end. All investments at the 2020-21 and 2021-22 year-end were for under one year. During 2021-22 £1.000m was deposited in a bond fund, which had a value of £0.999m as at 31 March 2022.

	31 March 2021 actual £000	31 March 2021 actual %	31 March 2022 actual £000	31 March 2022 actual %
Banks - Instant Access	29	0.09	30	0.06
Banks - Notice Accounts	8,154	26.03	4,055	7.90
Banks - Fixed Term Deposits	3,200	10.22	100	0.19
Money Market Funds	19,942	63.66	46,124	89.90
Bond Funds	0	0.00	999	1.95
Total Treasury Investments	**31,325**	**100.00**	**51,308**	**100.00**

6. The Strategy for 2021-22

6.1. Investment strategy and control of interest rate risk

6.1.1. The following chart tracks the Bank of England base rate of interest and the Sterling Overnight Index Average (SONIA) during 2021-22.



6.1.2 Investment returns remained close to zero for much of 2021-22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. The expectation for interest rates within the treasury management strategy for 2021-22 was that Bank Rate would remain at 0.1% until it was clear to the Bank of England that the emergency level of rates introduced at the start of the Covid-19 pandemic were no longer necessitated.

6.1.3 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The Government also supplied huge amounts of finance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in financial markets than there was demand to borrow, with the consequent effect that investment earnings rates remained low until towards the turn of the year when inflation concerns indicated central banks, not just the Bank of England, would need to lift interest rates to combat the second-round effects of growing levels of inflation (CPI was 6.2% in February).

6.1.4 While the council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

6.1.5 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates as illustrated in the charts shown above and below. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

6.2. **Borrowing strategy and control of interest rate risk**

6.2.1. During 2021-22, the council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with loan debt, as cash supporting the council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

6.2.2. A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

6.2.3. The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

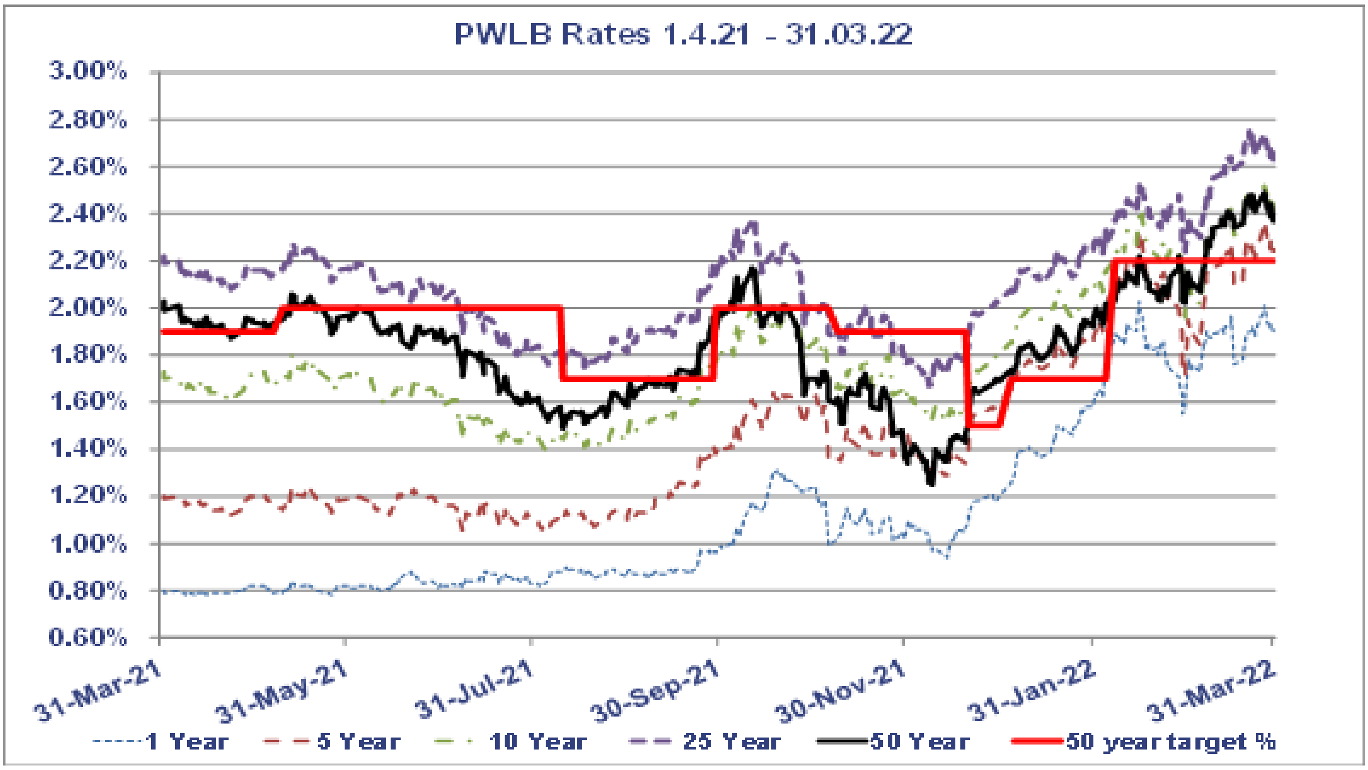
6.2.4. Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Section 151 Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected (e.g. perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks), then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

6.2.5. Interest rate forecasts expected only gradual rises in medium and longer term fixed borrowing rates during 2021-22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well into the second half of 2021-22.

Link Group Interest Rate View 7.2.22													
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40



6.2.6. PWLB rates are based on gilt (UK Government bonds) yields through H.M.Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. We have seen, over the last two years, many bond yields up to 10 years in the Eurozone turn negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10 year yields have fallen below shorter term yields. In the past, this has been a precursor of a recession. Recently, yields have risen since the turn of the year on the back of global inflation concerns.

6.2.7. Gilt yields fell sharply from the spring of 2021 through to September and then spiked back up before falling again through December. However, by January sentiment had well and truly changed, as markets became focussed on the embedded nature of inflation, spurred on by a broader opening of economies post the pandemic, and rising commodity and food prices resulting from the Russian invasion of Ukraine.

6.2.8. At the close of the day on 31 March 2022, all gilt yields from 1 to 5 years were between 1.11% – 1.45% while the 10-year and 25-year yields were at 1.63% and 1.84%.

6.2.9. Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB HRA Certainty Rate** is gilt plus 80bps (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

6.2.10. There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate is forecast to rise from 0.75% in March 2022 to 1.25% later this year, with upside risk likely if the economy proves resilient in the light of the cost-of-living squeeze. Medium to long dated yields are driven primarily by inflation concerns but the Bank of England is also embarking on a process of Quantitative Tightening when Bank Rate hits 1%, whereby the Bank's £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

6.3. **Change in strategy during the year** – the strategy adopted in the original Treasury Management Strategy Report for 2021-22 (approved by the council on 11 February 2021) was revised during 2021-22 in the mid-year treasury update report (approved by the council on 12 January 2022).

7. Borrowing Outturn for 2021-22

7.1. **Borrowing** – Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

7.2. **Borrowing in advance of need -** The council has not borrowed more than, or in advance of, its needs purely in order to profit from the investment of the extra sums borrowed.

7.3. **Rescheduling** – No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.4. **Repayments** – The council repaid £4.178m of maturing debt using investment balances, as below:

Lender	Principal £'000	Interest Rate	Repayment Date
Salix	4	0.00%	01-04-21
PWLB	43	3.08%	23-04-21
PWLB	50	2.48%	27-05-21
PWLB	72	1.28%	21-06-21
PWLB	3,840	3.31%	15-09-21
Salix	4	0.00%	01-10-21
PWLB	43	3.08%	25-10-21
PWLB	50	2.48%	29-11-21
PWLB	72	1.28%	20-12-21
Total	**4,178**		

7.5. **Summary of debt transactions** – The average interest rate on the debt portfolio increased from 3.86% to 3.95% during the year. This was due to the repayment of maturing debt as shown above.

8. Investment Outturn for 2021-22

8.1. **Investment Policy** – the council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the council on 11 February 2021. This policy sets out the approach for choosing investment 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.).

8.2. The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

8.3. **Resources** - the council's cash balances comprise revenue and capital resources and cash flow monies. The council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2021 Provisional £000	31 March 2022 Provisional £000
GF Balance	2,011	2,011
Earmarked Reserves	24,751	16,262
HRA Balance	7,749	6,365
Capital Receipts Reserve	6,316	7,396
Major Repairs Reserve	15,425	15,014
Capital Grants Unapplied	43	43
Total Usable Reserves	**56,295**	**47,091**

8.4. **Investments held by the council**

- The council maintained an average balance of £54.586m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.10%.
- The comparable performance indicator to the end of 2021 was the average 7-day London Interbank Bid Rate (LIBID) rate, which was minus 0.07%. From 2022 it was the average 7 day SONIA compounded rate which was 0.37%. The average blended rate for these two indicators was 0.04%.
- This compares with an original budget assumption of £23m investment balances earning an average rate of 0.10%.
- Total investment income was £55k compared to a budget of £23k.

8.5. **Investments held by fund managers** – the council does not use external fund managers on a discretionary basis for any part of its investment portfolio.

9. Investment risk benchmarking

9.1. The following investment benchmarks were set in the council's 2021-22 annual treasury strategy:

9.1.1. **Security** - The council's maximum security risk benchmark for the current portfolio, when compared to historic default tables, is:

- 0.05% historic risk of default when compared to the whole portfolio (excluding unrated investments).

9.1.2. **Liquidity** – in respect of this area the council seeks to maintain:

- Liquid short term deposits of at least £10m available with a week's notice.
- Weighted average life benchmark is expected to be in the range of 0 to 1 years, with a maximum of 5 years.

9.1.3. **Yield** - local measures of yield benchmarks are:

- Investments – internal returns above the 7 day LIBID rate (7 day SONIA compounded rate from 2022).

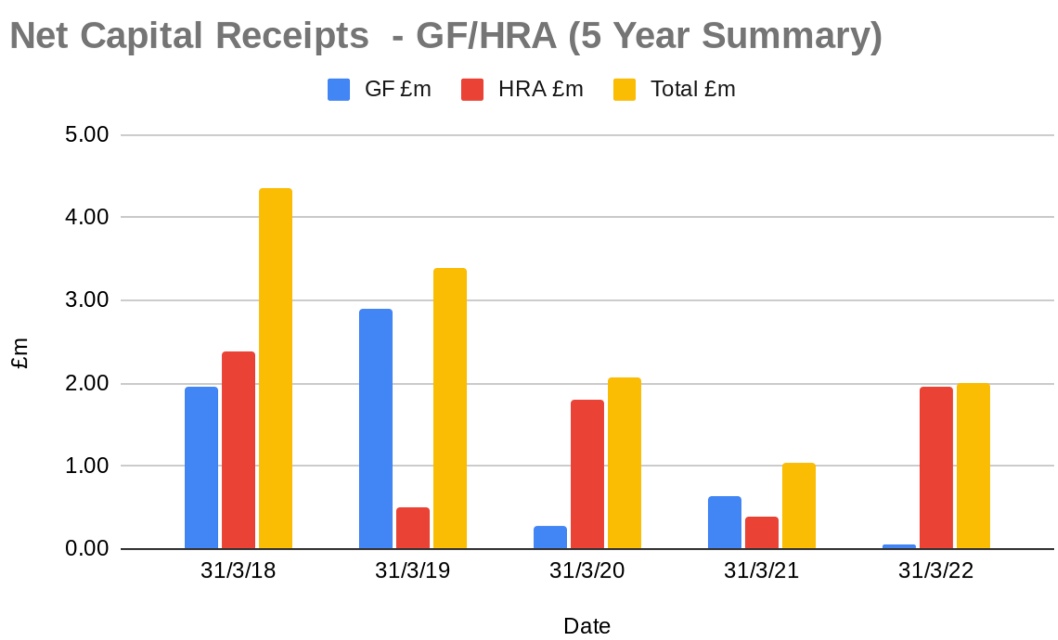
9.1.4. The council kept to the above benchmarks during 2021-22.

10. International Financial Reporting Standard 16 (IFRS 16)

10.1. The implementation of IFRS16 (bringing almost all lease liabilities onto the balance sheet together with the corresponding 'right of use' assets) has been delayed once more to 2024-25.

11. Capital Receipts

11.1 The chart below shows a 5 year summary of net capital receipts. It excludes the 2020-21 and 2021-22 capital receipts from the Dreamland disposal, as these have been used to reduce the council's capital financing requirement (CFR) rather than finance the future capital programme.

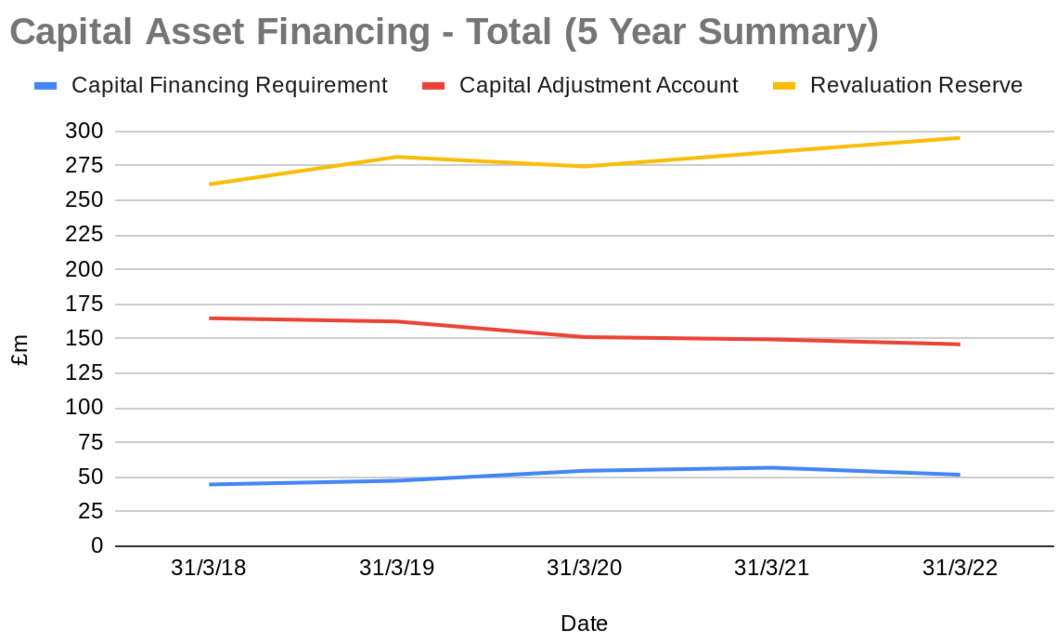


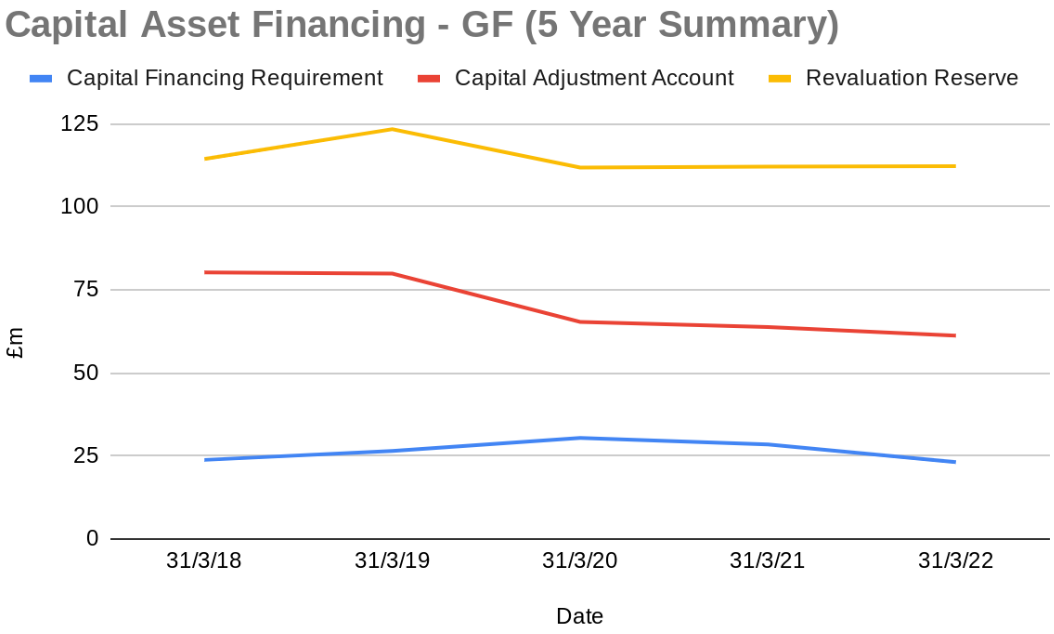
11.2 As can be seen from this chart, there has been a marked reduction in GF capital receipts which has implications for funding the future capital programme.

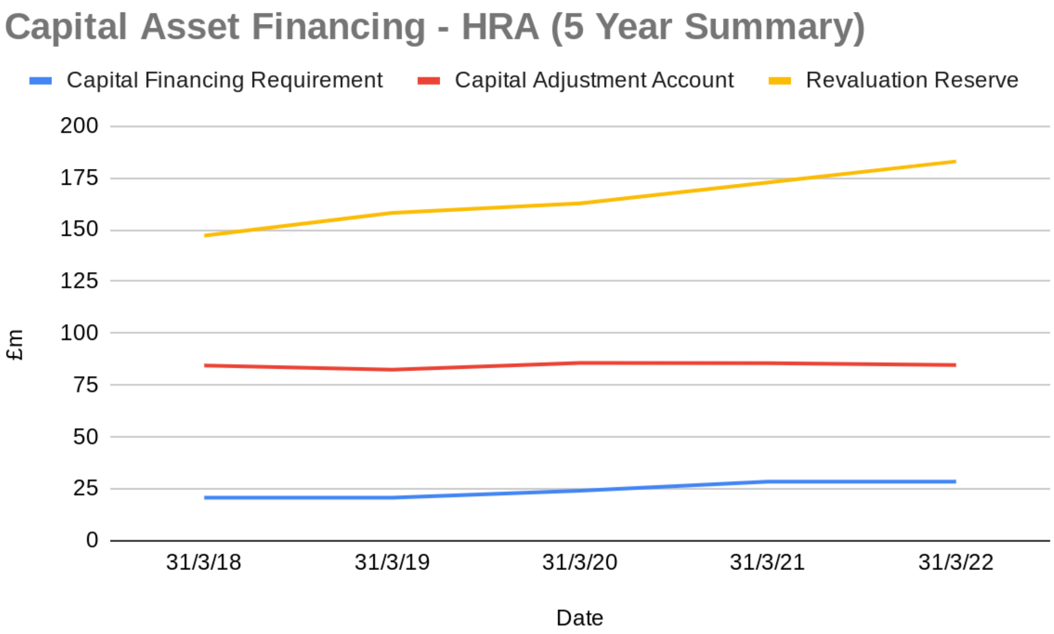
12. Capital Financing

12.1 The charts below show how much of the council's capital / long-term assets had yet to be funded (CFR), how much had effectively been paid off or funded (Capital Adjustment Account), and the aggregate increase in value of these assets since acquisition by the council (Revaluation Reserve).

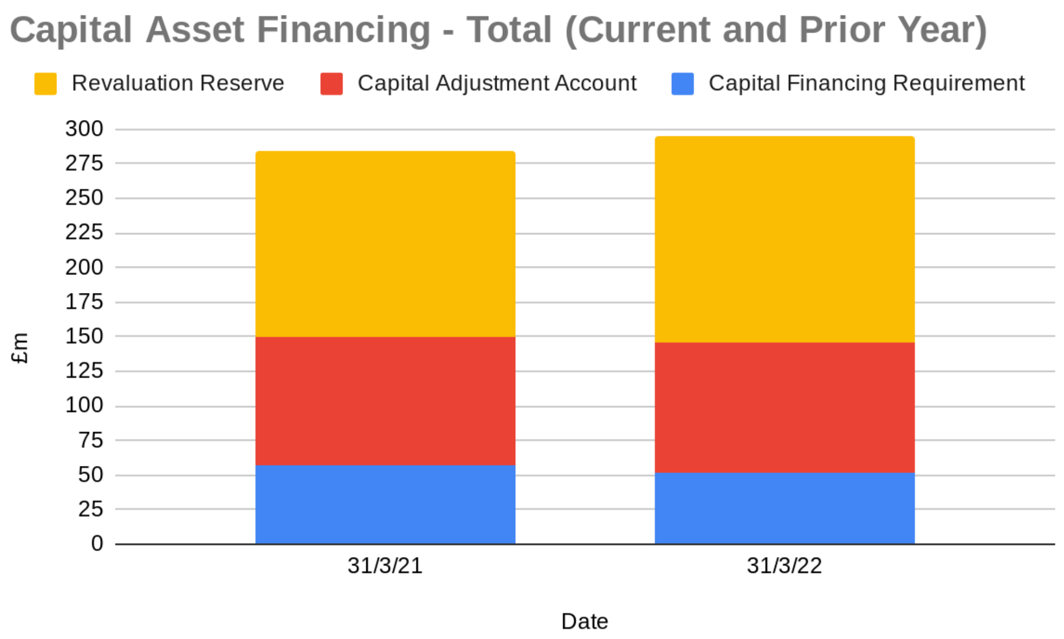
12.2 **Capital Asset Financing - 5 Year Summary**

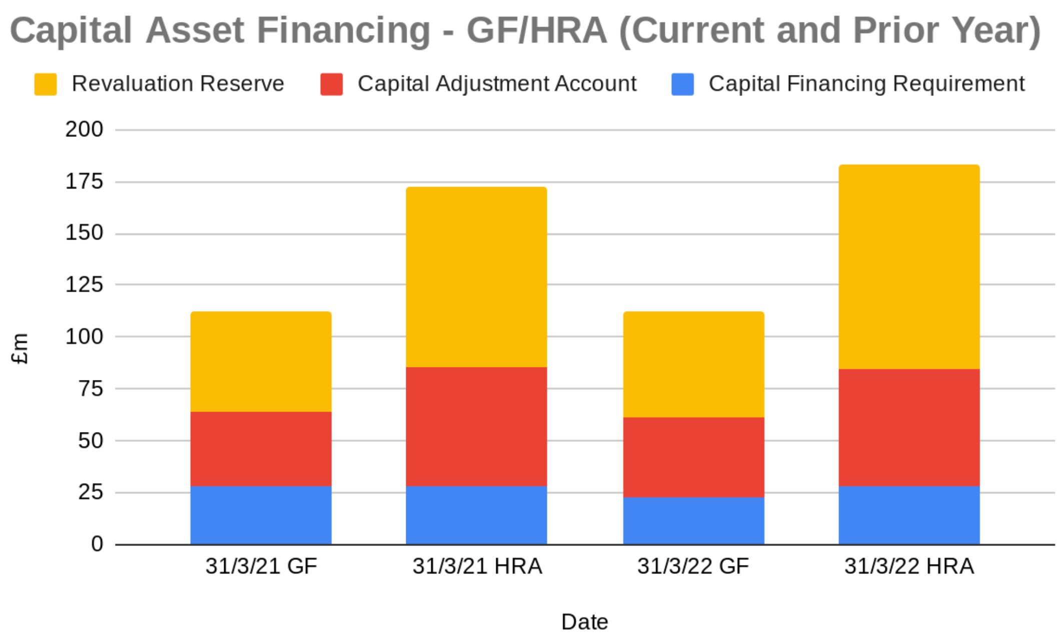






12.3 Capital Asset Financing - Current and Prior Year





13. Options

13.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that Cabinet:

- Notes the actual 2021-22 prudential and treasury indicators in this report.
- Makes comments as appropriate on this Annual Treasury Management Report for 2021-22.
- Recommends this report to council for approval.

13.2 Alternatively, Cabinet may decide not to do this and provide reason(s) why.

14. Disclaimer

14.1 This report is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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Reporting to: Colin Carmichael, Interim Chief Executive

Annex List

Annex 1: Report Guidance
Annex 2: Abbreviations and Definitions

Corporate Consultation Undertaken

Finance: n/a
Legal: Estelle Culligan, Director of Law and Democracy