Name of meeting: Corporate Governance and Audit Committee

Date: 17 June 2022

Title of report: Annual Report on Treasury Management 2021/22

Purpose of report
Financial Procedure Rules (Section 9.5) require that the Council receives an annual report on Treasury Management activities for the previous financial year. The report to this committee reviews borrowing and investment performance before it gets considered by Cabinet and Council.

Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?	**Not applicable**
Key Decision - Is it in the Council's Forward Plan (key decisions and private reports)?	**Yes**
The Decision - Is it eligible for "call in" by Scrutiny?	**Yes**
Date signed off by Service Director & name **Is it also signed off by the Service Director - Finance?** **Is it also signed off by the Service Director for Governance and Commissioning Support?**	**Eamonn Croston 5 June 2022** **As above** **Julie Muscroft 5 June 2022**
Cabinet member portfolio	**Cllr Paul Davies**

Electoral wards affected: Not applicable

Ward councillors consulted: Not applicable

Public or private: **Public**

GDPR: This report contains no information that falls within the scope of General Data Protection Regulations

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1. Summary

1.1 The Council's treasury management operation for the year has followed the strategy approved by Council on 10 February 2021. Investments averaged £37.9 million and were largely deposited in instant access accounts earning an average interest rate of 0.12%.

1.2 Total external borrowing at 31 March 2022 increased by £43.1 million to £468.9 million (£425.8 million as at 31 March 2021). The Council took £50 million new Government long term loans from the Public Works Loan Board (PWLB) (see paragraph 2.6.3 for more detail) and an additional £20 million Local Authority medium term loans (2-3 years). Temporary borrowing decreased for the year by £20.0 million to £21.5 million (£41.5 million 31st March 2021). The majority of borrowing is on fixed rate terms and the average long-term borrowing rate for 2021/22 relating to all long-term debt on the balance sheet was 3.84%. Short-term borrowing rates averaged 0.49%.

1.3 In 2017/18 the Council approved a revision to its Minimum Revenue Provision (MRP) policy, which relates to the amount of revenue resources set aside each year to provide for its outstanding debt repayments over the longer term. This was done by updating its approach to Supported Borrowing from 2007-08 onwards, moving from a 4% reducing balance to an annuity basis in its repayment of debt.

1.4 In updating the approach the Council effectively over-provided in previous years the re-payment of debt to the sum of £91.1 million. Within the Treasury Management Strategy 2018/19 the Council set out its approach to unwind this over-provision at £9.1 million each year over the next 10 years, starting from 2017/18 onwards.

1.5 Following approval within the 2018/19 Treasury Management Strategy there was a further increase in the un-winding in the General Fund MRP for 2021/22. The maximum amount of un-wind in any one year cannot be more than the overall annual MRP calculation, as otherwise the Council would end up in a negative MRP position, which is not allowable under accounting rules. The calculation estimated for 2021/22 was £13.7 million. The actual MRP calculation for 2021/22 was £15.6 million and hence the maximum unwind allowable. However, in 2021/22 the actual unwind was in-line with the budget at £13.7 million.

1.6 Treasury management costs incurred in the year include £9.2 million on net interest payments. The Council complied with its treasury management prudential indicators in the year.

2. <u>Information required to take a decision</u>

2.1 Background

2.1.1 The Council has adopted the CIPFA Treasury Management in the Public Services: Code of Practice and operates its treasury management service in compliance with this Code and various statutory requirements. These require that the prime objective of the activity is to secure the effective management of risk, and that borrowing is undertaken on a prudent, affordable and sustainable basis.

2.1.2 Council Financial Procedure Rules require that the Council receives an annual report on Treasury Management activities for the year. Cabinet is responsible for the implementation and monitoring of the treasury management policies. Corporate Governance and Audit Committee undertake a scrutiny role with regard to treasury management.

2.1.3 In reviewing 2021/22 performance, reference will be made to the Treasury Management Strategy Report approved by Budget Council on 10 February 2021.

2.2 Borrowing and Investment Strategy 2021/22

2.2.1 The Council's overall Treasury Management Strategy prioritises security, liquidity and risk management which was adhered to in 2021/22. The Council aims to invest externally, balances of £30 million, largely for the purpose of managing day-to-day cash flow requirements, with any remaining balances invested "internally", offsetting borrowing requirements. The investment strategy is designed to minimise risk and the Councils 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.

2.2.2 Lower official interest rates during the majority of 2021/22 have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used in lieu of borrowing. The Council 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.

2.3 The Economy and Interest Rates

Below paragraphs 2.3.1-2.3.8 are a commentary from our external treasury management advisors, Arlingclose.

2.3.1 The continuing economic recovery from the coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

2.3.2 The Bank Rate was 0.1% at the beginning of the reporting period. April and May 2021 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.

2.3.3 UK Consumer Price Inflation (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% year on year from 4.4%.

2.3.4 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%.

2.3.5 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.

2.3.6 Having increased the Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February, 0.75% in March and 1% in May. 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.

2.3.7 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%.

2.3.8 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.

2.4 Investment Activity

2.4.1 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 in the course of business. Treasury Management Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

2.4.2 The Council's treasury management investments totalled £78.9 million as at 31 March 2022 (£37.1 million 31 March 2021). The large investment balance at the yearend was partly due to £25.6 million Council Tax Energy Rebate monies being received at short notice on 30 March along with ensuring the Council had enough funds to meet planned outgoings in early April, including the West Yorkshire Pension Fund upfront payment of £37.8 million on 1 April 2022. The Council invested an average balance of £37.9 million externally during the year (£63.6 million 2020-21). Interest income of £0.034 million was generated through these investments (£0.071 million 2020-21) and £0.349 million dividend income from the CCLA Property Fund (£0.366 million 2020-21). Appendix 1 shows where investments were held at the beginning of April 2021, the end of September 2021 and the end of March 2022, by counterparty, by sector and by country. The Council's average lending rate for the year was 0.12% (0.13% 2020-21).

2.4.4 In April 21 the Council received £22.4 million in central government funding to support small and medium businesses during the coronavirus pandemic through restart grant schemes. The majority of investments were placed in liquid instruments such as instant access bank deposit accounts, DMO (Debt Management Office) and Money Market Funds (MMFs). MMFs offer greater diversification of counterparties, thus lowering risk as well as instant access.

2.4.5 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, Money Market Funds being close to zero. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March 2022.

2.4.6 The Council still has £10 million invested in the CCLA Property Fund as part of the 2019/20 Treasury Management Strategy (see paragraph 2.11.6).

2.5 Borrowing Update

2.5.1 In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and various 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. The acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing and treasury management.

2.5.2 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.

2.5.3 The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year which the Council opted to do. 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 Capital Financing Requirement (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.

2.5.4 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. There are no aspects of the Council's current multi-year plan that are expected to be in breach of the updated HMT guidance. All current and future capital activity funded by borrowing will be closely scrutinised by senior officers in conjunction with appropriate external advice to ensure future compliance and build into future business case appraisal.

2.5.5 PWLB funding margins have lurched quite substantially and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose.

2.6 Borrowing Requirement and Debt Management

2.6.1 In terms of borrowing, long-term loans maturing greater than one year totalled £442.3 million and short-term loans maturing within 12 months (excluding interest accrued) totalled £26.6 million (£375.8 million and £50.0 million 31 March 2021), an overall increase of £43.1 million. Appendix 2 details repayments of long-term loans during the year and short-term loans outstanding as at 31 March 2022.

2.6.2 The Council has an increasing CFR due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark, which also takes into account usable reserves and working capital. The Council'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. Having considered the appropriate duration and structure of the borrowing need based on realistic projections, it was decided to take a combination of short-term borrowing and longer-term repayment loans.

2.6.3 The Council borrowed £50 million of new long-term loans from the PWLB in 2021/22. These loans were taken throughout the year in tranches of £10 million, all 20 year Equal Instalment of Principal (EIP) loans at a rate between 1.46% and 2.28%. An EIP loan pays back principal over the life of the loan, and the interest associated with the loan goes down as the principal outstanding reduces.

2.6.4 As PWLB rates rose, the Council took advantage of medium-term loans over a 2 to 3 year time frame, achieving lower interest rates for the period and securing the funds needed.

2.6.5 Fixed rate loans account for 86.10% of total long-term debt (see also Appendix 5) giving the Council stability in its interest costs. The maturity profile for all long-term loans is shown in Appendix 3 and shows that no more than 7.43% of all debt is due to be repaid in any one year. This is good practice as it reduces the Council's exposure to a substantial borrowing requirement in any one particular future year, when interest rates might be at a relatively high level.

2.6.6 The primary source of the Council's borrowing is from the Governments PWLB representing 70.02% of total external borrowing.

2.6.7 The Council continues to hold £61.5 million of LOBO (Lender's Option Borrower's Option) loans which represents 13.75% of total external borrowing. LOBO loans are where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option to propose an increase in the interest rates during the year.

2.6.8 The table below sets out the actual external borrowing requirement against estimated requirements;

	2020/21 £m actual	2021/22 £m forecast	2021/22 £m actual
General Fund CFR - Non PFI	500.1	539.9	556.1
PFI	42.5	39.4	39.4
HRA CFR - Non PFI	170.3	170.5	166.0
PFI	48.1	45.2	45.2
Total CFR	761.0	795.0	806.7
Less: PFI debt liabilities	90.6	84.6	84.6
Borrowing CFR	**670.4**	**710.4**	**722.1**
Other deferred liabilities	3.7	3.7	3.6
Internal borrowing	240.9	222.9	249.6
External borrowing:			
PWLB Loans	271.5	330.4	313.3
LOBOs	61.5	61.5	61.5
Loan Stock (Fixed Rate)	7.0	7.0	7.0
Other Loans (Fixed Rate)	44.3	43.4	65.6
Temporary borrowing	41.5	41.2	21.5
Total External borrowing	425.8	466.1	468.9
Total Funding	**670.4**	**692.7**	**722.1**
Investments	37.1	30.0	78.9

2.6.9 In terms of debt rescheduling, the premium charge for early repayment of PWLB debt remained relatively expensive for the loans in the Council's portfolio and therefore unattractive for debt rescheduling activity in 2021/22.

2.6.10 The average long-term borrowing rate for 2021/22 for the Council's long-term loans outstanding was 3.84% (4.46% 2020/21).

2.7 Trends in treasury management activity

2.7.1 Appendix 4 shows the Council's borrowing and investment trends over the last 6 years. The trend has been to re-pay long term debt at maturity and where required borrow over the short term to take advantage of short-term rates. Going forward the need to borrow long term will be reviewed using the liability benchmark as mentioned above.

2.8 Risk and Compliance Issues

2.8.1 The Council reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy, including the prudential indicators. Details can be found in Appendix 5. Indicators relating to affordability and prudence are highlighted in this appendix.

2.8.2 When the Council has received unexpected monies late in the day, officers have no alternative but to put the monies into the Barclays Business Reserve Account overnight. The account is maintained so that usually, daily balances are under £0.1 million. The maximum daily amount deposited in this account overnight as a result of unexpected late receipts was £2.7 million. Whilst this is not an ideal situation, the Council is still within investment limits as per the Treasury Management Strategy which is set at £10 million per counterparty.

2.8.3 In line with Council Treasury Management Strategy, the Council has not placed any direct investments in companies as defined by the Carbon Underground 200.

2.8.4 The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's consultants (Arlingclose), has proactively managed the debt and investments over the year.

2.8.5 The CIPFA Code of Practice requires that treasury management performance be subject to regular member scrutiny. The Corporate Governance and Audit Committee performs this role and members have received reports on strategy, half yearly monitoring and now the outturn for the year 2021/22. Training was provided to Members on 30 November 2021.

Looking ahead – Treasury Management developments in 2022/23

2.9 Re-financing/re-payment of current Long-Term Borrowing

2.9.1 As outlined within the Council approved Treasury Management Strategy 2022/23, the Council will continue to look to repay existing long term debt when the opportunity arises where it becomes beneficial for the Council to do so.

2.9.2 In light of a number of lenders currently reviewing their holding of LOBO loans, there may be further opportunities to convert or re-finance existing LOBOs. With LOBO loans the Lender has the option to exercise their right to change the interest rate at which point the borrower can then choose to accept the new interest rate or choose to re-pay at no additional cost. Should any opportunities arise in the future then these would be investigated and reported back to members.

2.9.3 It is intended that Council officers liaise with the Council's external Treasury Management advisors, Arlingclose, to review lender options, and proceed if they are considered to be in the longer-term best interests of the Council.

2.10 Loan Funding Sources

2.10.1 The Council may be presented with additional sources of long-term funding at certain points in time, beyond those currently listed in the Council's current Treasury Management Strategy. These may be at preferential rates of interest and therefore the Service Director Finance (Section 151 Officer) will look to maximise the use of source funds when it is preferential to do so.

2.10.2 One such opportunity is with SALIX Finance Ltd. SALIX Finance Ltd provides interest free Government funding to the public sector to improve their energy efficiency, reduce carbon emissions and lower energy bills. The Council to date has taken the opportunity to secure £6.8 million interest free loans (£5.3 million outstanding as at 31 March 2022) to part fund the £13.4 million approved street lighting replacement scheme in the Council's approved capital plan.

2.11 Investment Opportunities

2.11.1 The Service Director Finance, supports the approach that the borrowing and investment strategy for 2022/23 continues to place emphasis on the security of the Council's balances.

2.11.2 The Council is invested in the Local Authorities Pooled Investment Fund (LAPF). The Local Authorities Property Fund was established in 1972 and is managed by CCLA Fund Managers. As at March 2022 there are assets under management of £1,439 million. The Fund aims to provide investors with regular revenue income and long-term price stability and it is an actively managed, diversified portfolio of UK commercial property. It principally invests in UK assets but may invest in other assets.

2.11.3 The fund returned a gross dividend yield of 3.25% in 2021/22 (4.30% 2020-21), which compares with average 0.12% on other short-term investments (see paragraph 2.4.1 above). Net income of £0.349 million was received by the Council in 2021/22 (£0.366 million in 2020/21).

2.11.4 In the nine months to December 2021 improved market outlook was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the CCLA. The prospect of higher inflation and rising bond yields did however result in muted bond fund performance. In the January-March quarter the two dominant themes were tighter UK and US monetary policy and higher interest rates, and the military invasion of Ukraine by Russia in February, the latter triggering significant volatility and uncertainty in financial markets. In light of Russia's invasion, Arlingclose contacted the fund managers of our MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified.

2.11.5 Unrealised cumulative capital gains of £0.6 million will not have an impact on the General Fund as the Council is utilising a Government dispensation for LAPF financial investment capital losses/gains at each year end to be notionally adjusted for within the Council's annual accounts, rather than it being a charge to the General Fund. It should be noted, that the current dispensation ends on 31st March 2023. The Government has indicated this override may be extended or become permanent.

2.11.6 The investment in the fund is part of a longer-term investment strategy to mitigate against any short-term market volatility or risk. As this fund has no defined maturity date its performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five year period total returns will exceed cash interest rates.

2.12 New Borrowing

2.12.1 As mentioned previously, the Council has an increasing CFR due to the capital programme. The Council's current approach to fund the capital plan is to use a combination of short and long-term borrowing. The Council'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 Council's long-term plans change being a secondary objective.

2.12.2 With short-term interest rates remaining much lower than long term rates, the Council considered it more cost effective in the near term to use internal resources and to borrow temporary short-term loans instead. With the continued recent volatility in PWLB rates and the recent increases, medium-term loans over shorter time frame, will also continue to be considered as the opportunities present themselves.

2.12.3 Long term loans from the PWLB will continue to be taken when gilt yields drop and the opportunity to take those fixed rate loans is presented. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained and having considered the appropriate duration and structure of the borrowing need based on realistic projections, and with ongoing consultation with Arlingclose.

2.12.4 As noted in the recent 2022/23 Treasury Management Strategy report, the Council will also consider the opportunity to arrange forward starting loans (with alternative lenders as these are not available through the PWLB), where the interest rate is fixed in advance but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period. Again, this would only be undertaken after having considered the appropriate duration and structure of the borrowing need based on realistic projections, and with ongoing consultation with Arlingclose.

2.12.5 On 11 May 22 The Levelling Up and Regeneration Bill was introduced to Parliament along with further updated PWLB guidance for applicants. The Bill included unexpected proposals to amend the Local Government Act 2003 to give the Secretary of State wide-ranging powers to issue local authority 'risk mitigation' directions. These could include asset sales or limits on borrowing with intervention triggered by a range of risk thresholds, for example, the amount of debt held in relation to financial resources, and 'other metrics'. HM Treasury will consult on the detail of the risk metrics referred to the in Bill, at a later date.

2.12.6 The updated PWLB guidance states that the PWLB will not advance new loans if there is more than negligible risk that the newly advanced loan will not be repaid without future government support. HM Treasury considered it necessary to clarify this in response to the continued build-up of very high levels of debt and associated credit risk in some local authorities. If a Councils debt level is flagged, it will be required to explain how it is managing financing risks. HM Treasury noted though, that authorities complying with the Prudential Code should not expect any change in their ability to access PWLB loans or to the process of applying for a loan, unless contacted by HM Treasury regarding specific concerns.

3. Implications for the Council

3.1 Working with People – N/A
3.2 Working with Partners – N/A
3.3 Place Based Working – N/A
3.4 Climate Change and Air Quality – N/A
3.4 Improving outcomes for children - N/A
3.5 Other (e.g. Legal/Financial) – Any changes in assumed borrowing and investment requirements, balances and interest rates will be reflected in revenue budget monitoring reports during the year.

4. Consultees and their opinions

None.

5. Next steps and timelines

5.1 Comments and feedback from CGAC will be incorporated into this report which will be subsequently considered at Cabinet and Council in July 2022 as part of the overall financial outturn and rollover report 2021/22.

6. Officer recommendations and reasons

6.1 CGAC are asked to note the treasury management performance in 2021/22 as set out in this report, prior to its submission to Cabinet and Council;

7. Cabinet portfolio holder's recommendations

The Cabinet portfolio holder notes the borrowing and investment performance as detailed in this report.

8. Contact officer

James Anderson	Head of Accountancy
Rachel Firth	Finance Manager

9. Background Papers and History of Decisions

CIPFA's Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes 2021 edition
CIPFA's Prudential Code for Capital Finance in Local Authorities 2021 edition
Public Works Loan Board Website.
Treasury Management 2021/22 Strategy Report approved by Council on 10 February 2021.
Treasury Management 2022/23 Strategy Report approved by Council on 16 February 2022.

10. Service Director responsible

Eamonn Croston 01484 221000

APPENDIX 1

		Kirklees Council Investments 2021/22									
Counterparty		**Credit Rating Mar 2022***	**1 April 2021**			**30 September 2021**			**31 March 2022**		
			£m	**Interest Rate**	**Type of Investment**	**£m**	**Interest Rate**	**Type of Investment**	**£m**	**Interest Rate**	**Type of Investment**
Specified Investments											
Santander	Bank	F1/A+	5.0	0.30%	35 Day Notice	5.0	0.10%	35 Day Notice	0.0	0.35%	35 Day Notice
Barclays	Bank	F1/A+	0.6	0.01%	Instant Access	0.0	0.01%	Instant Access	0.0	0.01%	Instant Access
Aberdeen Standard	MMF**	AAAmmf	8.6	0.01%	Instant Access	10.0	0.01%	Instant Access	8.9	0.51%	Instant Access
Aviva	MMF**	Aaa-mf	7.0	0.01%	Instant Access	6.1	0.01%	Instant Access	10.0	0.51%	Instant Access
Deutsche	MMF**	AAAmmf	5.9	0.01%	Instant Access	10.0	0.02%	Instant Access	0.0	0.49%	Instant Access
Goldman Sachs	MMF**	AAAmmf	0.0	0.00%	Instant Access	0.0	0.00%	Instant Access	3.3	0.48%	Instant Access
PCC for Devon & Cornwall	Local Authority		0.0	N/A	Local Authority	0.0	N/A	Local Authority	10.0	0.60%	Local Authority
PCC for Dorset	Local Authority		0.0	N/A	Local Authority	0.0	N/A	Local Authority	10.0	0.60%	Local Authority
Debt Management Office	Cent Govt		0.0	N/A	Cent Govt	0.0	N/A	Cent Govt	26.7	0.55%	Cent Govt
CCLA	Property Fund		10.0	N/A	Property Fund	10.0	N/A	Property Fund	10.0	N/A	Property Fund
			37.1			**41.1**			**78.9**		
Sector Analysis			**£m**	**%age**		**£m**	**%age**		**£m**	**%age**	
Bank			5.6	15%		5.0	12%		0.0	0%	
MMF**			21.5	58%		26.1	64%		22.2	28%	
Local Authorities/Cent Govt			0.0	0%		0.0	0%		46.7	59%	
Property Fund			10.0	27%		10.0	24%		10.0	13%	
			37.1	100%		**41.1**	100%		**78.9**	100%	
Country analysis			**£m**	**%age**		**£m**	**%age**		**£m**	**%age**	
UK			15.6	42%		15.0	36%		56.7	72%	
MMF**			21.5	58%		26.1	64%		22.2	28%	
			37.1	100%		**41.1**	100%		**78.9**	100%	

*Fitch short/long term ratings, except Aviva MMF (highest Moody rating). See next page for key. ** MMF – Money Market Fund. These funds are domiciled in Ireland for tax reasons, but the funds are made up of numerous diverse investments with highly rated banks and other institutions. The credit risk is therefore spread over numerous countries, including the UK. The exception to this is the Aviva Government Liquidity Fund which invests directly in UK government securities and in short-term deposits secured on those securities.

<u>Key – Fitch's credit ratings</u>:

		Long	Short
Investment Grade	Extremely Strong	AAA	
	Very Strong	AA+	
		AA	F1+
		AA-	
	Strong	A+	
		A	F1
		A-	
	Adequate	BBB+	F2
		BBB	
		BBB-	F3
Speculative Grade	Speculative	BB+	
		BB	
		BB-	
	Very Speculative	B+	B
		B	
		B-	
	Vulnerable	CCC+	
		CCC	
		CCC-	C
		CC	
		C	
	Defaulting	D	D

Appendix 2

Long-term loans repaid and short-term loans outstanding 31 March 2022

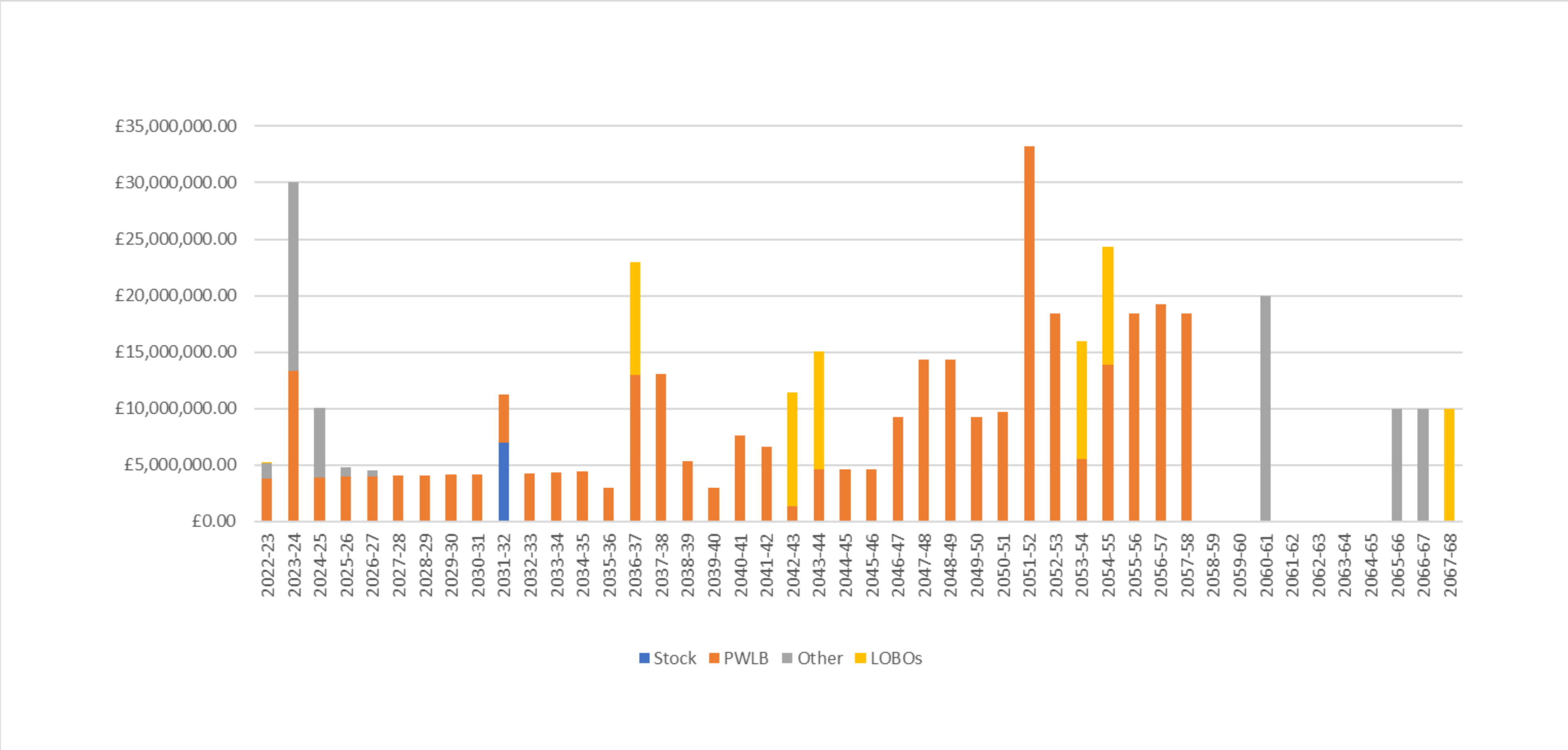
Long-term loans repaid during 2021/22

	Amount £000s	Rate %	Date repaid
Repayments on maturity			
PWLB (475156)	6,458	8.625	14 Feb 22
Repayments on annuity loans			
PWLB (496956)	386	4.58	29 Sep 21
PWLB (496956)	395	4.58	29 Mar 22
Repayments on EIP loans			
PWLB (313112)	250	1.64	6 Sep 21
PWLB (340221)	250	1.63	27 Oct 21
PWLB (373440)	250	1.46	12 Jan 22
PWLB (313112)	250	1.64	4 Mar 22
Total	**8,239**		

Short-term loans outstanding 31 March 2022

	Amount £000s	Rate %	Length (days)
Temporary borrowing from the Money Market			
Liverpool City Region Combined Authority	5,000	0.40	62
Middlesbrough Council	5,000	0.13	54
Greater Manchester Combined Authority	5,000	0.45	89
Oxfordshire County Council	5,000	0.70	184
Local lenders/Trust Funds	1,492		
Total Temporary borrowing	**21,492**		
Long-term loans due to mature in the next twelve months	5,167		
Total	26,659		

Kirklees Council Loan Maturity Profile (All Debt) **Appendix 3**



Appendix 4

Kirklees Council - Borrowing and Investment Trends

At 31 March	2022	2021	2020	2019	2018	2017
Investments	78.9m	37.1m	52.0m	39.1m	36.1m	31.3m
ST Borrowing (excl interest accrued)	26.6m	50.0m	53.2m	11.8m	20.8m	37.7m
LT Borrowing	442.3m	375.8m	373.7m	384.1m	392.4m	400.5m
Total Borrowing	468.9m	425.8m	426.9m	395.9m	413.2m	438.2m
Deferred liabilities (non PFI)	3.5m	3.6m	3.7m	3.9m	4.1m	4.1m
Net debt position	**393.5m**	**392.3m**	**378.6m**	**360.7m**	**381.2m**	**411.0m**
Capital Financing Requirement (excl PFI)						
General Fund	556.1m	500.1m	461.6m	436.6m	420.3m	412.8m
HRA	166.0m	170.3m	175.3m	175.3m	182.8m	186.2m
Total CFR	**722.1m**	**670.4m**	**636.9m**	**611.9m**	**603.1m**	**599.0m**
Balances “internally invested”	249.6m	240.9m	206.1m	212.1m	185.8m	156.7m
Ave Kirklees’ investment rate for financial year	0.1%	0.1%	0.7%	0.7%	0.3%	0.4%
Ave Base rate (Bank of England)	0.2%	0.1%	0.7%	0.7%	0.3%	0.3%
Ave LT Borrowing rate (1)	1.9%	2.3%	2.4%	2.5%	2.5%	2.5%

(1) Based on average PWLB rate throughout the year on a 25 to 30 year loan (less 0.2% PWLB certainty rate) repayable on maturity

APPENDIX 5

Treasury Management Prudential Indicators

Interest Rate Exposures

While fixed rate borrowing can contribute significantly to reducing the uncertainty surrounding future interest rate scenarios, the pursuit of optimum performance justifies retaining a degree of flexibility through the use of variable interest rates on at least part of the treasury management portfolio. The Prudential Code requires the setting of upper limits for both variable rate and fixed interest rate exposure:

	Limit Set 2021/22	Actual 2021/22
Interest at fixed rates as a percentage of net interest payments	60% - 100%	86%
Interest at variable rates as a percentage of net interest payments	0% - 40%	14%

The interest payments were within the limits set.

Maturity Structure of Borrowing

This indicator is designed to prevent the Council having large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

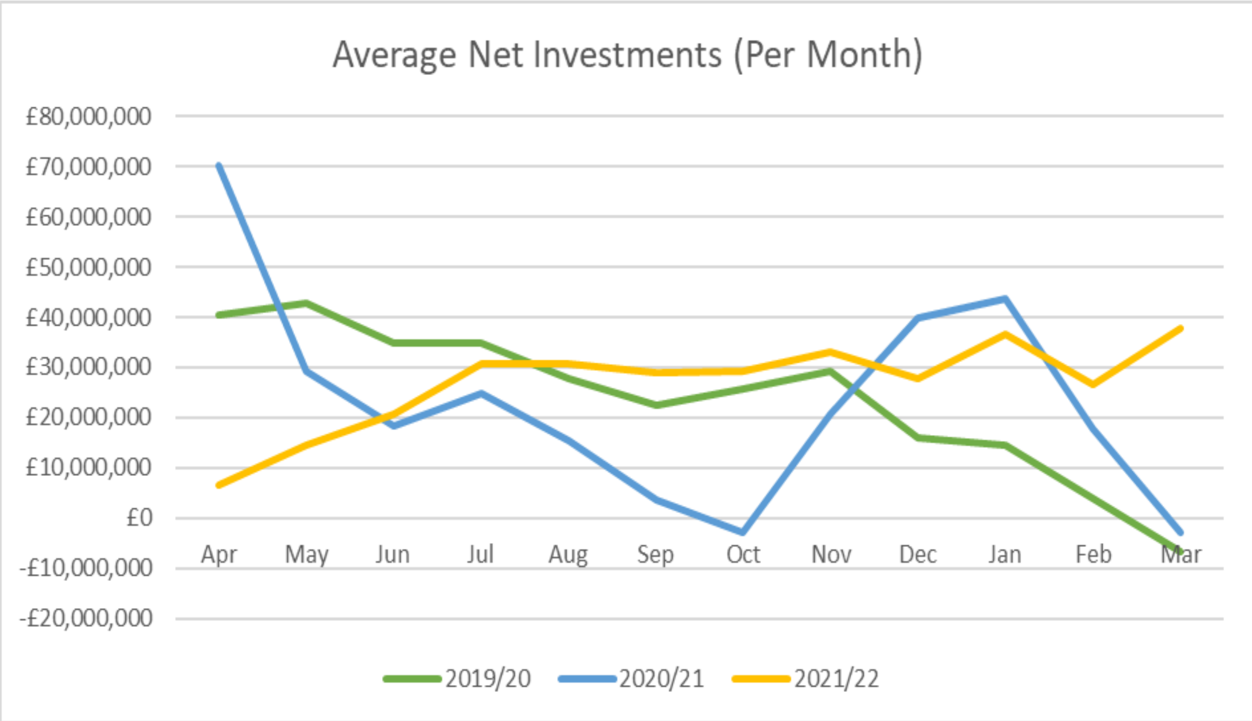
Amount of projected borrowing that is fixed rate maturing in each period as a percentage of total projected borrowing that is fixed rate	Limit Set 2021/22	Actual Levels 2021/22
Under 12 months	0% - 20%	1%
12 months to 2 years	0% - 20%	8%
2 years to 5 years	0% - 60%	5%
5 years to 10 years	0% - 80%	7%
More than 10 years	20% - 100%	79%

The limits on the proportion of fixed rate debt were adhered to.

Total principal sums invested for periods longer than 364 days

The Council has not invested any sums longer than 364 days.

APPENDIX 6



Average Net Investments (Per Month)
£80,000,000
£70,000,000
£60,000,000
£50,000,000
£40,000,000
£30,000,000
£20,000,000
£10,000,000
£0
-£10,000,000
-£20,000,000
Apr
May
Jun
Jul
Aug
Sep
Oct
Nov
Dec
Jan
Feb
Mar
2019/20
2020/21
2021/22