This report will be made public on 13 September 2022

Folkestone & Hythe District Council

Report Number **C/22/36**

To:	**Cabinet**
Date:	**21 September 2022**
Status:	**Non-Key Decision**
Head of Service:	**Charlotte Spendley – Director of Corporate Services**
Cabinet Member:	**Councillor David Monk, Leader and Portfolio Holder for Finance**

SUBJECT: **TREASURY MANAGEMENT ANNUAL REPORT 2021/22**

SUMMARY: This report reviews the Council's treasury management activities for 2021/22, including the actual treasury management indicators. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

REASONS FOR RECOMMENDATION:
Cabinet is asked to agree the recommendations set out below because:-

a) Both CIPFA's Code of Practice on Treasury Management in the Public Services and their Prudential Code for Capital Finance in Local Authorities, together with the Council's Financial Procedure Rules, require that an annual report on treasury management is received by the Council after the close of the financial year.

RECOMMENDATION:

1. To receive and note Report C/22/36.

1. INTRODUCTION

1.1 The annual treasury report is a requirement of the Council's reporting procedures. It covers the treasury activity for 2021/22 compared to the approved strategy for the year. It also summarises the actual treasury management indicators for 2021/22 compared to those approved for the year.

1.2 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003.

1.3 Cabinet approved the Treasury Management Strategy Statement for 2021/22, including treasury management indicators, on 20 January 2021 (minute 66 refers). Full Council approved the Capital Strategy for 2021/22 covering capital expenditure and financing, treasury management and non-treasury investments on 24 February 2021 (minute 26 refers). Cabinet received an update on the Council's treasury management activity in 2021/22 on 26 January 2022 as part of the Treasury Management Strategy Statement 2022/23 and Treasury Management Monitoring Report 2021/22 (minute 68 refers). The report also updated Cabinet on changes to both CIPFA's Prudential Code and Treasury Management Code along with the Public Works Loan Board (PWLB) lending arrangements which happened during 2021/22. In the case of CIPFA's Treasury Management Code, 2022/23 is a transitional year and the Council must meet its full requirements from 2023/24.

1.4 The Council's formal treasury management reporting arrangements comply with the requirements of the CIPFA's Treasury Management Code and also provide the opportunity for proper scrutiny of its treasury management activities.

2. ECONOMIC COMMENTARY

(Based on commentary supplied by Arlingclose Ltd, the Council's Treasury Advisor)

2.1 Economic Background

2.1.1 The economic background during 2021 has largely been dominated by the gradual recovery from the worst of the impact of the Covid-19 pandemic. However, the conflict in Ukraine has caused inflation to rise significantly in the first quarter of 2022 due to the impact on energy and commodity prices. The key issues affecting the UK economy over the past year are:

i) **Growth** – Gross Domestic Product (GDP) grew by 7.4% over 2021 as the domestic economy continued to adjust from the worst of the impact of the pandemic from 2020. GDP also grew by a modest 0.8% in Q1 of 2022, and at 31 March 2022 was 1.2% above its pre-pandemic level for February 2020.

ii) **Inflation** – At March 2021 the annual headline rate of UK Consumer Price Inflation (CPI) was at 0.70%. Inflation rose steadily throughout the year to reach 7.0% in March 2022 as the economy continued its recovery from the pandemic largely due to the impact of higher energy prices and wages as demand increased. Initially commentators expected inflation to peak in early 2022 before falling quite rapidly, however the conflict in Ukraine has only added to the existing inflationary pressures. Domestic inflation is now expected to persist at levels not seen since the 1980s for the next couple of years. The Bank of England's (BoE) target for inflation remains at 2%.

iii) **Wages and Employment** – Labour market data showed that in the three months to March 2022 the unemployment rate was a near record low of 3.9%, in contrast to the 4.8% recorded for the same period 12 months ago. Wages rose 7% for total pay in nominal terms (4.2% for regular pay), up by 1.4% in real terms for total pay, a reduction of 1.2% for regular pay.

iv) **Global Economy** – Like the UK, the US and Eurozone economies have both seen GDP rapidly improving as they recover from the pandemic and are now experiencing rising inflation at similar levels. The US Fed has started to raise interest rates in Q1 of 2022, however the European Central Bank had resisted this.

v) **Bank Base Rate** – As a response to the rising domestic inflation, the BoE raised the Bank Rate from 0.10% in December 2021 to 0.75% by March 2022. In February the BoE also signaled its intention to start to reduce the stock of its Quantitative Easing asset purchase scheme. In March the BoE said domestic inflation was expected to peak at 8% later in 2022. Since then this has been revised upwards and is now expected to peak around 13% as energy costs in particular impact on the economy while the Bank Rate has risen to 1.75%.

2.2 Financial Markets

2.2.1 Gilt yields, which regulate borrowing rates through the Public Works Loan Board (PWLB), increased over the year albeit with periods of volatility during this time. The 5-year UK benchmark gilt yield began the financial year at 0.39% before rising to 1.41% by the end of the financial year. Over the same period the 10-year gilt yield rose from 0.84% to 1.61%. The 20-year gilt increased from 1.36% to 1.82%.

2.2.2 The overnight, 1-month, 3-month and 12-month SONIA money market bid rates, used as a benchmark for short term cash deposits, averaged 0.18%, 0.22%, 0.31% and 0.62% respectively over the year.

2.2.3 The conflict in Ukraine has created uncertainty and this has affected the major equity indices. The Dow Jones started to decline in January but remained above its pre-pandemic level at 31 March 2022. The FTSE indices had mixed performances over the 12 month period to March 2022. The FTSE 100 has seen its value increase by 12.8%. However, the more UK-focused

FTSE 250 has seen its value fall by 17.3%. However, both indices were broadly at their pre-pandemic level by the end of the period.

2.3 Credit Background

2.3.1 Credit Default Swap spreads (the premium banks pay to guarantee liquidity for borrowing) remained broadly flat at relatively low levels during 2021. However, uncertainty over the conflict in Ukraine pushed CDS prices slightly higher in the first quarter of 2022, illustrating the general resilience of the banking sector. Arlingclose, the council's treasury management advisor, completed a full review of its credit advice on unsecured deposits and in September 2021 extended its recommended maximum investment duration limit for UK banks from 35 days to 100 days. A similar extension was advised for the non-UK banks from December 2021. Arlingclose keep recommended counterparties and investment durations under constant review.

2.3.2 There were no major changes in the credit ratings for UK institutions during the past year.

3. TREASURY POSITION AT 31 MARCH 2022

3.1 On 31 March 2022, the Council had net investments of £31.1m arising from its revenue and capital income and expenditure, an increase on 2021 of £12.3m. 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 and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.21 Actual £m	2021/22 Movement £m	31.3.22 Actual £m
General Fund CFR	79.5	6.3	85.8
HRA CFR	47.4	-	47.4
Total CFR	**126.9**	**6.3**	**133.2**
Less, External Borrowing	79.0	18.7	97.7
Internal Borrowing	**47.9**	**(12.4)**	**35.5**
Less: Usable reserves	(56.3)	2.4	(53.9)
Less: Working capital	(10.4)	(2.3)	(12.7)
Net Investments	**(18.8)**	**(12.3)**	**(31.1)**

3.2 The net increase in the Council's CFR of £6.3m was reported to Cabinet on 16 June 2022 in the General Fund Capital Programme Outturn 2021/22 report (minute 4 refers). Notably, capital expenditure in 2021/22 on the Otterpool Park Garden Town development (£3.7m), the acquisition of vehicles for the new waste contract (£1.5m), funding to support Oportunitas Limited for its property investment programme (£1.0m) and the Princes Parade Leisure and Housing scheme (£1.2m) was met from prudential borrowing. Moving forward, it is expected some of the remaining internal borrowing will be replaced with new external borrowing as the cash reserves and balances are applied towards their intended use.

3.3 The Council's current strategy is to maintain 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 31 March 2022 and the year-on-year change in show in table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m
Long-term borrowing	72.2	(15.0)	57.2
Short-term borrowing	6.8	33.7	40.5
Total borrowing	**79.0**	**18.7**	**97.7**
Long-term investments	(15.2)	(0.8)	(16.0)
Cash and cash equivalents	(3.6)	(11.5)	(15.1)
Total investments	**(18.8)**	**(12.3)**	**(31.1)**
Net borrowing	**60.2**	**6.4**	**66.6**

Note: the figures in the table are from the balance sheet in the authority's statement of accounts, but adjusted to exclude operational cash, accrued interest and other accounting adjustments.

3.4 The increase in the Council's net borrowing of £6.4m reflects the increase in the CFR, outlined above in table 1.

4. BORROWING 2021/22

4.1 Borrowing Update

4.1.1 The updated CIPFA Prudential Code and PWLB lending arrangements now prohibit local authorities from borrowing to incur capital expenditure on investment assets primarily for yield. These are prospective rather than retrospective requirements.

4.1.2 The Council was not planning to purchase any investment assets primarily for yield during 2021/22 or over the period of the approved Medium Term Capital Programme so is unaffected by the changes to the Prudential Code and PWLB lending arrangements for its borrowing activity.

4.1.3 The Prudential Code states that local authorities who already held commercial investment assets primarily for yield prior to the changes made in 2021 are not required to sell these. However, local authorities who have an ongoing borrowing requirement are expected to review these commercial investment assets as part of their annual treasury management of investment strategies to evaluate the financial returns are commensurate with the risks involved. The Council currently holds the Connect 38 office building in Ashford that meets this definition and will now be subject to the annual evaluation process.

4.2 Borrowing Activity 2021/22

4.2.1 At 31 March 2022, the Council held £97.7m of loans, an increase of 18.7m on the previous year, as part of its strategy for funding previous and current years' capital programmes. Following the introduction of the Housing Revenue Account (HRA) Self-Financing regime in 2012 the Council operates a two pool debt approach allocating its loans between the General Fund and HRA. The year-end borrowing position and the year-on-year change is shown in table 3 below. A full list of the loans held at 31 March 2022 is shown in appendix 1 to this report.

Table 3: Borrowing Position – Two Pool Debt Approach

	31.3.21 Balance £m	2021/22 Movement £m	31.3.22 Balance £m	Average Rate %
General Fund				
Public Works Loan Board	7.2	-	7.2	4.69%
Local Authorities	25.5	17.0	42.5	0.65%
Total General Fund borrowing	**32.7**	**17.0**	**49.7**	**1.42%**
Housing Revenue Account				
Public Works Loan Board	46.3	(1.3)	45.0	3.28%
Local Authorities	-	3.0	3.0	0.95%
Total HRA borrowing	**46.3**	**1.7**	**48.0**	**3.27%**
Total borrowing	**79.0**	**18.7**	**97.7**	**2.44%**

4.2.2 The weighted average maturity of the overall loans portfolio at 31 March 2022 is 6.3 years.

4.2.3 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 authority's long-term plans change being a secondary objective.

4.2.4 With short-term interest rates remaining much lower than long-term rates, it was considered to be more cost effective in the near term to use mainly short-term loans borrowed from other local authorities and also to continue using internal resources to meet the increase in the CFR. The movement in these loans is shown in table 3, above.

4.2.5 The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing is in place to provide flexibility for future decisions.

5. INVESTMENT ACTIVITY 2021/22

5.1 The CIPFA Treasury Management Code defines treasury management investments as those 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 its business.

5.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Council's investment balance ranged between £18.8 million and £43.6 million due to timing differences between income and expenditure. The Council had an average investment balance of £34m during 2021/22. This is about £9m more than originally anticipated and is due to the following three main factors:

i) Higher than anticipated usable reserves at 31 March 2021

ii) Delays to the council's General Fund capital expenditure programme for 2021/22 to be met from prudential borrowing

iii) Short-term net positive cash flow from Council Tax receipts and government grants

5.3 The Council generated a return, net of fees, of 1.79% for the year from its treasury investments. The year-end investment position and the year-on-year change are shown in table 4 below. A list of the individual investments held at 31 March 2022 is shown in appendix 2 to this report.

Table 4: Investment Position

	31.3.21 Balance £m	**Net Movement £m**	**31.3.22 Balance £m**	**Average Return**
Banks & building societies (unsecured)	-	-	-	0.01%
Government (inc Local Authorities)	-	5.0	5.0	0.06%
Money Market Funds	3.6	6.5	10.1	0.08%
Property Pooled Fund	5.3	0.9	6.2	4.47%
Multi-Asset Income Funds	9.9	(0.1)	9.8	3.99%
Total investments	**18.8**	**12.3**	**31.1**	**1.79%**

5.4 The weighted average maturity of the investment portfolio at 31 March 2022 was 13 days.

5.5 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council'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.

5.6 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 0.48% - 0.53% p.a.

5.7 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.

5.8 The Council met its investment objectives and strategy for 2021/22. As previously outlined in sections 3 and 4 of this report, the Council has been able to use short term liquid cash to meet its underlying borrowing need through internal borrowing, reducing its exposure to credit risk. Secondly, the return from the strategic investments in pooled funds have continued to provide cash returns in excess of average inflation over the year. The performance of these pooled funds is considered in more detail below.

5.9 **Externally Managed Pooled Funds** - The Council has £15m invested in externally managed multi-asset and property funds, representing the authority's forecast minimum level of cash reserves and balances over the medium term. These pooled funds aim to provide returns in excess of inflation and, over time, provide the opportunity for some limited capital growth.

5.10 The funds generated a total return of £1.45m or 9.45% compared to their value at 31 March 2021, comprising an income return of £0.64m (4.16%) which is used to support services in year, and £0.81m (5.29%) of unrealised capital growth. A summary of the pooled funds value and performance for the financial year is shown in table 5 below.

Table 5 – Pooled Funds Summary

Fund	Value at 31/03/21	Value 31/03/22	Capital Return 2021/22	Cash Return 2021/22	Total Return 2021/22
	£m	£m	£m	£m	£m
CCLA Local Authority Property Fund	5.28	6.21	0.93	0.24	1.17
CCLA Diversified Income Fund	1.94	2.04	0.10	0.05	0.15
Aegon Diversified Monthly Income Fund	3.52	3.51	(0.01)	0.18	0.17
Ninety-One Diversified Income Fund	3.51	3.35	(0.16)	0.13	-0.03
UBS Multi-Asset Income Fund	0.95	0.90	(0.05)	0.04	-0.01
Total	**15.20**	**16.01**	**0.81**	**0.64**	**1.45**
Return %			**5.29%**	**4.16%**	**9.45%**

5.11 In the nine months to December 2021 improved market sentiment was reflected in equity, property and multi-asset fund valuations and, in turn, in the capital values of the Authority's property and multi-asset income funds in the Council's portfolio. 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.

5.12 In light of Russia's invasion, Arlingclose contacted the fund managers of both Money Market Funds and pooled funds the Council is invested with, who confirmed there is no direct exposure to Russian or Belarusian assets held by banks and financial institutions. Any indirect exposures were viewed as immaterial. It should be noted that that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

5.13 Because the pooled funds have no defined maturity date, but are available for withdrawal after a notice period, their 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.

5.14 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in table 6 below.

Table 6: Investment Benchmarking – Treasury investments managed in-house only

	Credit Score	Credit Rating	Bail-in Exposure	WAM* (days)	Income Return
FHDC					
31.03.2021	4.01	AA-	100%	1	0.01%
31.03.2022	**3.99**	**AA-**	**68%**	**7**	**0.52%**
Similar LAs	**4.37**	**AA-**	**61%**	**43**	**0.46%**
All LAs	**4.39**	**AA-**	**60%**	**14**	**0.46%**

*WAM = weighted average maturity of investments held.

5.15 The investment benchmarking, which is a snapshot at the end of each quarter and only covers in-house managed investments, demonstrates the council's risk profile and returns are comparable to both its peer group and the wider local authority population as at 31 March 2022 (measured against other Arlingclose clients only).

6. FINANCIAL SUMMARY

6.1 The following table summarises the Council's net interest cost for its treasury management activities in 2021/22 and shows the outturn to the General Fund and the Housing Revenue Account is lower than the approved estimate, subject to audit:

Table 7: Net Interest Cost

	2020/21 Actual	2021/22 Estimate	**2021/22 Actual**	**2021/22 Variance Estimate to Actual**
	£'000	£'000	**£'000**	**£'000**
Interest Paid	*2,188*	2,124	**2,058**	**(66)**
Interest Received(net of fees)	*(664)*	(535)	**(643)**	**(108)**
Net Interest	*1,524*	1,589	**1,415**	**(174)**
Net Impact				
General Fund	*(238)*	66	**(291)**	**(357)**
H.R.A	*1,535*	1,523	**1,513**	**(10)**
Capitalised Interest	*227*	-	**193**	**193**
	1,524	1,589	**1,415**	**(174)**

6.2 The reduction in the net borrowing cost to the General Fund of £357k is mainly due to; -

i) higher than anticipated investment income received (£107k) from its strategic pooled fund investments, and
ii) capitalised interest on borrowing mainly attributable to land acquired for the Otterpool Park Garden Town Development.

6.3 The Council changed its Accounting Policy from 2019/20 to allow it to capitalise interest incurred on qualifying capital projects that are expected to take a number of years to be delivered. This has enabled the capitalisation of interest on borrowing to purchase the property from Cozumel Estates and other property for the Otterpool Park development acquired since 1 April 2019. Capitalised interest will also be charged to the Princes Parade development on that element met by prudential borrowing during its construction phase. The budgets for Otterpool Park and Princes Parade within the approved Medium Term Capital Programme provide for the capitalised interest cost.

7. OTHER NON-TREASURY HOLDINGS AND ACTIVITY

7.1 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which it holds primarily for financial return. This is replicated in the former MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return. The assets are summarised in the table below:

Table 8: Non-Treasury Holdings and Returns

Investment Type	Value 31/03/21 £m	Value 31/03/22 £m	Net Income 2021/22 £'000	Equated Rate of Return %
Investment Property				
Otterpool Property	64.0	69.5	266	(0.38)
Offices	17.4	16.8	(259)	1.54
Commercial Land	0.8	1.8	-	-
Commercial Units	1.8	1.9	(114)	3.10
Assets Under Construction	0.2	-	-	-
Total Investment Property	**84.2**	**90.0**	**(106)**	**0.12**
Subsidiary Companies				
Oportunitas loan	4.3	4.3	(208)	4.88
Oportunitas equity	3.5	2.3	14	(0.78)
Oportunitas - Total	7.8	6.6	(194)	3.21
Otterpool Park LLP equity	1.2	1.2	13	(1.00)
Otterpool Park LLP loan	-	1.3	(14)	5.10

Otterpool Park LLP - Total	1.2	2.5	(1)	0.09
Total Subsidiaries	**9.0**	**9.1**	**(195)**	**2.01**
Total	**93.2**	**99.1**	**(301)**	**0.30**

7.2 The net income and rate of return excludes the impact of any unrealised property valuation gains or losses. Ordinarily the rate of return on non-treasury investment assets would be expected to be higher than that earned on treasury investments reflecting the additional risks to the council of holding such investments. This is demonstrated with the return on the commercial units and Oportunitas. However the return on the investment property portfolio for 2021/22 is significantly distorted because of the land acquisitions taking place for the Otterpool Park project in particular. The Council is receiving rental streams from some of the property being acquired in the short to medium term.

8. COMPLIANCE WITH INVESTMENT LIMITS AND TREASURY INDICATORS

8.1 The Director of Corporate Services reports that the treasury management activities undertaken during 2021/22, with one exception, complied with the CIPFA Code of Practice and the council's approved Treasury Management Strategy. The Council has exceeded the approved upper limits for the future financial impact of a 1% increase in interest rates. This is an advisory indicator designed to reduce the authority's exposure to interest rate changes on variable debt and investments. The original approved limits did not fully reflect the maximum amount of new or replacement borrowing the Council could be liable to take up over the next 12 months. The actual limit reflects the prudential borrowing need for the latest approved capital programme. Although this suggests a potential increased interest charge to revenue for a rise in rates, Members are reminded that the Council capitalises its interest cost directly related to borrowing for qualifying capital schemes and much of the additional charge would be charged to these rather than revenue. Further information regarding this issue and compliance with the specific Investment and Treasury indicators is contained in appendix 3 to this report.

9. LEGAL/FINANCIAL AND OTHER CONTROLS/POLICY MATTERS

9.1 Legal Officer's Comments (NM)

There are no significant legal implications as a result of the recommendations in this report which are not covered in the body of the report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services and the CIPFA Prudential Code for Capital Finance in Local Authorities issued under the Local Government Act 2003 provides assurance that the council's investments are, and will continue to be, within its legal powers.

9.2 Finance Officer's Comments (LW)

This report has been prepared by the Finance Specialist Team and relevant financial implications are included within it.

9.3 Diversities and Equalities Implications

The report does not cover a new service or policy or a revision of either and therefore does not require an Equality Impact Assessment.

9.4 Climate Change Implications (AT)

There are no climate change implications arising directly from this report. It updates Cabinet on the treasury management activities undertaken during the 2021-22 financial year and confirms all borrowing and investment decision were made in accordance with the approved strategy for the year.

9.5 Communications Officer's Comments (KA)

There are no communications implications arising directly from this report.

10. CONTACT OFFICER AND BACKGROUND DOCUMENTS

Councillors with any questions arising out of this report should contact the following officer prior to the meeting:

Lee Walker, Capital and Treasury Senior Specialist
Telephone: 01303 853593 Email: lee.walker@folkestone-hythe.gov.uk

The following background documents have been relied upon in the preparation of this report:

Arlingclose Ltd – Model Treasury Management Annual Report Template

Appendices:

Appendix 1 – Borrowing, loans held at 31 March 2022
Appendix 2 – Investments held at 31 March 2022
Appendix 3 – Compliance with specific investment and borrowing limits and Treasury Indicators

APPENDIX 1 – BORROWING, LOANS HELD AT 31 MARCH 2022

Lender	Loan No	Loan Type	Start Date	Maturity Date	Principal Outstanding 31/03/2022	Interest Rate
					£	%
Public Works Loan Board	500536	Fixed	28/03/2012	28/03/2023	4,000,000.00	2.56
Public Works Loan Board	480111	Fixed	14/10/1997	31/03/2023	1,000,000.00	6.63
Public Works Loan Board	500546	Fixed	28/03/2012	28/03/2024	4,000,000.00	2.70
Public Works Loan Board	500540	Fixed	28/03/2012	28/03/2025	4,000,000.00	2.82
Public Works Loan Board	500548	Fixed	28/03/2012	28/03/2026	4,000,000.00	2.92
Public Works Loan Board	500543	Fixed	28/03/2012	28/03/2027	4,000,000.00	3.01
Public Works Loan Board	500538	Fixed	28/03/2012	28/03/2028	4,000,000.00	3.08
Public Works Loan Board	500541	Fixed	28/03/2012	28/03/2029	4,000,000.00	3.15
Public Works Loan Board	500542	Fixed	28/03/2012	28/03/2030	4,000,000.00	3.21
Public Works Loan Board	500537	Fixed	28/03/2012	28/03/2031	4,010,000.00	3.26
Public Works Loan Board	430141	Annuity	09/11/1973	01/11/2033	3,705.61	11.38
Public Works Loan Board	488942	Fixed	12/08/2004	07/08/2034	2,000,000.00	4.80
Public Works Loan Board	494027	Fixed	31/10/2007	15/03/2044	2,000,000.00	4.65
Public Works Loan Board	494028	Fixed	31/10/2007	15/03/2045	2,000,000.00	4.65
Public Works Loan Board	494029	Fixed	31/10/2007	15/03/2046	2,141,190.00	4.65
Public Works Loan Board	493914	Fixed	10/09/2007	07/02/2053	2,500,000.00	4.55
Public Works Loan Board	492233	Fixed	28/09/2006	15/03/2054	2,000,000.00	4.05
Public Works Loan Board	493698	Fixed	10/08/2007	07/08/2055	2,500,000.00	4.55
Total - Public Works Loan Board					**52,154,895.61**	
West Yorkshire Combined Authority		Fixed	22/04/2021	19/04/2022	5,000,000.00	0.10
Durham County Council		Fixed	01/02/2021	03/10/2022	5,000,000.00	0.55
London Borough of Wandsworth		Fixed	29/01/2021	31/01/2023	10,000,000.00	0.60
Leicester City Council		Fixed	01/03/2021	01/03/2023	5,000,000.00	0.65
Lichfield District Council		Fixed	09/03/2022	09/03/2023	2,000,000.00	0.95
North Somerset Council		Fixed	09/03/2022	09/03/2023	3,000,000.00	0.95
East Sussex County Council		Fixed	22/03/2022	21/03/2023	5,000,000.00	1.25
Leicester City Council		Fixed	31/01/2022	31/01/2024	5,000,000.00	0.40
Leicester City Council		Fixed	22/03/2022	22/03/2024	5,000,000.00	1.25
Folkestone Town Council	n/a	Variable - 2 day call notice	Various May 2018	n/a	500,000.00	0.50
Total - Other Loans					**45,500,000.00**	
Total - Borrowing at 31/03/2022					**97,654,895.61**	

APPENDIX 2 – INVESTMENTS HELD AT 31 MARCH 2022

Category and Counterparty	Amount or Value £	Terms	Indicative Interest Rate or Yield %
Government & Local Authorities			
UK - Debt Management Office	5,000,000	22/03/2022 to 19/04/2022	0.55
Money Market Funds			
Aberdeen Standard MMF	4,270,000	No notice instant access	0.51
Goldman Sachs MMF	615,000	No notice instant access	0.48
Legal & General MMF	4,865,000	No notice instant access	0.53
Federated MMF	385,000	No notice instant access	0.51
Other Pooled Funds			
Commercial Property Funds			
CCLA Property Fund	6,209,799	No specified maturity date	4.47
Multi-Asset Income Funds			
CCLA Diversified Income Fund	2,036,219	No specified maturity date	2.50
UBS Multi-Asset Income Fund	900,633	No specified maturity date	4.53
Aegon Asset Management Diversified Monthly Income Fund	3,513,924	No specified maturity date	5.08
Ninety-One Diversified Income Fund	3,349,092	No specified maturity date	3.57
Total Investments	**31,144,667**		2.16

* Net of Fees

APPENDIX 3 – COMPLIANCE WITH SPECIFIC INVESTMENT AND TREASURY INDICATORS

Compliance with specific investment limits is demonstrated in table 1 below.

Table 1: Specific Investment Limits

	Maximum to 31.3.22	**31.3.22 Actual**	**2021/22 Limit**	**Complied**
Any single organisation, except UK Government	£5m	nil	£5m each	✓
UK Central Government	£8m	£5m	Unlimited	✓
Any group of funds under the same management	nil	nil	£5m per group	✓
Negotiable instruments held in a broker's nominee account	nil	nil	£10m per broker	✓
Foreign countries	nil	nil	£5m per country	✓
Registered Providers	nil	nil	£10m in total	✓
Unsecured investments with Building Societies	nil	nil	£6m in total	✓
Loans to unrated corporates	nil	nil	£5m in total	✓
Money Market Funds	£20m	£10.14m	Unlimited	✓
Strategic Pooled Funds	£16.01m	£16.01m	£25m	✓
Any group of pooled funds under the same management	£8.25m	£8.25m	£10m per manager	✓
Real estate investment trusts	nil	nil	£10m in total	✓

Treasury Management Indicators

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

Security: The council 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 council 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, without additional borrowing
.

	31.3.22 Actual	2021/22 Target	Complied
Total cash available within 3 months	£15.1m	£5m	✓

Interest Rate Exposures: This indicator is set to control the council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the amount of net principal borrowed is shown in table 3 below:

Table 3: Interest Rate Exposures

	31.3.22 Actual	2021/22 Limit	Complied
Upper limit on one-year revenue impact of a 1% **rise** in interest rates	£309,396	£164,000	×
Upper limit on one-year revenue impact of a 1% **fall** in interest rates	(£342,672)	(£185,000)	×

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates. This is an advisory indicator designed to reduce the authority's exposure to interest rate changes on variable debt and investments. The actual upper limit on the one-year revenue impact of a 1% rise and fall in rates exceeds the limits set for the year. The original approved limits did not fully reflect the maximum amount of new or replacement borrowing the Council could be liable to take up over the next 12 months. The actual limit reflects the prudential borrowing need for the latest approved capital programme. Although this suggests a potential increased interest charge to revenue for a rise in rates, Members are reminded that the Council capitalises its interest cost directly related to borrowing for qualifying capital schemes and approximately £105k of the additional charge would be charged to these rather than revenue. This means for every 1% increase in interest rates, approximately £204k would be an additional charge to revenue.

Maturity Structure of Borrowing: This indicator is set to control the council's exposure to refinancing risk. Compliance with the upper and lower limits on the maturity structure of fixed rate borrowing is shown in table 4 below:

Table 4: Maturity Structure of Borrowing

	31.3.22 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	11.6%	30%	0%	✓

12 months and within 24 months	3.4%	40%	0%	✓
24 months and within 5 years	4.8%	50%	0%	✓
5 years and within 10 years	10.7%	80%	0%	✓
10 years and above	12.3%	100%	0%	✓

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 364 days: The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. Compliance with the limits on the long-term principal sum invested to final maturities beyond the period end is shown in table 5 below:

Table 5: Principal Sums Invested for Periods Longer than 364 days

At 31.3.22	**2021/22**	**2022/23**	**2023/24**
Actual principal invested for longer than 364 days	-	-	-
Limit on principal invested beyond 364 days	£15m	£5m	£5m
Complied	✓	✓	✓

Although the council's investments in the pooled funds of £16.01m are accounted for as non-current (long term) assets, based on the intention to continue to hold them for longer than 12 months, they do not have a fixed maturity date and can be redeemed within a short notice period if required so do not feature in this indicator.