

Report to:	Cabinet	Date: 07 September 2022
Subject:	Treasury Management Outturn 2021/22	
Report of	Cabinet Member for Finance and Communities	

Summary

1. The report outlines the financial position and provides an update on the following aspects of the Treasury management function throughout 2021/22. The report covers:
 - the Council's capital expenditure and financing.
 - the treasury position as 31st March 2022.
 - the investment and borrowing strategy.
 - borrowing and investment Outturn.

The Council is required by legislation to produce an annual Treasury Management review of activities and the actual prudential and treasury indicators for the year. This report meets both the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

Recommendation(s)

2. Overview and Scrutiny Committee is asked to note the report.

Cabinet is requested to approve, for onward submission to Council on the 21st of September, the:

- 2021/22 Prudential and Treasury Indicators
- Treasury Management 2021/22 Outturn Report

Reasons for recommendation(s)

3. It is a requirement of the CIPFA Code that the Council receives an annual It is a requirement of the CIPFA Code that the Council receives an annual Treasury Management Outturn Report.

Alternative options considered and rejected

4. N/A

2.0 Introduction

- 2.1 The 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 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 following reports were provided:
- an annual treasury strategy in advance of the year (approved 23/02/2022) to Council.
 - a mid-year, (minimum), treasury update report (approved 17/11/2021) to Cabinet.
 - an annual review following the end of the year describing the activity compared to the strategy, (this report) to Council.
- 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 outturn 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 Cabinet before they were reported to the full Council.

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.
- 3.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual expenditure and how this was financed.

	2020/21	2021/22 Revised	2021/22
	Actual £M	Budget £M	Actual £M
Capital Expenditure:			
Non-HRA	18.773	36.963	33.226
HRA	8.460	12.501	12.510
Total Capital Expenditure	27.233	49.464	45.736
Resourced by:			
Capital Receipts	1.604	0.087	0.613
Capital Grants	8.926	12.187	15.258
HRA	8.460	14.656	12.418
Revenue	2.475	2.533	2.709
Total Resourced by:	21.465	29.463	30.998

4 The Council's Overall Borrowing need

- 4.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
- 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 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).

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 17/03/2021.

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

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

4.6 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 does not, except in the short term, exceed the total of the capital financing requirement 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. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed 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. The Council has complied with this prudential indicator. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31st March 2021 Actual £M	31st March 2022 Budget £M	31st March 2022 Actual £M
Gross borrowing position	206.016	236.188	220.826
CFR	265.072	285.073	299.719
(Under) / over funding of CFR	(59.056)	(48.885)	(78.893)

- 4.7 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. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.
- 4.8 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.
- 4.9 **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.

	2021/22
	£M
Authorised limit	339.800
Maximum gross borrowing position	220.826
Operational Boundary	304.800
Average gross borrowing position	202.603
Financing costs as a proportion of net revenue stream:-	
Non - HRA	3.29%
HRA	14.96%

5. Treasury Position as at 31st March 2022

5.1 The Council's treasury position at the end of 2021/22 (excluding borrowing by PFA and finance leases), position was as follows:

		31st March 2021			31st March 2022		
		Principal		Avg.	Principal		Avg.
		£M	£M	Rate	£M	£M	Rate
Fixed rate funding							
	PWLB Bury	133.886			153.695		
	PWLB Airport	11.828			11.828		
	Market Bury	60.300	206.014		55.300	220.823	
Variable rate funding							
	PWLB Bury						
	Market Bury		0.000			0.000	
Temporary Loans / Bonds		0.003	0.003		0.003	0.003	
Total Debt		206.016 3.53%			220.826 3.57%		
Total Investments			15.928	0.13%		43.555	0.10%
Net Debt			190.088			177.271	

5.2 The maturity structure of the debt portfolio was as follows:

Maturity structure of fixed rate borrowing	2020/21 Actual £M	2020/21 Actual %	2021/22 Actual £M	2021/22 Actual %
Under 12 months	5.190	2.52%	13.000	5.89%
12 months and within 24 months	13.000	6.31%	5.000	2.26%
24 months and within 5 years	7.300	3.54%	2.850	1.29%
5 years and within 10 years	31.550	15.31%	51.000	23.10%
10 years and within 15 years	0.000	0.00%	26.000	11.77%
15 years and over	148.976	72.31%	122.976	55.69%
Total Debt	206.016	1.00	220.826	1.00

5.3 The Council's investment portfolio was as shown below:

	Investment balance at 31/03/2021	Amount Invested in year	Investments realised in year	Investment balance at 31/03/2022
	£M	£M	£M	£M
Fixed Rate Investments				
	0.000	0.000	0.000	0.000
Total - Fixed rate	0.000	0.000	0.000	0.000
Notice Accounts				
Barclays Bank - 32 day Notice account	0.250			0.250
Barclays Bank - 95 day Notice account	0.250			0.250
Lloyds - 32 day Notice account	0.000			0.000
Santander - 31 day Notice account	0.000	10.000	(5.000)	5.000
Santander - 35 day Notice account	0.000			0.000

Santander - 60 day Notice account	0.000			0.000
Total - Notice accounts	0.250	10.000	(5.000)	5.500
Call Accounts				
Barclays Bank - Flexible Interest Bearing Current Account	15.420	305.425	(282.790)	38.055
Bank of Scotland - Call Account	0.000			0.000
Total Investments	15.920	315.425	(287.790)	43.555

5.4 All of the Council's investments are held for a period of up to 1 year.

6. The Strategy for 2021/22

6.1 Investment strategy and control of interest rate risk

6.1.1 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.

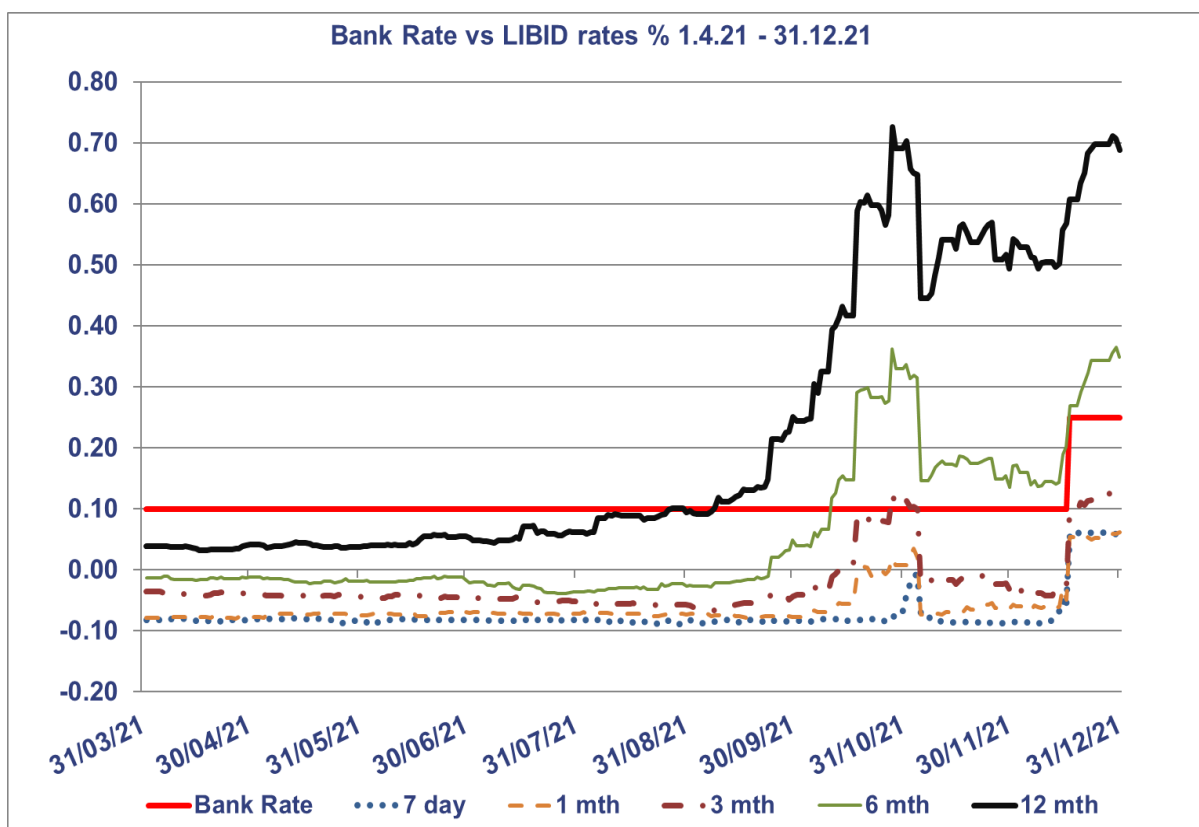
6.1.2 The Bank of England and the Government also maintained various monetary and fiscal measures, supplying the banking system and the economy with massive amounts of cheap credit so that banks could help cash-starved businesses to survive the various lockdowns/negative impact on their cashflow. The 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).

6.1.3 This authority does not have sufficient cash balances to be able to place deposits for more than a month so as to earn higher rates from longer deposits. 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.

6.1.4 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 the counterparty risk exposure, by having fewer investments placed in the financial markets.

6.1.5 The information below show Bank and London Interbank Bid Rates (LIBID) for a selection of periods, the average interest rates, the high and low points in rates, spreads and individual rates at dates through and at the end of the financial year.



	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.25	0.06	0.06	0.14	0.36	0.73
High Date	17/12/2021	29/12/2021	31/12/2021	31/12/2021	30/12/2021	28/10/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.04
Low Date	01/07/2021	27/08/2021	17/09/2021	08/09/2021	27/07/2021	08/07/2021
Average	0.11	-0.07	-0.05	-0.01	0.09	0.31
Spread	0.15	0.15	0.14	0.20	0.40	0.68

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 very 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 Director of Finance 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.

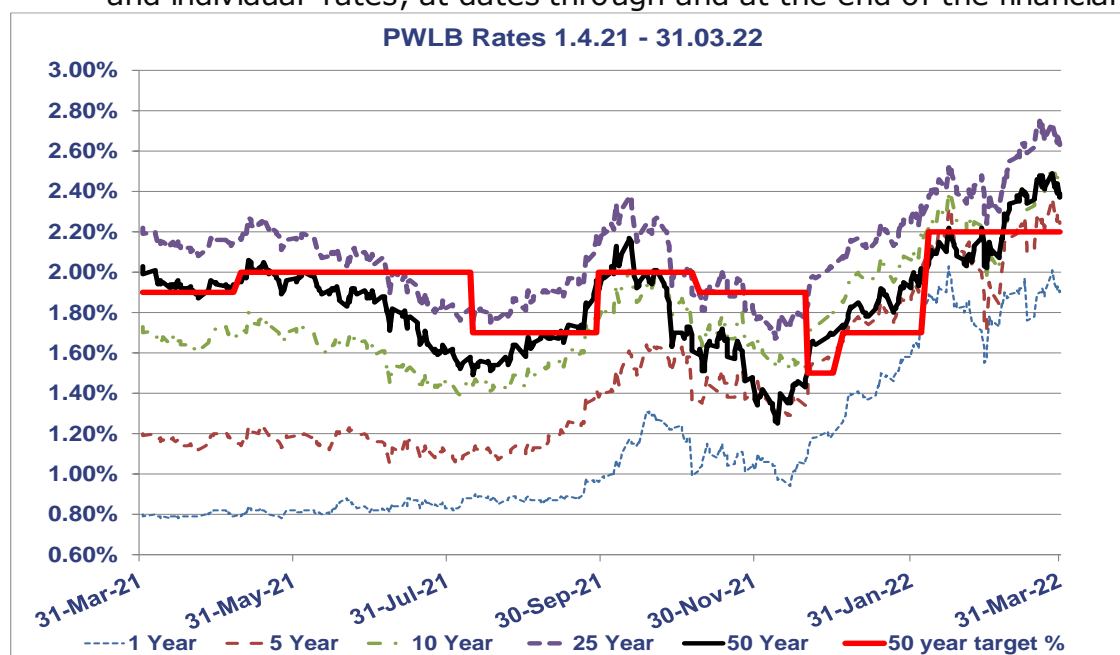
- * if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden 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. Variable, or short-term rates, were expected to be the cheaper form of borrowing over the period until well in to the second half of 2021/22.

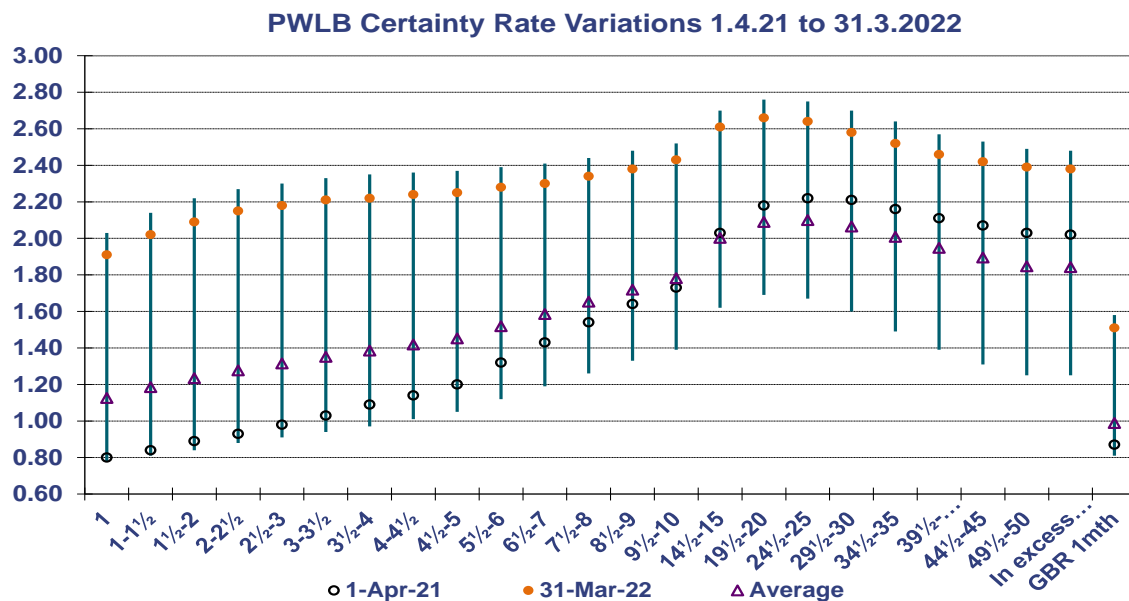
6.2.6 The table below shows the interest rate forecast as at mid-year 2021/22

Link Group Interest Rate View		9.11.20													
		Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings		0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB		1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB		2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB		2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB		2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

6.2.7 The information below show PWLB rates for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates, at dates through and at the end of the financial year.



	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2021	0.80%	1.20%	1.73%	2.22%	2.03%
31/03/2022	1.91%	2.25%	2.43%	2.64%	2.39%
Low	0.78%	1.05%	1.39%	1.67%	1.25%
Low date	08/04/2021	08/07/2021	05/08/2021	08/12/2021	09/12/2021
High	2.03%	2.37%	2.52%	2.75%	2.49%
High date	15/02/2022	28/03/2022	28/03/2022	23/03/2022	28/03/2022
Average	1.13%	1.45%	1.78%	2.10%	1.85%
Spread	1.25%	1.32%	1.13%	1.08%	1.24%



6.2.8 PWLB rates are based on, and are determined by, 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.

6.2.9 Gilt yields fell sharply from the start 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.

6.2.10 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%.

6.2.11 With regard to PWLB borrowing rates, the various margins attributed to their pricing are as follows:-s 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)

6.2.12 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.

7 Borrowing Outturn

7.2 Treasury Borrowing

7.2.1 The Council has taken out PWLB loans totalling £20.0m during 2021/22. The borrowing was undertaken to undertake regeneration of the Millgate Centre.

	Balance at 31st March 2021	Loans raised in year	Loans repaid in year	Balance at 31st March 2022
	£M	£M	£M	£M
PWLB	133.886	20.000	(0.190)	153.695
Market	60.300	0.000	(5.000)	55.300

Temporary Loans	0.000	0.000	(0.000)	0.000
Other loans	0.003	0.000	0.000	0.003
Bury MBC Debt	194.188	20.000	(5.190)	208.998
Airport PWLB Debt	11.828	0.000	0.000	11.828
Total Debt	206.016	20.000	(5.190)	220.826

7.3 Debt 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 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.

8 Investment Outturn

8.1 Investment Policy

8.1.1 The Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Council on 23/02/2022. 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.).

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

8.2 Resources

8.2.3 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	31 March 2022
	£M	£M
Balances General Fund	30.881	23.816
Balances HRA	10.422	9.842
Earmarked reserves	125.882	111.145
Provisions	11.835	8.477
Usable capital receipts	4.889	6.967
Total	183.909	160.247

8.3 Investments held at 31 March 2022

8.3.1 The Council managed all of its investments in house with the institutions listed in the Council's approved lending list. At the end of the financial year the Council had £43.555m of investments as follows:

Type	Institution	Amount £M	Term Days	Rate %
Call Accounts	Barclays Bank	38.055	0	0.08%
Total Call Accounts		38.055		
Notice Accounts	Barclays Bank	0.250	32	0.14%
	Barclays Bank	0.250	95	0.24%
	Santander	5.000	31	0.18%
Total Notice Accounts		5.500		
Total Investments		43.555		

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Links with the Corporate Priorities:

A strong financially sustainable Council is essential to the delivery of the Let's Do It Strategy

Equality Impact and Considerations:

Under section 149 of the Equality Act 2010, the 'general duty' on public authorities is set out as follows:

A public authority must, in the exercise of its functions, have due regard to the need to -

(a) eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under this Act;

(b) advance equality of opportunity between persons who share a relevant protected characteristic and persons who do not share it;

(c) foster good relations between persons who share a relevant protected characteristic and persons who do not share it.

The public sector equality duty (specific duty) requires us to consider how we can positively contribute to the advancement of equality and good relations, and demonstrate that we are paying 'due regard' in our decision making in the design of policies and in the delivery of services.

Environmental Impact and Considerations:

5. There are no environmental impacts associated with this report.
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Assessment and Mitigation of Risk:

Risk / opportunity	Mitigation
There are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed.	Regular monitoring and reporting ensures that any changes in the financial position are quickly identified and action can be taken to manage the overall position

Legal Implications:

6. There are no specific legal implications in this report. The S 151 officer has confirmed that the report meets the requirements of the CIPFA code of

practice on Treasury management and the CIPFA prudential code for Capital finance in Local Authorities.

Financial Implications:

7. The financial implications are set out in the report. The continuation of the Covid pandemic during 2021/22 impacted on both the revenue and capital budgets across the whole of the Council. The in-year position will be reflected in an updated medium term financial strategy and will inform the budget setting process for the 2023/24 financial year.

Background papers:

None

Please include a glossary of terms, abbreviations and acronyms used in this report.

Term	Meaning