



Council name	COTSWOLD DISTRICT COUNCIL
Name and date of Committee	Audit Committee - 29 September 2002
Report Number	AGENDA ITEM 9
Subject	Treasury Management Outturn Report 2021/22
Wards affected	N/A
Accountable member	Cllr Mike Evemy, Deputy Leader and Cabinet Member for Finance Email: mike.evemy@cotswold.gov.uk
Accountable officer	Jo Moore, Interim Deputy Chief Executive Tel: 01285 623608 Email: jo.moore@cotswold.gov.uk
Summary/Purpose	To present to the Committee the annual review of treasury management activity for the financial year 2021/22
Annexes	None
Recommendation(s)	<i>For Members to receive and discuss the Annual Treasury Management Review for 2021/22; For Members to agree any comments to be passed to full Council when considering this item.</i>
Corporate priorities	<ul style="list-style-type: none"><li>• Delivering our services to the highest standards</li></ul>
Key Decision	NO
Exempt	NO
Consultees/ Consultation	Arlingclose Limited – Council’s treasury advisors



## **1. BACKGROUND**

- 1.1** The Council's treasury management activity is underpinned by the CIPFA Code, which requires authorities to produce annually Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of treasury management activities at least twice a year.
- 1.2** The Council was debt free during 2021/22 and holds investments in pooled funds and holds cash balances for short periods. It is therefore exposed to financial risks including changes in capital value of funds, the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk are central to the Council's treasury management strategy.
- 1.3** Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. The Council's Treasury Management Strategy, complying with CIPFA's requirement, was approved by full Council on 24 February 2021.
- 1.4** The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing and treasury management. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 24 February 2021.

## **2. MAIN POINTS**

- 2.1** During the year the Council operated within the treasury limits and prudential indicators as set out in the Treasury Management Strategy approved by Council on the 24 February 2021.
- 2.2** Investment interest for 2021/22 has produced a net surplus of £8,770 against the original budget set in February 2021 of £390,568.
- 2.3** Pooled Funds have maintained strong returns of dividends, and returned over 3.41% against the £12.5m invested in this area. This compares to returns achieved of 0.08% for cash invested in money market funds and call accounts and 1.3% where cash is invested with Government.
- 2.4** The capital values of the Pooled Funds increased by £419,000 from £12.209m to £12.628 during 2021/22.
- 2.5** Due to capital expenditure included in the 2021/22 capital programme in relation to the Council's Recovery Investment Strategy now expected to be spent in 2022/23 and 2023/24, the Council has continued to have no requirement to borrow or hold external debt as at 31 March 2022.



### **3. ECONOMIC BACKGROUND**

- 3.1** The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.
- 3.2** UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. Initially driven by energy price effects and by inflation in sectors such as retail and hospitality that 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
- 3.3** Having increased Bank Rate from 0.10% to 0.25% in December, the Bank of England hiked it further to 0.50% in February and 0.75% in March. At the meeting in February, the Monetary Policy Committee (MPC) voted unanimously to start reducing the stock of its asset purchase scheme by ceasing to reinvest the proceeds from maturing bonds as well as starting a programme of selling its corporate bonds.
- 3.4** 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, equity and multi-asset income funds in the Authority's portfolio. In the January-March quarter in 2022, 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.
- 3.5** In light of Russia's invasion, Arlingclose contacted the fund managers of our MMF's and strategic funds and confirmed no direct exposure to Russian or Belarusian assets was identified.

### **4. BORROWING**

- 4.1** The Council currently has no external debt and therefore no borrowing considerations. In order to determine whether the Council needs to borrow, the underlying need to borrow needs to be compared against the Council's internal borrowing capacity. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) which is total capital expenditure to be funded by borrowing less any revenue provision made for the Minimum Revenue Provision.
- 4.2** Whilst there may be an underlying need to borrow, the Council may not actually undertake external borrowing and may instead use its internal cash balances to fund the borrowing requirement which is known as "internal borrowing".  
For Cotswold District Council, there is a small underlying need to borrow of £16k and significant internal borrowing capacity as set out in Table I below:



Table 1: Balance Sheet Summary

	31/3/2021 Actual £m	2021/22 Movement £m	31/3/2022 Actual £m
General Fund CFR	0.063	(0.047)	0.016
Less: External borrowing	0	0	0
Less: Usable reserves	(25.904)	0.227	(25.677)
Less: Working capital	2.264	(9.526)	(7.262)
<b>Available for investment or internal borrowing*</b>	<b>(23.577)</b>	<b>(9.346)</b>	<b>(32,923)</b>

\*A positive figures would indicate a need to externally borrow

## 5. INVESTMENT ACTIVITY

- 5.1 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.
- 5.2 A key aspect of the Council's current investment strategy is to invest into pooled funds in order to increase investment returns. These funds do introduce higher levels of risk as the capital value is not protected and the value of the funds can go up and down. The funds can be drawn down at relatively short notice but consideration would need to be given as to whether drawing them down would crystallise a capital loss. The funds themselves are invested in different investment classes and therefore risk within the pooled fund is diversified.
- 5.3 The value of all investments at 31 March 2022 is set out in Table 2 below together with the year-on-year movements.



Table 2: Treasury Management Summary

	<b>31/3/2021 Actual £m</b>	<b>2021/22 Movement £m</b>	<b>31/3/2022 Balance £m</b>	<b>31/3/2022 Rate %</b>
Long-term investments	12.134	0.423	12.557	3.41
Short-term investments	0.075*	5.496	5.571	0.02
Cash and cash equivalents	11.368	3.427	14.795	0.08
<b>Total investments</b>	<b>23.577</b>	<b>9.346</b>	<b>32.923</b>	<b>1.18</b>

\*Short term value of £75,000 is the accrued dividends on the Pooled Funds

- 5.4 During 2021/22, the Authority's investment balance ranged between £44.348 million and £22.968 million due to cashflow timing differences. The year-end investment position analysed between investment types and the year-on-year change in show in table 3 below.

Table 3: Investment Position (Treasury Investments)

	<b>31/3/2021 Actual £m</b>	<b>2020/21 Movement £m</b>	<b>31/3/2022 Balance £m</b>	<b>31/3/2022 Rate %</b>
Government (incl. local authorities)	0	5.500	5.500	1.51
Money Market Funds/Call A/C's	11.368	3.427	14.795	0.08
Pooled Funds	12.209	0.419	12.628	3.41
<b>Total investments</b>	<b>23.577</b>	<b>9.346</b>	<b>32.923</b>	<b>1.18</b>

#### **Pooled Funds**

- 5.5 The Council currently holds £12.5m in strategic pooled (bond, equity, multi-asset, property and cash) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £386,033 (3.41%) during 21/22 and the capital values on these funds increased by £422,705 as at 31 March 2022.
- 5.6 The increase in value is treated as an unrealised capital gain i.e. the income is not recognised as any gain or loss will only be recognised at the point funds are sold. The Council did not make any further contributions to the pooled fund during 2021/22 with the amount invested remaining at £12.5m.



Table 4: Current Pooled Funds

<b>Fund Manager</b>	<b>Investment</b>	<b>31<sup>st</sup> March 2021</b>	<b>31<sup>st</sup> March 2022</b>	<b>Dividends Received 2021/22</b>	<b>2021/22 Gain/(Loss)</b>	<b>Gain/(Loss) v Original Investment</b>
	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
CCLA Property	2,500,000	2,282,755	2,683,429	86,058	400,674	183,429
Schroders	1,000,000	764,342	847,022	54,470	82,680	(152,978)
M&G UK Income	2,000,000	1,831,782	1,920,825	79,423	89,043	(79,175)
Investec Div Income	2,000,000	2,018,818	1,921,396	71,881	(97,422)	(78,604)
Threadneedle Bond	2,000,000	2,148,990	2,050,746	46,215	(98,244)	50,746
CCLA Div	1,000,000	985,600	1,031,275	24,486	45,675	31,275
Federated Cash +	1,000,000	1,071,595	1,071,894	-	299	71,894
Fundamentum REIT	1,000,000	1,030,000	1,030,000	23,500	-	30,000
<b>Total –current funds</b>	<b>12,500,000</b>	<b>12,133,882</b>	<b>12,556,587</b>	<b>386,033</b>	<b>422,705</b>	<b>56,587</b>

**5.7** As highlighted above, the nature of these funds is that values can fluctuate from one year to another. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's investment objectives are monitored and discussed with Arlingclose on a regular basis. 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.

#### **Investment Returns**

**5.8** The outturn for investment income received in 2021/22 was £399,338 which equates to a 1.18% return (20/21 – 1.80%) on an average investment portfolio of £32.768 million against a budgeted £390,568 on an average investment portfolio of £29.5 million. Net investments made a surplus of £8,770 for the 2021/22 financial year. See table 5 for details.

Table 5: Investment income versus budget

<b>Investment Income</b>	<b>2021/22 Budget £</b>	<b>2021/22 Actual £</b>	<b>Variance Surplus/ (Deficit) £</b>
Pooled Funds	367,068	362,533	(4,535)
Housing REIT	23,500	23,500	-
Short term	-	3,274	3,274
Call/MMF's	-	10,031	10,031
<b>NET Income</b>	<b>390,568</b>	<b>399,338</b>	<b>8,770</b>



## 6. COMPLIANCE REPORT

- 6.1 The Chief Finance Officer reports that all treasury management activities undertaken during 2021/22 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.
- 6.2 Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 6 below.

Table 6: Debt Limits

	31.3.22 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied
Borrowing	0	21.000	26.000	✓

- 6.3 No borrowing was taken out in 2021/22 and the authority currently had no external debt at 31 March 2022.

## 7. TREASURY MANAGEMENT INDICATORS

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

### Security

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

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

### Principal Sums Invested for Periods Longer than 364 days:

- 7.3 The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	£12.5m	£12.5m	£12.5m
Limit on principal invested beyond year end	£25m	£25m	£25m
Complied	✓	✓	✓



## **8. FINANCIAL IMPLICATIONS**

- 8.1** The Council maintained an average investment portfolio of £32.768 million during 2021/22. The funds earned an average rate of return of 1.18%, this compares to 1.80% in 2020/21.
- 8.2** The Council budgeted for £390,568, in treasury investment income for 2021/22. Actual performance was a surplus of £8,770, with investment income received of £399,338.

## **9. LEGAL IMPLICATIONS**

- 9.1** None.

## **10. RISK ASSESSMENT**

- 10.1** Treasury risk is managed by the application of the Council's Treasury Management Strategy. Treasury risk is recorded in the Council's Corporate Risk Register which is reported regularly to the Audit Committee.

## **11. EQUALITIES IMPACT**

- 11.1** None.

## **12. CLIMATE AND ECOLOGICAL EMERGENCIES IMPLICATIONS**

- 12.1** None.

## **13. ALTERNATIVE OPTIONS**

- 13.1** None.

## **14. BACKGROUND PAPERS**

- 14.1** None.

(END)