

27th Oct 2022

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## **ANNUAL TREASURY MANAGEMENT REPORT 2021/2022**

### **Background and Purpose of Report**

1. The Treasury Management Strategy for 2021/2022 was adopted by the Commissioner in March 2021. It incorporates a set of Prudential Indicators and an Annual Investment Strategy, in accordance with the CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code). The Strategy reflects the long term view of Capital expenditure and the strategy for borrowing to finance plans for significant investments in estates
2. The Commissioners Monitoring Board received an interim report for the period from 1 April to 30 September 2021 at its meeting in November 2021. This report is later than normal and has been delayed due to increased workload resulting from a more intrusive external audit of the 2021/22 accounts.
3. This report conforms to the CIPFA Code of Practice on Treasury Management (the Code) and reviews the actual delivery of the approved Treasury Management and Investment Strategies for 2021/2022 and the Prudential Indicators adopted in March 2021.

### **Main Considerations for the Office of the Commissioner**

4. This report reviews:
  - a) the actual cash position at the end of 2021/2022 against the original forecast for the year;
  - b) prudential indicators and other treasury management strategies originally set for 2021/2022, against actual positions resulting from actions within the year – Appendix A;
  - c) actions during the year of the adopted Annual Investment Strategy.

### **Review of Cash Position**

5. In setting its strategies and prudential indicators for 2021/2022 the Office of the Commissioner assumed a forecast cash position for the year. The original forecast was for a £0.232 million deficit, this changed during the year due to a much higher level of pensions commutation lump sums than originally expected; the actual position at 31 March 2022 was a £2.264 million Deficit. This is down to timing; the pensions payments will be funded through Government grant to be received in 2022/23.

### **Review of Treasury Management Strategy including Prudential Indicators, Annual Investment Strategy and Investment Out Turn**

6. The detail of the review is given in Appendix A.

- The Annual Investment Strategy and Outturn are reviewed in detail on pages 4 and 5. They show the scale of the investments managed on a daily basis and the return achieved through active management of daily cash funds.

### Effect of Strategy on the Revenue Budget

- During the year there were opportunities to place surplus cash in call accounts and on temporary fixed term deposit. This resulted in interest income (receivable) of £0.033 million, this includes all interest earned during 2021/2022 with accruals included where deposits occur across financial years. The budget for 2021/22 was £0.079 million.
- Where possible opportunities were taken to improve returns in a secure manner, however, due to the continued low interest rates and market volatility these were limited.
- Returns includes interest received from a longer term deposit, which was placed with the National Bank of Kuwait in July 2021 (£5.000 million at 0.20% for 274 days). This is in line with the agreed Treasury Management Strategy.
- In March 2022 there were several large value pension commutation lump sum payments (£1.46m) along with the usual large value year end supplier payments to be made. This caused an unexpected short-term cash deficit and resulted in a need for a short term loan of £1.0m to be taken for the period of 5 days.

### Treasury Expenses

- Treasury expenses incurred during the year were as follows:

	2021/2022 (£)
Wiltshire Council administration charges	8,446
LINK Treasury Advice (from Sept)	7,500
Bank & Credit Card facility charges	5,897
<b>Total</b>	<b>21,843</b>

### Risk

- Investment decisions involve a certain degree of risk. In order to minimise exposure to risk, the Treasury Management Strategy recognises the need for security, liquidity, credit ratings of organisations with which the Office of the Commissioner places investments and return on investment.

### Diversity

- There are no issues arising from this report.

### Collaboration

- The Treasury Management function is outsourced to Wiltshire Council. Using their skills and contacts with market experts it is believed that value for money is achieved, together with good returns.
- Link Asset Services are employed to act as external treasury management advisors to the PCC. They provide additional expert financial market information and advice, including counterparty creditworthiness checks, which are essential to ensuring the security of investments.

## **Recommendation**

17. The Board is asked to note this report and, in particular the return for 2021/2022 from the investment of surplus cash of £0.033 million.

**Clive Barker**  
**Chief Finance Officer to the PCC**

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**Review of Prudential and Treasury Indicators 2021/2022**

**Capital Expenditure**

1. The capital expenditure plans of the Office of the Commissioner are set in Capital Programme reports, but under the Prudential Code, there is a requirement to confirm this as a Prudential Indicator. Revised actual and estimated Capital expenditure for the years 2021/2022 to 2025/2026 are as follows:

	<b>2021/2022 Actual (£m)</b>	<b>2022/2023 Estimate (£m)</b>	<b>2023/2024 Estimate (£m)</b>	<b>2024/2025 Estimate (£m)</b>	<b>2025/2026 Estimate (£m)</b>
Capital Expenditure	4.0	10.6	14.1	15.0	13.3

**The Overall Borrowing Need**

2. The PCC's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).
3. The Capital Financing Requirement (CFR) normally increases year-on-year by the amount of capital expenditure that is not funded from sources other than borrowing (i.e. government capital grant, capital receipts, developer contributions, direct revenue), reduced by the amount set-aside from the revenue budget and capital receipts for the repayment of debt. The CFR is equivalent to Gross Borrowing and is the PCC's long and short term external debt.
4. In April 2022 the PCC held a balance of £0.705m from borrowing taken in prior year but as yet not used. £0.129m of the £1.183m was used to finance capital costs incurred in 2021/22 and the remaining £0.576m will be used towards expenditure that has been delayed and will be incurred in 2022/23.

Further details for Long Term Borrowing (PWLB) are included in Appendix B iii.

	<b>2020/2021 Actual £million</b>	<b>2021/2022 Actual £million</b>	<b>2022/2023 Estimate £million</b>	<b>2023/2024 Estimate £million</b>	<b>2024/2025 Estimate £million</b>
Capital Expenditure	5.907	4.005	10.059	14.139	15.009
Financing (other than borrowing)	-5.429	-3.876	-6.053	-8.036	-5.409
Gap to fund from borrowing	0.478	0.129	4.006	6.103	9.600
MRP (repayments of borrowing)	-0.025	-0.045	-0.045	-0.295	-0.717
<b>Movement in CFR</b>	<b>0.453</b>	<b>0.084</b>	<b>3.961</b>	<b>5.808</b>	<b>8.883</b>
<b>Total Capital Financing Requirement</b>	<b>1.199</b>	<b>1.283</b>	<b>5.244</b>	<b>11.052</b>	<b>19.935</b>

5. **Operational boundary** - The operational boundary is a prudent, but not worst case scenario, borrowing level set by the PCC based on estimates of Cashflow requirements for the year. Periods where the actual position is either below or over the boundary due to occasional temporary variations in Cashflow are acceptable subject to the authorised limit.
6. **Authorised limit** - The authorised limit is the statutory affordable borrowing limit required by s33 of the Local Government Act 2003. The Commissioner's Monitoring Board

agrees this intended absolute borrowing limit for external debt in consideration of Capital Strategies and Cashflow requirement estimates for the year. The table below demonstrates that during 2021/2022 the PCC has maintained gross borrowing within its authorised limit.

7. **Actual financing costs as a proportion of net revenue stream** - this indicator expresses the net costs of financing as a percentage of the funding receivable from the Government and council tax payers. It does not include the revenue contribution to capital expenditure. The Prudential Indicator will increase as borrowing becomes more integral to the PCC's Capital Strategy.

	<b>2021/2022</b>
Authorised Limit	£13.300m
Maximum Gross Borrowing position during the year	£1.860m
Operational Boundary	£11.800m
Financing costs as a proportion of net revenue stream	0.04%

### **Treasury Position as at 31 March 2022**

8. The PCC's Treasury position at year end was £9.6m in surplus, this is detailed further in paragraph 29.
9. The PCC's Capital Strategy sets out a need for borrowing to finance future capital plans. No new borrowing was taken out during 2021/22 as Capital spend was financed using £0.129m of borrowing from prior year and from other funding sources. Repayments totalling £0.045 million were made towards the prior years borrowing during 2021/22. Borrowing at year end, compared with the previous financial year, is as follows,

	<b>31/03/2021 (£m)</b>	<b>31/03/2022 (£m)</b>
Short Term Borrowing	0.000	0.000
Long Term Borrowing	1.905	1.860
<b>TOTAL</b>	<b>1.905</b>	<b>1.860</b>

10. The details of all loans taken (where applicable) and deposits placed are shown at Appendix B.

### **Annual Investment Strategy 2021/2022**

11. Investment returns remained close to zero for much of 2021/22, but the PCC has not invested at negative rates

12. The expectation for interest rates was that Bank Rate would remain at 0.10% 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 necessary.
13. The Government continue to supply large amounts of finance to local authorities to pass on to businesses, meaning that for most of the year there was much more liquidity in financial markets than there was demand to borrow. The consequent effect was that investment earnings rates remained low until this calendar year, when inflation concerns indicated the Bank of England would need lift interest rates to combat the effects of growing levels of inflation.
14. As short-term investment rates were flat and low for most of the year, but value was sought by placing investments with duration to out-perform current market benchmark rates, whilst matching cashflow requirements.
15. While the PCC 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.

### **Interest Rate Exposures**

16. As the PCC's long term borrowing is at a fixed rate there is no risk to borrowing costs of a change in interest rates over the term of the loan. There is however a risk of the rates increasing prior to the date that future borrowing is planned. The PCC does rely partly on returns from invested funds in order to finance revenue and capital expenditure.
17. All fixed term deposits were made at fixed rates of interest for each period of investment.

### **Investment Out Turn**

18. The PCC's investment policy is governed by the MHCLG investment guidance, which has been implemented in the annual investment strategy approved by the Commissioner's Monitoring Board in March 2021. This policy sets out the approach for choosing investment counterparties, and is based in credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as ratings outlooks, credit default swaps, bank share prices etc.)
19. The Treasury Management Strategy 2021/22 set out that the investment benchmark used to assess the performance of its investment portfolio would be the LIBID rate (London Interbank Bid rate). The LIBID rate was linked to the London Inter-bank Offered Rate (LIBOR) which was only available until the end of December 2021, when all LIBOR setting ceased, and the rates were no longer available.
20. In sterling markets, the Sterling Overnight Indexed Average (SONIA) is the recommended replacement. SONIA is administered by the Bank of England, who take responsibility for its calculation and publication. It is based on actual transactions and reflects the average of the interest rates that banks pay to borrow overnight sterling from other financial institutions and other institutional investors.

21. It was agreed that temporary loans and deposits would be used to cover short term cash surpluses and deficits that would arise during the year. Such borrowing or investments would be made to specific dates at fixed rates, with reference to the cash flow requirements.
22. The investment activity during the year conformed to the approved strategy, and the PCC had no liquidity difficulties.
23. As summarised within Appendix B, 37 deposit transactions were placed during the year, with a gross value of £162.099 million. Of deposits placed, 11 were placed on call, 9 were placed with the Money Market Fund, 3 were placed on the HSBC Overnight Deposit Account and 14 were placed with other borrowers on a fixed term basis. Deposits were placed in this way to obtain better interest rates, increase liquidity and to spread risk within the authorised lending limits
24. Four short term loans were taken throughout the financial year. All were to cover short term cashflow deficits. A loan for £9.900 million, was taken in July to cover a deficit that was the result of the Home Office grant receipt being delayed at very short notice. Investments had already been arranged for original receipt date of the cash. Investments have to be made in advance, due to the risk of PCC having too much cash to invest on one day. The loan was taken on a fixed term basis for 7 days, borrowed from Swansea City Council at 0.02%, as this was the best and shortest date loan on offer in the market.
25. There were no investments held with an average duration of 364 days or more (Non-Specified investments as described in the DCLG Guidance).
26. The PCC maintained an average balance of £19.333 million of investment funds managed by Wiltshire Council.
27. The funds earned an average interest rate of 0.17%. The comparable performance indicator is the average 90 day backward looking SONIA rate, which was 0.0875%
28. Total investment income was £0.033 million compared to a budget of £0.079 million.
29. The PCC was holding surplus cash balances at year end of £9.6 million, as follows:

	£m
Temporary Deposits (inc overnight)	12.0
Temporary Loans	(1.0)
Net Cash at Bank	(1.4)
<b>Total</b>	<b>9.6</b>

The £1.4m bank overdraft results from timing of year end supplier payments.

30. The cash surplus of £9.6 million compares with a surplus of £10.7 million for year end 2020/21. At the end of 2021/22 there was a total of £0.8 million outstanding from HMRC for VAT reclaims. There was a total of £7.0m outstanding from the Home Office for Pensions Grant compared to £3.4m outstanding at the end of 2020/21.
31. This surplus cash results from a number of different items, the bulk of which are earmarked for future expenditure. These include the PCC's general revenue balances, provisions for future liabilities such as pensions and insurance claims, creditor payments due, and resources earmarked for future capital spending





**Review of Temporary Loans and Deposits 2021/2022**

**APPENDIX B (i)**

Type	Balance 1 April 2021 (£)	Placed		Repaid		Balance 31 March 2022 (£)	Interest Range* (%)	Interest Receivable/ Payable** (£)
		Value (£)	No	Value (£)	No			
<b>Temporary Deposits</b>								
HSBC – Overnight	0	6,550,000	3	6,050,000	2	500,000	0.30 - 0.54	147
Handelsbanken – Call	3,347,265	65,684,475	11	69,030,000	28	1,740	0.05 - 0.50	4,475
Fixed Term Deposits	10,000,000	48,000,000	14	46,500,000	12	11,500,000	0.02 - 1.05	26,862
BNP MMF	0	41,865,000	9	41,865,000	32	0	0.01 - 0.68	2,156
<b>Totals</b>	<b>13,347,265</b>	<b>162,099,475</b>	<b>37</b>	<b>163,445,000</b>	<b>74</b>	<b>12,001,740</b>		<b>33,640</b>
<b>Temporary Loans</b>								
Short Term Loans	0	13,500,000	4	12,500,000	3	1,000,000	0.02 – 0.60	161
<b>Totals</b>	<b>0</b>	<b>13,500,000</b>	<b>4</b>	<b>12,500,000</b>	<b>3</b>	<b>1,000,000</b>		<b>161</b>

Fixed Term Deposits Analysis by Broker	Fixed Term Deposits (£)	No	Loans (£)	No
Tullett Prebon	24,000,000	7	12,400,000	3
ICAP	19,000,000	6	1,100,000	1
Tradition UK	5,000,000	1	0	0
	<b>48,000,000</b>	<b>14</b>	<b>13,500,000</b>	<b>4</b>

\* Interest Range = Lowest/highest interest rate for the transactions during the period.

\*\* Interest Receivable/Payable includes,

- interest received/paid from deposits/loans in the period 1 April 2021 to 31 March 2022.
- interest receivable/payable in financial year 2021/2022 from deposits/loans invested/borrowed prior to 1 April 2021.
- interest receivable/payable in financial year 2021/2022 from deposits/loans invested/borrowed during financial year 2021/2022 but not actually repaid/paid until after 31 March 2022.

**Review of Deposits and Temporary Loans 2021/2022****APPENDIX B (ii)****All Fixed Term Deposits 2021/2022**

<b>Counterparty</b>	<b>Broker</b>	<b>Amount £</b>	<b>Start Date</b>	<b>Maturity Date</b>	<b>Interest Rate %</b>	<b>Interest Receivable £</b>
LBW	ICAP	5,000,000	10/06/2021	12/07/2021	0.06000	263.01
Close Brothers	ICAP	2,500,000	02/07/2021	04/01/2022	0.25000	3,184.93
National Bank Kuwait	Trad	5,000,000	05/07/2021	05/04/2022	0.20000	7,397.26
First Abu Dhabi	TP	5,000,000	06/07/2021	05/01/2022	0.14000	3,509.59
AnZ	ICAP	1,500,000	05/07/2021	04/10/2021	0.09000	336.58
AnZ	ICAP	3,500,000	05/07/2021	24/12/2021	0.10000	1,649.32
Coventry	ICAP	5,000,000	07/07/2021	27/08/2021	0.02000	139.73
Leeds	TP	3,000,000	07/07/2021	07/10/2021	0.03000	226.85
AnZ	ICAP	1,500,000	04/10/2021	04/04/2022	0.25000	1,839.04
Heleba	TP	3,000,000	08/10/2021	06/12/2021	0.08000	387.95
DBS	TP	3,000,000	07/12/2021	07/03/2022	0.14000	1,035.62
First Abu Dhabi	TP	5,000,000	05/01/2022	28/02/2022	0.20000	1,479.45
First Abu Dhabi	TP	3,000,000	28/02/2022	31/08/2022	1.05000	2,761.64
DBS	TP	2,000,000	07/03/2022	07/06/2022	0.89000	1,219.18
		<b>48,000,000</b>				<b>25,430.15</b>
Interest received in 2021/2022 relating to deposits placed prior to 1 April 2021						1,431.51
<b>Total Interest Receivable – Fixed Term Deposits</b>						<b>26,861.66</b>

**All Temporary Loans 2021/2022**

Counterparty	Broker	Amount £	Start Date	Terms	Interest Rate %	Interest Payable £
Swansea City Council	TP	9,900,000	05/07/2021	Fixed - 7 days	0.02000	37.97
Swansea City Council	TP	1,500,000	29/11/2021	Fixed – 9 Days	0.02000	7.40
Middlesbrough Borough Council	ICAP	1,100,000	30/12/2021	Fixed – 11 Days	0.05000	16.58
Newport Council	TP	1,000,000	30/03/2022	Fixed – 6 Days	0.60000	98.63
		<b>13,500,000</b>				<b>160.58</b>

**Broker Key:**

TP Tullet Prebon Brokers  
ICAP ICAP Brokers  
Trad Tradition UK

**Review of Long Term Loans 2021/2022**

**APPENDIX B (iii)**

**Long Term Loans 2021/2022**

<b>Counterparty</b>	<b>Balance 01/04/2021 £</b>	<b>Principal Repayment £</b>	<b>Interest Paid £</b>	<b>Terms</b>	<b>Interest Rate %</b>	<b>Balance 31/03/2022 £</b>
Public Works Loans Board (PWLB)	1,107,302	25,382	30,277	Fixed Annuity 30 Years	2.75	1,081,920
Public Works Loans Board (PWLB)	798,000	19,702	15,703	Fixed Annuity 30 Years	1.98	778,298
	<b>1,905,302</b>	<b>45,084</b>	<b>30,961</b>			<b>1,860,218</b>