Annex C

TREASURY MANAGEMENT POSITION 2021/22

1.1 This 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).

1.2 During 2021/22 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Cabinet 9th February 2021)
- a mid-year (minimum) treasury update report (Cabinet 7th December 2021)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

In addition, this Council has received quarterly treasury management update reports on 7th September 2021 and 8th February 2022 which were received by Cabinet.

1.3 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.

1.4 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 before they were reported to the full Council. This scrutiny role was carried out by Cabinet and Audit, Governance & Standards Committee.

2.0 Treasury Position as at 31 March 2022

2.1 The table below shows the overall the treasury position of the Council at the beginning and the end of 2021/22. £1.2m of debt matured on 5th September 2021 and was repaid. It had a low coupon interest rate at 1.05% so the impact of repaying that loan has increased the annual rate of interest on long term debt from 1.92% to 1.94%.

Borrowing and Investment position at 31 March 2022	31-Mar-21 Principal £m	Rate %	31-Mar-22 Principal £m	Rate %
Long term borrowing - Public Works Loan Board	27.700	1.92	26.500	1.94
Capital Financing Requirement (CFR)	48.626		59.077	
Over/ (under) borrowing	(20.926)		(32.577)	
Short term borrowing	-		-	
Total Investments	14.864	0.13	10.890	0.08
Net Debt – Borrowing less Investments	12.836		15.610	

2.2 The maturity structure of the debt portfolio is shown below:

	31 March 2021 Actual £m	31 March 2022 Actual £m
Under 12 months	1.20	
12 months and within 24 months		
24 months and within 10 years	5.00	5.00
10 years and within 20 years	7.50	7.50
40 years and within 50 years	14.00	14.00
Total	27.70	26.50

2.3 'Capital Financing Requirement' is the amount of borrowing required to support the capital programme. 'Under borrowing' means the Council did not need to borrow up to the level of the estimated capital financing requirement and was able to fund capital expenditure from its own reserves, capital receipts or grant contributions and therefore not incurring interest payments.

2.4 Investment Portfolio – At 31 March 2021 and 31 March 2022 the Council's investment portfolio consisted of treasury investments in banks that were managed in-house. The maturity structures of these treasury investments were held in call accounts and were recallable on demand and therefore classified as held up to one year.

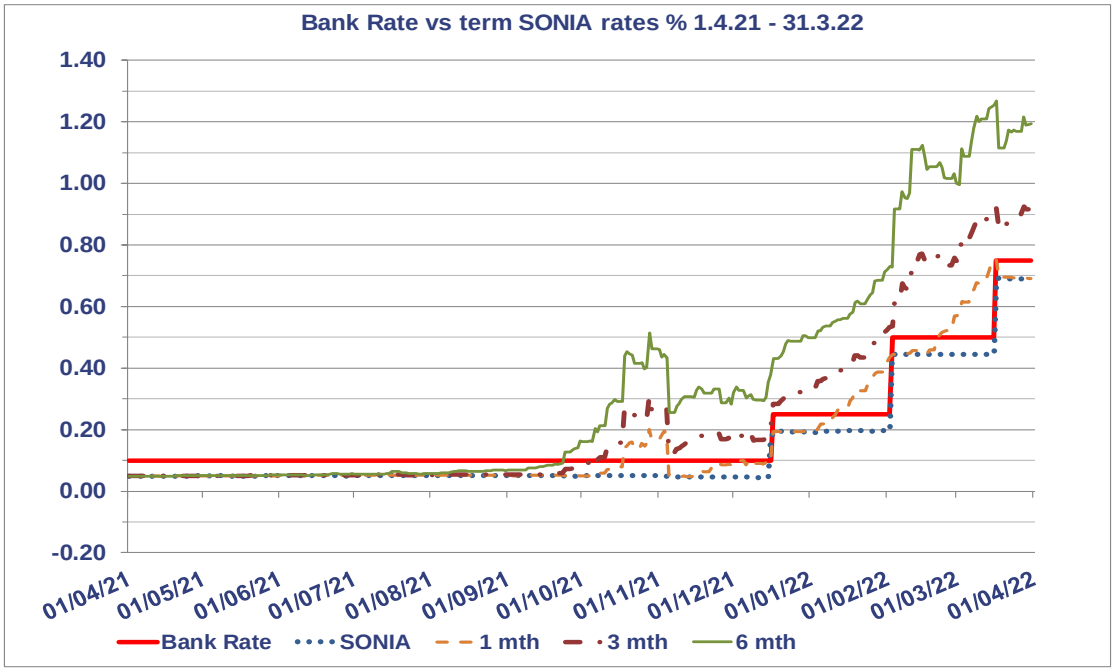
3.0 Interest Rates and Investment Strategy

3.1 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.

3.2 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).

3.3 Base interest rates were increased by the Bank of England three times in the year. In December 2021 they increased from 0.1% to 0.25%, in February 2022 from 0.25% to 0.5% and finally in March 2022 to 0.75%. The table below shows this in graphical form against the prevailing overnight rates.



This had limited effect on investment returns in the year as internal cash was used to fund the capital programme and cash balances were maintained at a low level.

3.4 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.

3.5 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. Such an approach has also provided benefits in terms of reducing counterparty risk exposure, by having fewer investments placed in the financial markets.

4.0 Borrowing Strategy and Control of Interest Rate Risk

4.1 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 low for most of the year. It also minimised counterparty risk on placing investments also needed to be considered.

4.2 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.

4.3 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 Council may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

4.4 The final decision on Local Government Reorganisation was made by the Government in July 2022. This means that Hambleton District Council will cease to operate on 31st March 2023 and form part of the new North Yorkshire Council. The fundamental policy of managing risk is influenced by this decision. Whilst borrowing was planned in the strategy towards the end of 2021/22, cash flow and receipts of various business grants meant that it was not necessary in the year. However, a requirement early in 2022/23 was identified. A North Yorkshire wide view was taken that any new borrowing should be short-term and between the respective North Yorkshire authorities if possible during the transitional period.

5.0 Borrowing Requirement and Debt

5.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

5.2 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 (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) 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 Capital Financing Requirement. The Council has complied with this prudential indicator.

	31st March 2021 Actual £m	2021/22 Budget £m	31st March 2022 Actual £m
Capital Financing Requirement (CFR)	48.626	67.361	59.077
Gross Borrowing Position	27.700	54.700	26.500
Under funding of CFR	20.926	12.661	32.577

5.3 The authorised limit - 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. Annex D demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

5.4 The operational boundary – 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. Annex D demonstrates that during 2021/22 the Council has maintained gross borrowing within its operational boundaries.

5.5 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 which can be seen in Annex D.

6.0 Borrowing Outturn for 2021/22

6.1 The Council did not make any new borrowing during 2021/22. £1.2m of debt matured on 5th September 2021 and was repaid. The Council held a balance £26.5m of long-term borrowing at the 31st March 2022. The table below details the terms of the loans that make up this amount.

Long Term Borrowing

Lender	Principal	Type	Interest Rate	Start Date	Maturity Date
PWLB	£9,000,000	Fixed interest rate	2.45%	07/03/2019	07/03/2069
PWLB	£2,500,000	Fixed interest rate	2.24%	25/03/2019	25/03/2064
PWLB	£5,000,000	Fixed interest rate	1.20%	02/09/2019	02/09/2029
PWLB	£5,000,000	Fixed interest rate	1.43%	05/09/2019	05/09/2034
PWLB	£2,500,000	Fixed interest rate	2.23%	16/03/2020	16/09/2067
PWLB	£2,500,000	Fixed interest rate	2.19%	16/03/2020	16/09/2033

6.2 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.

6.3 Rescheduling of Borrowing – no rescheduling was done during the year This is because it was unviable as the Council's debt is not very old.

6.5 Repayment of short-term borrowing – no repayment of short-term borrowing was made during 2021/22.

7.0 Investment Outturn for 2021/22

7.1 Investment Policy – the Council's investment policy is governed by Ministry of Housing, Communities and Local Government guidance, which has been implemented in the annual investment strategy approved by the Cabinet on 9th February 2021.

7.2 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.).

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

7.4 Investments held by the Council - the Council maintained an average balance of £20.514m of internally managed funds. This balance remained high due to several grant funding payments from the Government to help businesses. However, the closing balance at 31st March 2022 had fallen to £10.89m as internal funds were used to fund payments for the capital programme. The internally managed funds

earned an average rate of return of 0.08%. This compares well with the average 7-day LIBID rate. £17,126 was received in interest compared to the budget of £10,000.

7.5 The interest received from the loan to a local housing association, which is classed as capital expenditure, totalled £1,437,850. This is less than last year as £400,000 of debt was redeemed on 15th December 2021. The amount of loan borrowed by the Housing Association from the Council as at 31 March 2022 was £33.6m.

8.0 Other Issues

8.1 **IFRS 9 fair value of investments:** Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, (MHCLG), on IFRS 9 the Government has introduced a mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This was effective from 1 April 2018. The statutory override applies for five years from this date. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. At 31 March 2022 this Council only had short term investments that were recallable on demand and therefore this type of investment does not attract significant risk to the Council.

8.2 **IFRS16 Capital Lease:** the implementation of IFRS 16 bringing currently off-balance sheet leased asset on to the balance sheet, has been delayed until 2023/24.