Appendix A

TREASURY MANAGEMENT OUTTURN REPORT 2021/22

1. Introduction

1.1 The Council is required through regulations issued under the Local Government Act 2003 to produce an annual review of treasury management activities and the actual performance against 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 Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Full Council 25/2/2021)
- a mid-year treasury update report (Full Council 5/10/2021)
- an annual report following the year describing the activity compared to the strategy (this report)

1.3 In addition, quarterly treasury management update reports were received by Audit Committee.

1.4 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is 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.

1.5 The Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports. This role was performed by the Audit Committee before these reports were presented to Full Council.

1.6 The Code also requires such information to allow the Audit Committee to monitor compliance with our approved Strategy and Policy Statement.

1.7 Member training on treasury management was undertaken during the year in order to support members' scrutiny role.

2 Economic Background for 2021/22 (Source: Link Group)

2.1 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut the official Bank Rate to 0.10%, it left this rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021. This began a sequence of rate rises with the official Bank Rate increasing to 0.50% on the 4th of February 2022 and then to 0.75% in March 2022, with further rises expected during 2022/23.

2.2 The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the Gross Domestic Product (GDP) numbers have been robust (9% year over year in Q1 2022) and sufficient for the Monetary Policy Committee (MPC) to shift its focus to tackling the effects of inflation, now that the CPI measure has risen to record levels.

2.3 Due to the record low Bank rate and continued market uncertainty, investment returns remained close to zero for much of 2021/22. The expectation for interest rates within the treasury management strategy for 2021/22 was that the 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 necessitated.

2.4 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 financial assistance to local authorities to pass on to businesses. This meant that for most of the year there was much more liquidity in the 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 worldwide central banks, not just the Bank of England, would need to lift interest rates to combat the effects of growing levels of inflation.

2.5 Gilt yields fell towards the back end of 2021, but despite inflation growth and global factors, gilt yields have risen quickly in early 2022. These rises have been part of a global trend as inflation concerns have risen and yields are likely to continue to rise through coming months as many central banks have suggested they will look to raise interest rates to contain inflation.

3. Main Activities of the Treasury Management Function during 2021/22

Overview

3.1 The Council continues to adopt a cautious approach, which has been further strengthened by the impact of the Covid-19 pandemic, whereby investments continue to be dominated by low counterparty risk considerations, resulting in relatively low returns compared to borrowing rates. As a result of this the strategy for 2021/22 was to maintain an under borrowing position to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

3.2 The Council's investment policy and strategy enabled the authority to balance the overriding need for risk management and control with the desire to secure an acceptable return on its investments. Minimising risk is particularly pertinent and has been stated to be the prime objective by CIPFA in its Treasury Management Code of Practice.

3.3 The Council engages Link Group as treasury consultants and part of their service is to advise on counterparties and credit ratings in formulating the approved investment list. Regular reviews of the list will ensure that it remains current, valid, and provides for a straightforward and workable limit structure.

Borrowing and Debt Management Activity during 2021/22

3.4 During April 2021, in the light of significant capital expenditure requirements, the Director of Resources and Deputy Chief Executive approved £40.000 million of borrowing through the Public Works Loans Board (PWLB). The Debt was taken at a rate of 2.01% (significantly lower than the Council’s average borrowing rate of 3.915% at the time) ensuring an affordable borrowing rate for key council capital schemes.

3.5 In July 2021 £4.000 million of historic PWLB debt matured at a rate of 7.875%, this was taken into account at the time of the new borrowing detailed above and therefore no additional borrowing was taken to replace this debt. The saving made regarding the interest payments on this debt have been factored into the treasury management saving proposals.

3.6 The average interest rate paid by the Council, for its borrowings, in 2021/22 was 3.750%, a reduction of 0.165% from 2020/21. This reduction is due to the impact of the items referred to at 3.4 and 3.5 above.

3.7 The maturity profile of the Council’s debt is shown in Appendix A1.

4. Treasury Management Position Statement at 31st March 2022

4.1 It should be noted that the accounting practice to be followed by the Council (CIPFA Code of Practice) requires financial instruments in the Statement of Accounts (debt and investments etc.) to be measured in a method compliant with International Financial Reporting Standards (IFRS). The figures in this report are based on the principal amounts borrowed and invested and so may differ from those in the Council's Statement of Accounts by items such as accrued interest.

Investments

4.2 The value of all investments held by the Council are shown in the table below:

	31 March 2021 £m	**31 March 2022 £m**
Council Shareholdings		
Birmingham Airport Holdings Ltd:		
Ordinary Shares	9.870	10.105
Preference Shares	1.176	1.176
	11.046	11.281
Coventry & Solihull Waste Disposal Company Ltd	28.633	29.000
Mell Square Ltd*	0.000	0.000
Sherbourne Recycling Ltd**	0.000	0.146
Total Shareholdings	**39.679**	**40.427**
Treasury Management Investments		
Long Term Investments		
Fixed Term Investments (>365 Days):	0.000	0.000
	0.000	0.000
Short Term Investments		
Fixed Term Investments (<365 Days):	63.000	89.500
Money Market and Call Accounts	8.518	12.700
	71.518	102.200
Total Treasury Management Investments	**71.518**	**102.200**

* The 2021/22 valuation for Mell Square is still being finalised so cannot be included at the time of this report.

** The 2021/22 valuation for Sherbourne Recycling Limited is draft only at the time of writing this report.

Both companies were set up or acquired during 2021/22

4.3 Performance of investments during 2021/22

4.4 The performance of investments (yield achieved) during 2021/22 is summarised below:

Investment return	0.095%
Average 2021/22 SONIA[1] rate	0.142%

4.5 **Investment Policy** - The Council's investment policy is governed by the Department of Levelling Up, Housing & Communities (DLUHC) Guidance, which has been adopted in the Annual Investment Strategy approved by Full Council. 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.). The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

4.6 **Investments held by the Council** - The Council maintained an average balance of £110.034 million of internally managed funds and received an average return of 0.095%. The initial budget for 2021/22 assumed a return for in-house investments of 0.100% in line with interest rate forecasts at the time. The impact of this decrease is approximately £6,000 less interest being received in 2021/22 compared to the original target. This reduction has been met within the overall treasury management position.

Borrowings

4.7 The Capital Financing Requirement (CFR) shows the Council's underlying need to borrow for a capital purpose, and this is a gauge for the Council's debt position. The CFR results from the 2021/22 unfinanced capital activity and prior years' net unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

4.8 Whilst under treasury management arrangements actual debt can be borrowed or repaid at any time within the confines of the annual treasury strategy, the Council is required to make an annual revenue charge to reduce the CFR – effectively a repayment of the non-housing (HRA) borrowing need, or a repayment of principal amount.

4.9 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.

[1] SONIA is the weighted average deposit rate for overnight trades of counterparties with very high creditworthiness. This was used as the benchmark rate of return for 2021/22.

4.10 This statutory charge is called the Minimum Revenue Provision (MRP). 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).

4.11 The Council's 2021/22 MRP Policy (as required by MHCLG Guidance) was approved as part of the Corporate Capital Strategy.

4.12 The Council's CFR for the year is shown below and represents a key prudential indicator. The CFR includes Private Finance Initiatives (PFI) and leasing schemes, which increase the Council's borrowing needs. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

	31 March 2021 £m	**31 March 2022 £m**
Opening Balance	**436.957**	**439.193**
+ Unfinanced capital expenditure	14.519	41.903
-/+ net adjustments for PFI & Finance Lease	(3.126)	(3.438)
- MRP/VRP/Other	(9.157)	(9.069)
Closing Balance	**439.193**	**468.589**

4.13 Borrowing activity is constrained by prudential indicators for net borrowing, the CFR, and the Authorised Limit.

4.14 The Council had actual borrowings of:

	31 March 2021 £m	**31 March 2022 £m**
Long Term Borrowing		
Public Works Loan Board (PWLB)	250.948	290.567
Other Long Term Loans	25.000	25.000
Dudley & Walsall (Former WMCC Debt)	4.747	3.732
Total Long Term Borrowings	**280.695**	**319.299**
Short Term Borrowing		
Public Works Loan Board (PWLB)	4.367	0.380
Dudley & Walsall (Former WMCC Debt)	0.926	1.015
Total Short Term Borrowing	**5.293**	**1.395**
Total Borrowing	**285.988**	**320.694**

4.15 The maturity profile of the Council's borrowing (excluding former WMCC debt) at 31 March 2022 is shown below*:

	£m	%
Under 12 months	15.380	4.9%
12 months to 2 years	0.394	0.1%
2 years to 5 years	5.273	1.7%
5 years to 10 years	6.457	2.0%
10 years to 20 years	16.179	5.1%
20 years to 30 years	41.898	13.3%
30 years to 40 years	142.566	45.1%
40 years to 50 years	87.800	27.8%
50 years and above	0.000	0.0%
Total	**315.947**	**100.0**

*This profile will differ from that on the Council's Accounting Statement due to the Prudential Code's requirement that Lender's Option, Borrower's Option (LOBO) loans are shown as maturing at their next call date in the above.

4.16 Interest payments/receipts during 2021/22 can be identified over the following categories.

	£m
Public Works Loan Board (PWLB)	10.434
Other Long Term Loans	1.137
Dudley & Walsall (Former WMCC Debt)	0.286
Other interest payments	0.020
Total Interest Payments	**11.877**
Less:	
Investment Receipts	(3.772)
Net interest payable	**8.105**

4.17 Total debt management costs incurred during 2021/22 amounted to £162,637 of which the Housing Revenue Account (HRA) paid £66,894.

5 Prudential Indicators and Compliance Issues

5.1 The Council is required by the Prudential Code to report the outturn prudential indicators after the year end. Appendix A2 provides a schedule of all the mandatory prudential indicators. Certain indicators provide either an overview or a limit on treasury activity, and these are shown below.

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 plus the estimates of any additional capital financing requirement for the current and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2021/22 Original Indicator £m	2021/22 Latest Indicator £m	2021/22 Outturn £m
Capital Financing Requirement	505.948	492.292	468.589
Gross borrowing position	408.169	394.513	370.869
Under/(Over) Borrowing	**97.779**	**97.779**	**97.720**

5.3 Gross borrowing is made up of the sum of the Council's actual long and short term PWLB & market debt, plus its outstanding liabilities in respect of PFI and lease contracts.

5.4 **The Authorised Limit -**The Authorised Limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. The Council does not have power to borrow above this level. The table demonstrates that during 2021/22 the Council has maintained gross borrowing within the Authorised Limit.

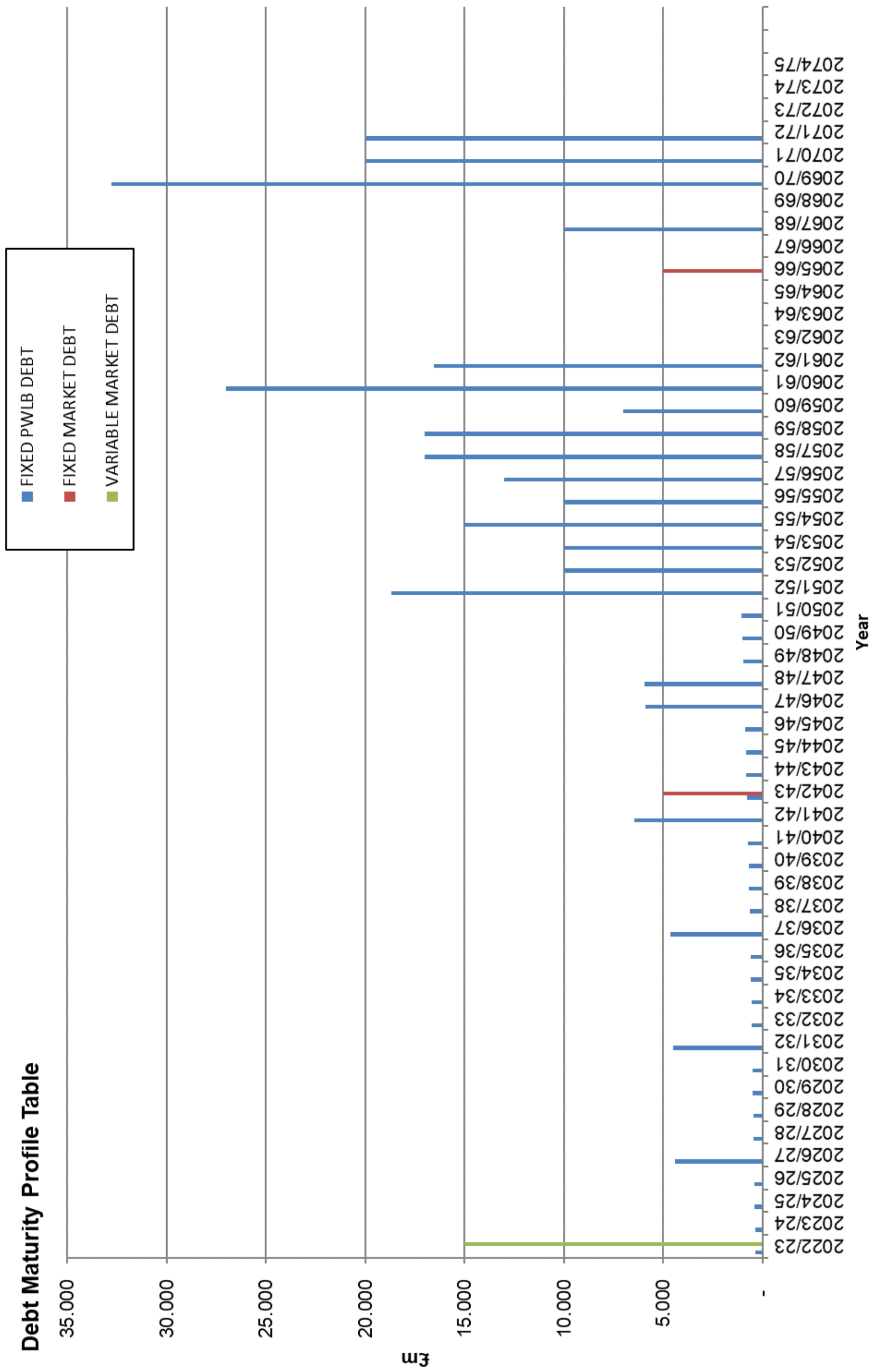
5.5 **The Operational Boundary -**The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary are acceptable subject to the Authorised Limit not being breached.

	2021/22 Original Indicator £m	2021/22 Latest Indicator £m	2021/22 Outturn £m
Authorised Limit	523.714	510.788	370.869
Operational Boundary	450.000	440.000	370.869

Appendix A1

<u>Debt Maturity Profile as at 31st March 2022</u>

The graph below indicates the amount of Solihull's long term debt that matures in each year over time. The portfolio is structured so that debt will be spread across a wide time span in order to minimise the Council's refinancing risk. The CIPFA Prudential Code for Capital Finance in Local Authorities requires the Council's variable market debts to be shown at their next 'call' date (the time at which the lender next has the option to alter the interest rate), rather than the actual maturity date.



Prudential Indicators and Limits for 2021/22

The CIPFA Prudential Code requires Local Authorities to set a number of Prudential Indicators and limits as part of its annual Treasury Management Strategy to ensure that borrowing remains affordable. The following tables show the outturn position against the Prudential Indicators that were set as part of the 2021/22 Corporate Capital and Treasury Management Strategy as agreed by Full Council. Prudential Indicators give an indication of the expected position at the end of the year. Ordinarily, limits set should not be breached, and any breaches will be reported to Members.

Treasury Management Prudential Indicators

	2021/22 Original Indicator £m	**2021/22 Latest Indicator £m**	**2021/22 Outturn £m**
Capital Financing Requirement (CFR)			
Housing	178.234	177.504	172.012
Non-Housing	277.539	264.613	246.402
Other Long-Term Liabilities	50.175	50.175	50.175
Total	**505.948**	**492.292**	**468.589**
Gross Debt			
Borrowing	357.994	344.338	320.694
Other Long Term Liabilities	50.175	50.175	50.175
Total Gross Debt	**408.169**	**394.513**	**370.869**
Capital Expenditure Plans			
Non Housing	89.683	112.656	72.000
Housing	25.724	25.094	21.568
Total	**115.407**	**137.750**	**93.568**
Capital Receipts	(0.973)	(1.045)	(5.611)
Capital Grants	(26.695)	(42.214)	(24.312)
Contributions	(3.235)	(4.600)	(1.489)
Revenue	(20.734)	(21.304)	(20.253)
Net financing need for the year	**63.770**	**68.587**	**41.903**
Ratio of financing costs to net revenue stream			
Housing	16.99%	16.99%	17.39%
Non-Housing	12.38%	12.18%	12.07%
Incremental impact of capital investment decisions on Band D council tax (notional)	£33.59	£33.59	£25.91
Incremental impact of capital investment decisions on the housing rent levels (notional)	£38.04	£38.04	£1.84

In addition to the above, the Council is required as a prudential indicator to:

- Adopt the CIPFA Code of Practice.
- Ensure that over the medium term borrowing will only be for a capital purpose (i.e. net external borrowing is less than CFR).

The Council is compliant with these indicators.

Treasury Management Limits

	2021/22 Latest Approved Limit £m	2021/22 Outturn £m	Breaches of Limit
Authorised Limit (against outturn CFR)	510.788	370.869	None
Operational Boundary (against outturn gross debt)	440.000	370.869	None
Upper limit on borrowing at fixed rates of interest	None	None	None
Upper limit on borrowing at variable rates of interest	30%	4.75%	None
Maturity structure of fixed rate borrowing against maximum position			
Under 12 months	20%	4.9%	None
12 months to 2 years	20%	0.1%	
2 years to 5 years	50%	1.7%	
5years to 10 years	50%	2.0%	
10 years to 20 years	60%	5.1%	
20 years to 30 years	60%	13.3%	
30 years to 40 years	80%	45.1%	
40 years to 50 years	80%	27.8%	
50 years and above	80%	0.0%	
Maximum principal funds invested for longer than 365 days	15.000	0.000	None
Housing Revenue Account Debt Limit (against HRA CFR)	191.000	172.012	None