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TREASURY MANAGEMENT ANNUAL REVIEW REPORT 2021/22

1. INTRODUCTION AND BACKGROUND

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2009 was adopted by this Council in February 2010 and this Council fully complies with its requirements. The Code was revised in 2011 and further revised in 2017.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a mid-year review and an annual review report of the previous year.

4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions, which in this Council is the Chief Officer Resources.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specified named body which in this Council is the Corporate & Performance Scrutiny Committee.

Treasury management in this context is defined as:

> *"The management of the local authority's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."*

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of treasury management activities, for the financial year 2021/22.

2. THIS TREASURY MANAGEMENT ANNUAL REVIEW REPORT COVERS

- economic Background during the period
- the Council's treasury position as at 31st March 2022;
- borrowing and investment rates for 2021/22;
- annual review of the borrowing strategy 2021/22;
- borrowing outturn for 2021/22;
- debt rescheduling for 2021/22;
- compliance with treasury limits and Prudential Indicators for 2021/22;
- annual review of the investment strategy for 2021/22;
- investment outturn for 2021/22;

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3. ECONOMIC BACKGROUND DURING PERIOD

PWLB rates are based on 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.

Gilt yields fell sharply from the spring 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.

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%.

Regarding PWLB borrowing rates, the various margins attributed to their pricing 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)

There is likely to be a further rise in short dated gilt yields and PWLB rates over the next three years as Bank Rate has risen from 0.75% in March 2022 to 2.25% as at the date of this report, 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 has also embarked on a process of Quantitative Tightening (following the Bank Rate reaching 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.

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4. TREASURY POSITION AS AT 31st MARCH 2022

The Council's debt and investment position at the beginning and the end of the year was as follows:

This illustrates that the total debt outstanding as at 31st March 2022 was £227.827 million, comprising of long term debt of £165.462 million and short term debt of £62.365 million.

	31March 2021 Principal	Average Rate/ Return	31 March 2022 Principal	Average Rate/ Return	Increase/ (Decrease) in Borrowing
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	76,764	4.05%	74,067	4.06%	(2,697)
- Market Loans	17,000	1.38%	14,000	1.40%	(3,000)
Variable Rate Funding:					
- Market (LOBO *)	4,000	4.50%	4,000	4.50%	0
Rail & Town Centre Loans	72,570	0.00%	73,395	0.00%	825
Total Long Term Debt	***170,334***	***3.63%***	***165,462***	***3.70%***	***(4,872)***
Short Term Loans(<365 days)	65,315	0.52%	62,365	0.32%	(2,950)
Total Debt	**235,649**	**2.56%**	**227,827**	**2.35%**	**(7,822)**
Investments:					
- Short Term	83,000	0.04%	100,000	0.04%	17,000
Total Investments	***83,000***		***100,000***		***17,000***

** LOBO – Lenders Option Borrowers Option. This loan has a fixed rate for the first two years of 3.85%. The remaining period of the loan (which we are now in) has a rate of 4.5%, but the lender can increase this rate at six month intervals.*

The Rail and Town Centre Loans have not been included in the average interest rate calculation as they are interest free loans from the Welsh Government.

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5. BORROWING AND INVESTMENT RATES IN 2021/22

The following table displays a selection of interest rates prevailing as at 1st April 2021 and 31st March 2022.

	01/04/2021	**31/3/2022**
Bank Base Rate	0.10%	0.75%
7 day LIBID*	-0.08%	-
1 Month SONIA	-	0.69%
PWLB 10 year Maturity	1.90%	2.63%
PWLB 15 year maturity	2.20%	2.81%
PWLB 25 year maturity	2.39%	2.84%

** The LIBID rate was phased out at the end of December 2021, being replaced with the SONIA rate as of January 2022. The 1 month SONIA rate has been chosen as the relevant benchmark due to the average length of our investments.*

6. ANNUAL REVIEW OF THE BORROWING STRATEGY FOR 2021/22

The Treasury Management Strategy Statement for 2021/22 was approved by Council in March 2021. The Borrowing Strategy adopted as part of this was as follows:

To utilise the Authority's overdraft facility:
to fund unexpected daily cash deficits;
to fund temporary cash shortfalls where there are no other sources of funding available within the marketplace.

To borrow over the short term:
to fund temporary cash shortfalls;
to maintain a suitably balanced maturity profile;
to make short term savings required in order to meet budgetary constraints;
in anticipation of securing longer term loans at more attractive rates.

To borrow over the long term:
to reduce the Authority's average cost of borrowing;
to maintain a stable, longer term portfolio;
to maximise the potential for future debt rescheduling.

If appropriate to avoid all new external borrowing:
to maximise savings in the short term;
to run down temporary investment levels;
to minimise exposure to interest rate and credit risk.

Borrowings undertaken during the period (see section 7 below) have been done so in accordance with this strategy and has focused on short term borrowings in order to minimise borrowing costs. Current short term borrowing rates continued to be very low during 2021/22. Interest rate forecasts expected only gradual rises in medium and longer-term fixed borrowing rates during 2021/22 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Internal, variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2021/22. The Authority is continuing to take advantage of short term borrowing rates, which are still cheaper than longer term rates, to fund the remainder of its capital expenditure and maturing debt until such time the market indicates that long term rates are more advantageous and the current market volatility subsides.

In the current economic climate, it is considered that the approved strategy is still fit for purpose and therefore no revisions are proposed.

7. BORROWING OUTTURN FOR 2021/22

Long Term Borrowing

Definition

Long term borrowing relates to debt taken out for a period of greater than one year. It is taken out for periods of 1 year up to 50 years. This borrowing is required to finance capital expenditure undertaken in the year that is funded through:

- Borrowing approvals from Welsh Government, known as un-hypothecated supported borrowing (USB), for which revenue support for the borrowing costs is provided through the revenue support grant;
- Prudential borrowing, for which borrowing costs are funded through revenue savings.

Total outstanding as at 31st March 2022

The total long term debt outstanding as at 31st March 2022 was £165.462 million. This is made up of debt taken from the Public Works Loan Board (PWLB), from other local authorities (through the market place), and from the market (LOBO). This debt is due to be repaid within the following years:

Maturing Within	£000s
1YR	10,920
1-2YRS	8,764
2-3YRS	15,451
3-4YRS	3,277
4-5YRS	12,609
5-6YRS	6,037
6-10YRS	19,980
10-15YRS	9,570
15+ YRS	78,854
Total	**165,462**

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New borrowings for 2021/22

During 2021/22, the Authority did take £0.825m long term debt, predominantly from Welsh Government, which related to a specific loan in relation to the Transforming Towns project.

Short Term Borrowing

Definition

Short term borrowing relates to debt taken out for a period of less than one year i.e. it will all be fully repaid within a year. These short term loans are taken out to manage the Authority's short term cash flow i.e. to fund deficits in cash flow on a daily basis pending receipt of income from grants or other sources, or pending the taking out of longer term debt to fund capital expenditure whilst we wait for advantageous longer term borrowing opportunities. Short term borrowing rates during the first 9 months of the year were very low, with interest rates beginning to increase from December 2021. The Authority therefore took advantage of such rates and borrowed short term to fund the remainder of its capital expenditure and maturing debt.

Total outstanding as at 31st March 2022

The total short term debt outstanding as at 31st March 2022 was £62.365 million. This is made up of debt taken from other local authorities through the market place.

New borrowings for 2021/22

Appendix A lists the short term loan activity during the year and shows that over the period a total of £65.315 million loans were brought forward from the previous year and £78 million of new short term loans were raised. A total of £81 million of these loans were repaid during the year (including the brought forward loans) leaving a balance outstanding as at 31st March 2022 of £62.365 million.

The following table gives a summary which shows that the average rate of interest paid was well within the benchmark.

	Total Value of Loans during the period	Average Loan	Interest paid during the period	Average Interest Rate	Benchmark Interest Rate *
Short Term borrowing	£143.365m	£3.5m	£77,063	0.32%	1.00%

** Benchmark = budgeted interest rate for new borrowings 1.00%*

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7.DEBT RESCHEDULING

No debt rescheduling was undertaken during the period.

8. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Treasury Strategy Statement 2021/22, approved by Council in March 2021.

Operational Boundary for external debt
The Council resolved that this limit be set at £238 million for 2021/22. The level of borrowings on the 31st March was £228 million which is within the required limit.
The operational boundary can be exceeded on an occasional basis, this is likely to be due to the volume of payments being made in relation to capital spend at the year end and the delay in receiving grant funding. This is therefore to be expected due to cash flow fluctuations. Sustained breaches however, would indicate that either the limit has been set too low, or that the Authority is breaching its prudential boundaries and that corrective action needs to be taken.

Monitoring of the operational boundary is undertaken on a daily basis and any such continual breaches would be investigated and a recommended course of action reported to Council.

Authorised Limit for external Debt
The Council resolved that this limit be set at £261 million for 2021/22. The Authorised Limit is set having regard to the operational boundary above.

The average level of borrowings for the year to the 31st March was £224 million, so well within the limit set.

The Authorised Limit must not be breached.

Maturity Structure of Fixed Rate Borrowing

The Council resolved the following limits for the maturity structure of fixed rate borrowings for 2021/22:

	Upper Limit	Lower Limit	Actual as at 31/3/2022
under 12 months	20%	0%	6.60%
12 months and within 24 months	20%	0%	5.30%
24 months and within 5 years	50%	0%	18.94%
5 years and within 10 years	75%	0%	15.72%
10 years and above	95%	25%	53.44%

The actual debt maturity profile at 31st March 2022 is well within the limits set.

Cyngor Bwrdeistref Sirol
Blaenau Gwent
County Borough Council

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Upper Limit on Variable Interest Exposure

Council resolved the upper limit on variable rate exposures for 2021/22 should be set at 30% of outstanding long term debt. This strategy limits the proportion of interest which is subject to variable rate terms and hence protects the Council against increased costs in times of rising interest rates.
The actual level of variable borrowings is £4 million (LOBO) which equates to 2.4% of the outstanding long term debt as at 31st March 2022, so is well within the limit set.

9. ANNUAL REVIEW OF INVESTMENT STRATEGY FOR 2021/22

The Annual Investment Strategy for 2021/22 adopted by Council in March 2021, was to maintain only temporary, short term investments and to make those investments in accordance with anticipated cash flow requirements (including the investing of sums borrowed at prevailing low interest rates in anticipation of capital spending). The Council's investment priorities are:

a. the security of capital;
b. the liquidity of its investments.

The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

In order to ensure that the Authority's investments are secure and that risk is minimised an investment matrix is used to determine investment counterparties, which factors in Fitch and Moody's credit ratings, credit default swap (CDS) spread data, and credit rating agency comments.

This strategy has been adhered to in determining the investments for 2021/22 outlined in section 10 below.

10. INVESTMENT OUTTURN FOR 2021/22

Appendix B gives details of the investments made during the year, and the following table gives a summary, which shows the Authority's average rate of return was below the benchmark. This is in line with the Authority's risk averse policy whereby the security of the capital sum is the number one priority at the expense of competitive investment returns.

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	Total Value of Investments	Average Investment	Investment Returns	Average Rate of Return	Benchmark Return *
Internally Managed	£1,011M	£5.8	£77,418	0.04%	0.17%

** Benchmark = 1 month SONIA uncompounded 0.17%*

No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.