OPEN REPORT
GOVERNANCE & RESOURCES COMMITTEE

Governance & Resources Committee - 16 February 2023

TREASURY MANAGEMENT ANNUAL REPORT FOR 2021/22

Report of the Director of Resources

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Wards Affected
District-wide

Report Summary

This report summarises Treasury Management activities and the out-turn position against Prudential Indicators for 2021/22

Recommendation

1. The Treasury Management Annual Report and Out-turn Prudential Indicators for 2021/22 be approved.

List of Appendices
None

Background Papers
None

Consideration of report by Council or other committee
None

Council Approval Required
Yes

Exempt from Press or Public
No

TREASURY MANAGEMENT ANNUAL REPORT FOR 2021/22

1 Background

1.1 The Council has long adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management mid-year and annual reports.

1.2 Treasury risk management at the Authority 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 Authority 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.

1.3 The Authority's treasury management strategy for the 2021/22 was approved at the Council meeting on 18th March 2021. This report fulfils part of reporting requirement by providing the **annual (end-of-year) treasury management report.** The report compares actual treasury management activities for 2021/22 against the Authority's treasury management strategy for the year.

1.4 The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

1.5 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, treasury management and non-treasury investments. The Authority's Capital Strategy for 2021/22, complying with CIPFA's requirement, was approved by full Council on 24th March 2022.

2. Key Issues

2.1 External Context during 2021/22

2.1.1 Economic background: 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.

2.1.2 The Bank Rate was 0.1% at the beginning of the reporting period. April and May saw the economy gathering momentum as the shackles of the pandemic restrictions were eased. Despite the improving outlook, market expectations were that the Bank of England would delay rate rises until 2022. Rising, persistent inflation changed that.

2.1.3 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 which 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. Core inflation, which excludes the more volatile components, rose to 5.2% year on year from 4.4%.

2.1.4 The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. The labour market began to tighten and demand for workers grew strongly as employers found it increasingly difficult to find workers to fill vacant jobs. Having peaked at 5.2% in December 2020, unemployment continued to fall. Headline 3-month average annual growth rate for wages were 4.8% for total pay and 3.8% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 0.1% while regular pay fell by 1.0%.

2.1.5 With the fading of lockdown – and, briefly, the 'pingdemic' – restraints, activity in consumer-facing sectors improved substantially as did sectors such as oil and mining with the reopening of oil rigs but materials shortages and the reduction in the real spending power of households and businesses dampened some of the growth momentum. Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 according to the final estimate (initial estimate 1.0%) and took UK GDP to just 0.1% below where it was before the pandemic. The annual growth rate was revised down slightly to 7.4% (from 7.5%) following a revised 9.3% fall in 2020.

2.1.6 Having increased the 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.

2.1.7 In its March interest rate announcement, the MPC noted that the invasion of Ukraine had caused further large increases in energy and other commodity prices, with the expectation that the conflict will worsen supply chain disruptions around the world and push CPI inflation to around 8% later in 2022. This has been exceeded with CPI inflation as at November 2022 being 10.7%.

2.2 Financial Markets

2.2.1 The conflict in Ukraine added further volatility to the already uncertain inflation and interest rate outlook over the period. The Dow Jones started to decline in January but remained above its pre-pandemic level by the end of the period while the FTSE 250 and FTSE 100 also fell and ended the quarter below their pre-March 2020 levels.

2.2.2 Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields, but with a general upward trend from higher interest rates dominating as yields generally climbed.

2.2.3 The 5-year UK benchmark gilt yield began the quarter at 0.82% before rising to 1.41%. Over the same period the 10 year gilt yield rose from 0.97% to 1.61% and the 20-year yield from 1.20% to 1.82%. The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

2.3 **Credit Review**

2.3.1 In the first half of 2021/22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. In September spreads rose by a few basis points due to concerns around Chinese property developer Evergrande defaulting but then fell back. Fitch and Moody's revised upward the outlook on a number of UK banks and building societies on the Authority's counterparty to 'stable', recognising their improved capital positions compared to 2020 and better economic growth prospects in the UK.

2.3.2 Fitch also revised the outlook for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable. The agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

2.3.3 The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

2.3.4 The successful vaccine rollout programme was credit positive for the financial services sector in general and the improved economic outlook meant some institutions were able to reduce provisions for bad loans. However, in 2022, the uncertainty engendered by Russia's invasion of Ukraine pushed CDS prices modestly higher over the first calendar quarter, but only to levels slightly above their 2021 averages, illustrating the general resilience of the banking sector.

2.3.5 Having completed its full review of its credit advice on unsecured deposits, in September Arlingclose extended the maximum duration limit for UK bank entities on its recommended lending list from 35 days to 100 days; a similar extension was advised in December for the non-UK banks on this list. As ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

2.4 **Revised CIPFA Codes, Updated PWLB Lending Facility Guidance**

2.4.1 In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, re-financing and treasury management.

2.4.2 CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

2.4.3 The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year, which is the approach taken by DDDC.

2.4.4 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the Capital Financing Requirement unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

2.4.5 Borrowing is permitted for cash-flow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority’s function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

2.4.6 The Council does not have any non-treasury investments and there has been no borrowing previously or within the current period to invest primarily for a return.

2.5 **Local Context**

2.5.1 On 31st March 2022, the Authority had net investments of £27,335m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.03.21 Actual £m **	31.03.22 Actual £m
General Fund CFR	5,552	5,451
Less: *Other debt liabilities *(if any)*	0	0
Borrowing CFR	**5,552**	**5,451**
External borrowing	5,450	5,450
Internal (over) borrowing	102	1
Less: Usable reserves	(26,788)	(24,587)
Less: Working capital	5.259	(2,748)
Net Investments	**(21,427)**	**(27,334)**

*** Adjusted to reflect balance sheet position. Prior year reflected cash-flow position*

2.5.2 The treasury management position at 31st March 2022 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.21 Balance £m	Movement £m	31.3.22 Balance £m	31.3.22 Rate %
Total borrowing	5,450	0	5,450	4.1
Long-term investments	*(845)	(203)	(1,048)	3.46
Short-term investments	0	0	0	0
Cash and cash equivalents	(20,582)	(5,705)	(26,287)	0.61
Total investments	(21,427)	(5,908)	(27,335)	0.73
Net investments	(15,977)	(5,908)	(21,885)	

*position as per the balance sheet

Borrowing Strategy

2.5.3 At 31st March 2022, the Authority held £5.45m of loans from the Public Works Loan Board, the same as the previous year, as part of its strategy for funding previous years' capital programmes.

Investment Activity

2.5.4 The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Authority's investment balance ranged between £19.7m and £41.8m due to timing differences between income and expenditure. Balances have been higher than pre-Covid times as the Council has been responsible for the receipt and subsequent payment of grants to businesses and individuals. In addition the Authority has been responsible for the receipt and subsequent payment of grants to businesses and support to individuals as part of the COVID Government schemes. Funds were temporarily invested in call and money markets funds and was disbursed by the end of March 2022 or arrangements for amount to be repaid to the Government.

On 30th March 2022 £3.529m was received to fund the Energy Rebate Scheme which provided household support towards energy bills. Funds were temporarily invested in call and money markets funds and were disbursed by the end of November 2022.

Table 3: Investments at 31st March 2022

Investment Held	Amount £'000	Rate %
Lloyds Bank	787	0.650
Aberdeen Liquidity Fund	4,000	0.676
LGIM Sterling Liquidity Fund	4,000	0.619
Insight Liquidity Fund	3,500	0.660
Federated Hermes Short-Term Fund	4,000	0.640
Aviva	4,000	0.676
CCLA Deposit Fund	4,000	0.691
CCLA Property Fund	1,048	3.460
Debt Management Office (DMO –Government)	2,000	0.100
Total	27,335	0.726

2.5.5 Ultra low short-dated cash rates, which were a feature since March 2020 when Bank Rate was cut to 0.1%, prevailed for much of the 12-month reporting period which resulted in the return on sterling low volatility net asset value (LVNAV) Money Market Funds being close to zero even after some managers have temporarily waived or lowered their fees. However, higher returns on cash instruments followed the increases in Bank Rate in December, February and March. At 31st March, the 1-day return on the Authority's MMFs ranged between 0.619% and 0.691%.

2.5.6 Similarly, deposit rates with the Debt Management Account Deposit Facility (DMADF) initially remained very low with rates ranging from 0% to 0.1%, but following the hikes to policy rates increased to between 0.55% and 0.85% depending on the deposit maturity. The average return on the Authority's DMADF deposits was 0.1%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking below

Table 4: Risk & Return Metrics

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return (Total Portfolio) %
31st March 2021	4.93	A+	100%	1	0.16
31st March 2022	4.55	A+	92%	3	0.58
Similar LA	4.37	AA-	61%	43	1.18
All LAs	4.39	AA-	60%	14	0.97

Compared to other Local Authorities, Derbyshire Dales has received a lower rate of return due to shorter term investments in mainly money market funds and the current account during the earlier part of the financial year. Similar local authorities have invested more in strategic pooled funds.

Externally Managed Pooled Funds – CCLA Property Fund

2.5.7 £1m of the Authority's investments are held in externally managed strategic pooled property 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 dividends of £34,607 (3.46%) in the year to 31st March 2022. This excludes amounts received but not accrued for in 2020/21.

2.5.8 The capital value of the property fund is shown in Table 3 above and represent a capital gain of £48k. At present a statutory override is in place which in effect means that the valuation gain does not impact upon the budget position of the Authority. The statutory override is in place until 31st March 2025 therefore the Authority will continue to monitor the position and make appropriate provisions if necessary.

2.5.9 In light of Russia's invasion, Arlingclose contacted the fund managers of our MMF, cash plus and strategic funds and confirmed no direct exposure to Russian or Belarusian assets had been identified. Indirect exposures were immaterial. It should be noted that that any assets held by banks and financial institutions (e.g. from loans to companies with links to those countries) within MMFs and other pooled funds cannot be identified easily or with any certainty as that level of granular detail is unlikely to be available to the fund managers or Arlingclose in the short-term, if at all.

Interest Received compared to Budget 2021/22

The original budget reflected the difficult trading position prevailing at the time the budget was set (March 2021). However, with interest rates increasing over February and March 2022 the actual interest received for 2021/22 was significantly higher than budget.

Table 5 - Budget Out-turn Position- Interest Receivable

Financial Year	Original Budget £	Revised Budget £	Actual £	Revised v Actual Variance £	Average portfolio balance £(m)
2020/21	134,472	87,750	95,714	7,964	30.9
2021/22	37,000	37,000	53,906	16,906	29.0

2.5.10 **Other Non-Treasury Holdings and Activity**

The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in MHCLG's Investment Guidance, in which the definition of investments is further broadened to also include all such assets held partially for financial return.

The Authority also held £1.67m of such investment in directly owned property. These investments generated £0.1m of investment income for the Authority after taking account of direct costs, representing a rate of return of 6.1% This is higher than the return earned on treasury investments but reflects the additional risks to the Authority of holding such investments.

2.6 Compliance Report

Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	2021/22 Maximum	31.3.22 Actual	2021/22 Limit	Complied
Banks Unsecured per bank (1m per counterparty)	£0.41m	£0.04m	£2m	✓
Banks – Council's Own banker (Lloyds)	£6.54m	£1.0m	£7m	✓
Local Authorities per Authority	£4m	£0m	£4m	✓
Money Market Funds (per fund)	£4m	No more than £4m in any fund	£4m	✓
UK Government	Unlimited	£2m	Unlimited	✓
Pooled Funds	£1.048m	£1m	£3m	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2021/22 Maximum £(000)	31.3.22 Actual £(000)	2020/21 Operational Boundary £(000)	2020/21 Authorised Limit £(000)	Complied
Borrowing	5,450	5,450	8,000	11,000	✓
PFI & finance leases	0	0	1,000	1,000	✓
Total debt	**5,450**	**5,450**	**9,000**	**12,000**	✓

2.7. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators:

Security: 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.

	31.3.21 Actual	2020/21 Target	Complied
Portfolio Average Credit Rating	A+	A	✓

Liquidity: The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three month period, without additional borrowing.

	31.3.22 Actual	2021/22 Target	Complied
Total cash available within 3 months	26m	7m	✓

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates was:

Interest rate risk indicator	31.3.22 Actual	2021/22 Limit	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£271,683	£85,000	x

Upper limit on one-year revenue impact of a 1% fall in interest rates	£271,683	£105,000	x

The Council has no variable rate borrowing so the above table is based upon the Council's exposure to a 1% change in investment rates. If interest rates fluctuated by 1% the Council would be exposed to a £271,683 movement in interest received based on the investment portfolio at 31/3/22.

The main reason for this large fluctuation (which is above the limits set in the 2021/22 Treasury Management Strategy), is that the Council only had investments of £2m invested for a fixed period at 31/3/22, the remainder of the investment portfolio was held in variable rate accounts where the funds could be accessed immediately. As returns on investments were low during 2021/22 and resources within the Finance team were scarce, decisions were taken to prioritise the accessibility of the cash (i.e. liquidity) and therefore short-term financial instruments such as Money Market Funds were utilised rather than investing for fixed periods of time. This meant that the Council had a higher exposure to interest rate changes.

As part of the Treasury Management Strategy to be reported in March 2023, the limits for interest rate exposure will be reviewed and aligned with our investment strategy for the forthcoming year. Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	Actual	Upper Limit	Lower Limit	Complied
Under 12 months	0%	35%	0%	✓
12 months and within 24 months	0%	50%	0%	✓
24 months and within 5 years	0%	65%	0%	✓
5 years and within 10 years	0%	80%	0%	✓
10 years and above	100%	100%	0%	✓

NOTE: Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: 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 Actual £	Limit £	Complied
Principal invested beyond year end	2m	5m	✓

2.8 PRUDENTIAL INDICATORS 2021/22

The following Prudential Indicators were outlined in the Capital & Treasury Monitoring Report for 2021/22. The actual performance against these indicators is given below.

Table 8: Prudential Indicator: Estimates of Capital Expenditure.

	2021/22 Original Budget £ (000)	2021/22 Revised Budget £ (000)	2021/22 Actual v Revised £ (000)	Variance £ (000)
General Fund Services (Debt)	5,701	5,701	5,450	251
Capital Investments	7,578	5,938	4,445	1,493
TOTAL	**13,279**	**11,639**	**9,895**	**1,744**

The capital programme was revised during the year to take into account projects that were no longer proceeding and projects recently approved for inclusion in the programme. The actual year-end position shows there has been slippage in the capital programme and some major projects are being completed during 2023/24. Expenditure was £1.493m less than planned, which also contributed to the value of balances held as at 31st March 2022.

Table 9: Capital Financing

All capital expenditure must be financed, either from external sources (government grants and other contributions), the Council's own resources (revenue, reserves and capital receipts) or debt (borrowing, leasing and Private Finance Initiative). The planned financing of the above expenditure is as follows:

	2021/22 Original budget £ (0000)	2021/22 Revised budget £ (000)	2021/22 Actual £ (000)	Rev/Actual Variance £ (000)
External sources	691	2,407	1,594	813
Own resources	6,887	3,530	2,851	679
Debt	5,701	5,701	5,552	149
TOTAL	**13,279**	**11,638**	**9,997**	**1,641**

A reduction in overall capital expenditure has reduced funding required in 2021/22. The Council had planned to borrow to introduce energy efficiency measures within its buildings. As the Council was successful in obtaining grants for these projects, the internal contribution required was reduced and funded from the Council's own resources.

Debt is only a temporary source of finance, since loans and leases must be repaid, and this is therefore replaced over time by other financing, usually from revenue which is known as minimum revenue provision (MRP). Alternatively, proceeds from selling capital assets (known as capital receipts) may be used to replace debt finance. Planned MRP repayments and use of capital receipts are as follows:

Table 10: Replacement of debt finance in £'000

	2021/22 budget	2021/22 Actual	Variance
Own resources	101	101	0

The Council's cumulative outstanding amount of debt finance is measured by the capital financing requirement (CFR). This increases with new debt-financed capital expenditure and reduces with MRP and capital receipts used to replace debt. The reduction in CFR was as planned.

Table 11: Prudential Indicator: Estimates of Capital Financing Requirement in £'000

	31.3.2022 budget	31.3.2022 Actual	Variance
General Fund services	5,600	5,450	150
TOTAL CFR	**5,600**	**5,450**	**150**

Asset disposals: When a capital asset is no longer needed, it may be sold so that the proceeds, known as capital receipts, can be spent on new assets or to repay debt.

Table 12: Capital Receipts in £'000

	Original 2021/22 budget	Revised 2021/22 budget	2021/22 actual	Variance
Asset sales	(150)	(100)	(549)	(449)
Loans repaid	0	0	0	0
TOTAL	**(150)**	**(100)**	**(549)**	**(449)**

***excludes £56k received in 21/22 which related to previous financial year 20/21**

The Authority received £449k more in capital receipts from Right to Buy Sales administered through Platform Housing Group and vehicle sales. Arrangements are being put into place by the Director of Housing to obtain more accurate forecasts from Platform Housing with regards to Right to Buy sales.

Treasury Investments

As previously discussed, amounts available for investment arose due an increase in COVID funding and a reduction in capital expenditure. Investments were kept short-term during the period with no new longer term investment taking place.

Table 13: Treasury management investments in £'000

	31.3.2022 budget	31.3.2022 Actual	Variance
Near-term investments	15,000	26,287	(11,287)
Longer-term investments	2,000	1,048	952
TOTAL	**17,000**	**27,335**	**(10,335)**

Revenue Budget Implications

Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to revenue, offset by any investment income receivable. The net annual charge is known as financing costs; this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants. This does not include exceptional grants received in the year relating to COVID.

Table 14: Prudential Indicator: Proportion of financing costs to net revenue stream

	2021/22 budget 000's	**2021/22 Actual 000's**	**Variance 000's**
Financing costs (£'000)	462	450	(12)
Proportion of net revenue stream	4.38%	3.97%	(0.41%)

The proportion of financing costs has reduced as the:-

- There has been a reduction in the interest received compared to the budget.
- A higher proportion of non-ring-fenced grants were received than budgeted.

3. Options Considered and Recommended Proposal

3.1 Not applicable.

4. Consultation

4.1 No consultation is required.

5. Timetable for Implementation

5.1 There are no recommendations so no plans for implementation.

6. Policy Implications

6.1 This is a compliance report in respect of Treasury Management policy as set out in the treasury Management Strategy Statement, approved in March 2021.

7. Financial and Resource Implications

7.1 The Council has generated £16,906 more than budgeted in investment income due to a rise in interest rates during the final quarter of 2021/22.

7.2 There are no financial risks arising from the recommendations in this report.

8. Legal Advice and Implications

8.1 This report summarises Treasury Management activities and the out-turn position against Prudential Indicators for 2021/22

8.2 The report complies with best practice and government guidance on the preparation of the treasury management outturn report, which aims in part, to mitigate financial risk to the Council.

8.3 There is disclosure of non-compliance in respect of the treasury indicator for interest rate exposure.

8.4 The recommended decision making connected to this report is for the Treasury Management Annual Report and Out-turn Prudential Indicators for 2021/22 be approved. Therefore at the current time the legal risk of the report recommendation is low.

9. Equalities Implications

9.1 There are no current equalities implications associated with this report.

10. Climate Change Implications

10.1 No detailed climate change impact assessment is required when reporting outcomes, as this report does. However, it is noted that during 2021/22 the Council held several investments of significant value (see table 3). The potential climate change impacts of investments are complex and the Council would need external expertise to understand fully the impacts of any investment.

10.2 CIPFA's Treasury Management Code of Practice (2021) acknowledges that the development of policy and practices relating to Environmental, Social and Governance (ESG) investment considerations is a developing area and it is not implied that the organisation's ESG policy will currently include ESG scoring or other real-time ESG criteria at individual investment level

10.3 The Code goes on to say that Environmental, social and governance (ESG) issues are increasingly significant for investors and investment managers. This is better developed in equity and bond markets than for short-term cash deposits, and there is a diversity of market approaches to ESG classification and analysis. This means that a consistent and developed approach to ESG for public service organisations is currently difficult.

10.4 There are, however, no universally agreed and accepted definitions or metrics for environmental, social and governance issues. Officers have explored the options available in terms of engaging a partner to assist the Council in conducting due diligence on current investments and considering and selecting funds with one or more specific themes such as climate change and transition, clean/renewable energy, sustainability, impact investing. This work would attract a fee – further details can be provided if required.

11. Risk Management

11.1 This strategy sets in place a proposed structure and systems that place security of investments above yield. The risk is therefore assessed as low.

Report Authorisation

Approvals obtained from:-

	Named Officer	**Date**
Chief Executive	Paul Wilson	07/02/2023
Director of Resources/ S.151 Officer (or Financial Services Manager)	Karen Henriksen	07/02/2023
Legal Services Manager	Kerry France	07/02/2023