

# STROUD DISTRICT COUNCIL

## COUNCIL

21 JULY 2022

<b>Report Title</b>	<b>ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY AND ACTUAL PRUDENTIAL INDICATORS 2021/2022</b>			
<b>Purpose of Report</b>	To advise on the treasury management activities in 2021/2022, in accordance with the Council's Treasury Policy Statement. To report on actual 2021/2022 Prudential Indicators in accordance with the requirements of the Prudential Code.			
<b>Decision(s)</b>	<b>Council RESOLVES to approve the treasury management activity annual report for 2021/2022 and the actual Prudential Indicators as recommended by Audit and Standards Committee.</b>			
<b>Consultation and Feedback</b>	Link Asset Services (LAS).			
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<b>Options</b>	None			
<b>Background Papers</b>	None			
<b>Appendices</b>	A – Temporary Investments 2021/2022 B – Actual Prudential Indicators 2021/2022 C – Explanation of the Prudential indicators D – The economy and interest rates 2021/2022 E – Borrowing and investment rates in 2021/2022			
<b>Implications (further details at the end of the report)</b>	Financial	Legal	Equality	Environmental
	No	No	No	No

At its meeting on the 19th of July 2022, the Audit & Standards Committee will consider a report in relation to treasury management activity and actual prudential indicators. Given that the final approval has to be given by Council, it is necessary to place this matter on the Council agenda pending the decision of Audit & Standards Committee.

### Background

1. This Council fully complies with the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code for Capital Finance in Local Authorities.
2. For the financial year 2021/2022 the minimum reporting requirements were that the full Council should receive the following reports:
  - Annual treasury strategy (Council 25/02/2021)
  - Half year treasury management report (Audit & Standards 30/11/2021)
  - Annual treasury review (this report)

3. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body, which in this Council is the Audit & Standards Committee.

## Treasury Activity

4. A summary of treasury management activity for 2021/2022 is shown below:

<b>Treasury Activity 2021-22</b>				
	<b>April 2021</b>	<b>Increase</b>	<b>Decrease</b>	<b>March 2022</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Debt</b>				
<b>Borrowing:</b>				
Long-term	-102,717	-	-	-102,717
Short-term	-	-	-	-
<b>Total debt</b>	<b>-102,717</b>	<b>-</b>	<b>-</b>	<b>-102,717</b>
<b>Investments</b>				
Externally managed	-	-	-	-
Internally managed - Long term	9,870	884	-	10,754
Internally managed - Short term	48,013	10,886	-	58,899
<b>Total investments</b>	<b>57,883</b>	<b>11,770</b>	<b>-</b>	<b>69,653</b>
<b>Net debt</b>	<b>-44,834</b>	<b>11,770</b>	<b>-</b>	<b>-33,064</b>

## Investment Strategy

5. Investment strategy for 2021/2022 was to give primary importance to security of capital and liquidity. This was achieved through having regard to government 'Guidance on Local Government Investment' issued in March 2004, and our own investment policy which set out permitted specified and non-specified investments. In addition, the Council received and followed weekly investment advice from Link Asset Services detailing counterparty credit ratings, which were also subjected to a credit default swap overlay. This was supplemented by daily update emails from Link Asset Services, economic briefings and monitoring the financial press.
6. The Council's Investment Strategy, set out in the report to Council in February 2021, stated that in 2021/2022 the Council would seek to improve average returns to help the Council's financial sustainability. Investment strategy was to broaden the range of longer term investments.
7. The expectation for interest rates within the strategy for 2021/2022 was for Bank Rate to remain at 0.1%. In actual fact, the rate has increased to 0.25% on 16 December 2021, 0.5% on 3 February 2022 and 0.75% on 17 March 2022.
8. The Council has £10m of property fund and multi-asset fund investments comprised of Lothbury property fund £4m, Hermes property fund £2m, Royal London Multi-Asset fund £3m

and CCLA £1m. These are non-specified investments and they are intended to be long-term. Capital values are subject to change.

9. **Appendix A** has a summary of all investments during the year.

**Borrowing Outturn for 2021/2022**

10. The Council had total borrowing of £102.717m as at 31 March 2022. No new loans were taken out and no loans matured during the year. With a Capital Financing Requirement of £117.058m as at 31 March 2022, the Council has continued and extended an element of internal borrowing during the year to help offset low investment returns. As at 31 March 2022 there is internal borrowing of £14.341m (2020-21 £8.613m).

Lender	Principal	Type	Interest Rate	Years to Maturity	Maturity Date	New 20-21
PWLB	£2m	Fixed Interest Rate	1.93%	1 years	11/02/2023	
PWLB	£6m	Fixed Interest Rate	3.32%	10 years	31/03/2032	
PWLB	£10m	Fixed Interest Rate	3.45%	15 years	31/03/2037	
PWLB	£7m	Fixed Interest Rate	3.51%	20 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.51%	20 years	31/03/2042	
PWLB	£7m	Fixed Interest Rate	3.53%	25 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.53%	25 years	31/03/2047	
PWLB	£7m	Fixed Interest Rate	3.52%	30 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.52%	30 years	31/03/2052	
PWLB	£7m	Fixed Interest Rate	3.51%	35 years	31/03/2057	
PWLB	£7m	Fixed Interest Rate	3.51%	35 years	31/03/2057	
PWLB	£10m	Fixed Interest Rate	3.48%	39 years	31/03/2061	
PWLB	£9.717m	Fixed Interest Rate	3.48%	39 years	31/03/2061	
PWLB	£1m	Fixed Interest Rate	2.51%	41 years	21/06/2063	
PWLB	£2m	Fixed Interest Rate	3.16%	41 years	20/08/2063	
PWLB	£1m	Fixed Interest Rate	3.55%	43 years	28/11/2064	
PWLB	£2m	Fixed Interest Rate	3.20%	43 years	18/08/2065	
PWLB	£2m	Fixed Interest Rate	2.96%	44 years	11/02/2066	
PWLB	£1m	Fixed Interest Rate	2.65%	44 years	14/06/2066	
<b>Total Loans</b>	<b>£102.717m</b>					

### The Economy and Interest Rates

- An analysis of UK economic performance and interest rates and the world economic context during 2021/2022 is in **Appendix D**.

### Performance Measurement

- Appendix A** has details of the investments made during the year. All of these were 'approved investments' with counterparties included on the Council's lending list, and within permitted limits as regards time and amount, except for the Barclays 95-day notice account which exceeded the £8m limit by £2k for a period of time due to automatically re-invested interest.

13. The average level of internally managed investments held was £57.944 million and the average return on these investments was 0.22%. The interest earned was £129k.
14. The average invested in Property and Multi-Asset Funds was £10 million and the average return on these investments was 2.79%. Interest earned was £279k. Capital values had increased as during 2021/2022 by £0.893m. A statutory override for the accounting treatment for local authorities means the change in capital value is taken to the balance sheet, rather than the 2021/2022 revenue account. The Council has an earmarked investment risk reserve of £0.310m set aside.
15. Interest earned in 2021/2022 on specified and non-specified investments was £408k compared with a budget of £398k.

	Average Investment	Rate of Return
<b>Internally Managed Specified</b>	£57,944,055	0.22%
<b>Property Fund / Multi-Asset</b>	£10,000,000	2.79%
<b>Externally Managed</b>	N/A	N/A

16. Stroud is a member of a Link Asset Services Benchmarking group. The group is comprised of North Warwickshire Borough Council, Nuneaton and Bedworth Borough Council, Oxford City Council, Oxfordshire County Council, Rugby Borough Council, Warwick District Council, Warwickshire County Council, West Midlands Combined Authority, Worcestershire County Council and Wyre Forest District Council. A primary aim of the group is to evaluate and compare return on investment taking into account the level of risk for the investment portfolio. During 2021/2022 Stroud has again compared well with the benchmark group in terms of return achieved, whilst maintaining a predominantly low risk portfolio.
17. In line with the budget strategy and the 2021/2022 Treasury and Investment Strategies approved by Council in February 2021 the Council is continuing to target an increase the return on investments through an increased risk appetite and permitting a wider range of investments.

**Prudential Indicators and Compliance with Borrowing Limits**

18. The Council is required by the Prudential Code to report actual prudential indicators after the year end. These are shown in **Appendix B**.
19. The Council had maximum loans totalling £102.717m during 2021/2022. This amount of borrowing was well within both the authorised and operational borrowing limits of £143m and £138m respectively.

Borrowing limits 2021/2022	Approved Limit	Actual
Authorised limit for external debt	£143m	£102.7m
Operational boundary for external debt	£138m	£102.7m

## **Member Training**

20. Training for members was provided by Link on 17 January 2022, when members were also consulted on the draft Ethical Investment Policy. Further training for Members will be scheduled later in 2022/2023.

## **21. IMPLICATIONS**

### **21.1 Financial Implications**

The report sets out the financial results of the Council's Treasury management activities in 2021/22.

The Council has an investment risk reserve of £310k to cover any fall in value of the long term funds from their original investment of £10m. As the report sets out the funds are currently significantly above that level. However, the reserve will be held in place as a measure of caution against market uncertainty in the current financial year.

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### **21.2 Legal Implications**

There are no significant legal implications in respect of the recommendations in this report. Compliance with the CIPFA Code of Practice for Treasury Management in the Public Services, the ODPM Local Government Investment Guidance provides assurance that investments are, and will continue to be, within its legal powers.

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### **21.3 Equality Implications**

An EIA is not required because there are not any specific changes to service delivery proposed within this decision

### **21.4 Environmental Implications**

There are no environmental implications from the decisions in this report. Council has agreed an ethical investments policy which applies from the 2022/23 onwards. Future Treasury Management reports will incorporate reporting against that policy, including on environmental criteria.