ARUN DISTRICT COUNCIL

REPORT TO AUDIT AND GOVERNANCE COMMITTEE ON 28 July 2022

SUBJECT: Treasury Management Annual Report 2021/22

REPORT AUTHOR: Sian Southerton – Senior Accountant (Treasury)
DATE: June 2022
EXTN: 01903 737861
AREA: Corporate Support

EXECUTIVE SUMMARY:

The purpose of this report is to present the Council's Treasury Management activities for the year 2021/22 and to enable the Audit and Governance Committee to scrutinise the report prior to making comment to Full Council.

During 2021/22, the Council complied with its legislative and regulatory requirements. Including confirmation that the authorised limit was not breached.

The actual prudential and treasury indicators are to be found in the body of this report and in appendix 1.

The financial year 2021/22 continued the challenging investment environment of previous years, namely low investment returns.

RECOMMENDATIONS:

The Committee is requested to recommend Full Council to:

(i) approve the actual prudential and treasury indicators for 2021/22 contained in the report;

(ii) note the annual treasury management report for 2021/22; and

(iii) note the treasury activity during 2021/22 which has generated interest receipts of £460,000 (0.59%). Budget £332,000 (0.64%)

1. BACKGROUND:

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).

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 (Council 24 March 2021)
- a mid-year, (minimum), treasury update report (Council 26 January 2022)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

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.

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 by the Audit and Governance Committee before they were reported to the Full Council.

All Councillors were invited to attend a Treasury Management briefing presented by Link Group (the Councils treasury advisors) in order to support members' scrutiny role.
The latest session was held on 13 July 2021 of which 14 members attended.

2. PROPOSAL(S):

This report, the annual report has the Treasury Management activities for 2021/22 appended.

It covers the requirements of the Local Government Act 2003, DLUHC (Department for Levelling Up, Housing and Communities) Investment Guidance, DLUHC MRP Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code.

To approve all 3 recommendations.

3. OPTIONS:

The Treasury Management Strategy is legislative and under the Local Government Act 2003 and therefore the only option is to recommend the annual report be recommended for approval by Full Council.

4. CONSULTATION:

Has consultation been undertaken with:	**YES**	**NO**
Relevant Town/Parish Council		✓
Relevant District Ward Councillors		✓
Other groups/persons (please specify)	✓ Treasury Advisors	

5. ARE THERE ANY IMPLICATIONS IN RELATION TO THE FOLLOWING COUNCIL POLICIES: (Explain in more detail at 6 below)	**YES**	**NO**
Financial	✓	
Legal	✓	
Human Rights/Equality Impact Assessment		✓

Community Safety including Section 17 of Crime & Disorder Act		✓
Sustainability		✓
Asset Management/Property/Land		✓
Technology		✓
Other (please explain)		

6. IMPLICATIONS:

Approval will enable the Council to comply with legislation and provide a Treasury Service

7. REASON FOR THE DECISION:

Compliance with Statutory requirements and the limits set, safeguard the Council against financial losses.

8. BACKGROUND PAPERS:

- The Local Government Act 2003 (www.legislation.gov.uk/ukpga/2003/26/content)
- CIPFA'S Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (2017). The updated code (2021) will be adopted as part of the 2023-24 Strategy.
- Cipfa Treasury Management Guidance notes (2018) *(Link not available as copyright)*
- The Prudential Code for Capital Finance in Local Authorities (2017). The updated code (2021) will be adopted as part of the 2023-24 Strategy.
- DLUHC's Guidance on Local Government Investments ("the Guidance")

Arun District Council
Treasury Management Annual Report 2021/22

1.0 INTRODUCTION

The Annual Treasury Management Report for 2021/22 summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2021/22

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or

- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2020/21 Actual £,000	2021/22 Original £,000	2021/22 Actual £,000
Non-HRA capital expenditure	2,930	3,228	4,341
HRA capital expenditure	6,472	4,732	6,940
HRA Settlement	-	-	-
Total capital expenditure	**9,402**	**7,960**	**11,280**
Resourced by:			
• Capital receipts	1,589	117	1,396
• Capital grants	2,668	1,400	3,174
• Capital reserves	1,823	4,602	2,467
• Revenue	37	1,841	1,059
	6,117	**7,960**	**8,096**
Unfinanced capital expenditure	**3,285**	**0**	**3,184**

3.0 THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2021/22 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council.

The CFR increases when capital expenditure is incurred but not financed and reduces when amounts are set aside for loan repayments.

Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the non-Housing Revenue Account (HRA) borrowing need, (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.

The Council currently has no external debt other than that taken out for the HRA Self-Financing (March 2012). The Council does not have an overdraft facility as it became very expensive and rather than incurring costs for the facility, an approx. £200k balance is held in the account daily. This is currently only earning 0.01% interest, but the balance is required to cover any potential cashflow need and to avoid high overdraft charges.

External debt can also be borrowed or repaid at any time, but this does not change the CFR.

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).

The Council's 2021/22 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2021/22 on 24 March 2021.

The Council's CFR for the year is shown below and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is required against these schemes as a borrowing facility is included in the contract.

CFR	**2020/21 Actual £,000**	2021/22 Original £,000	**2021/22 Actual £,000**
Opening balance	**48,356**	46,642	**48,750**
Add unfinanced capital expenditure	**3,285**	2,727	**3,184**
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	**(3,837)**	(3,896)	**(3,845)**
CFR before leases	**47,804**	45,472	**48,089**
Finance lease repayments	**946**	0	**0**
Closing balance	**48,750**	45,472	**48,089**

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

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 (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £35.46m). Prior to this borrowing being undertaken Arun had a negative CFR of £2.6m which has arisen over a number of years and was due more to changes in the capital accounting regulations rather than to any specific policy decision.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this is set, the Council does not have the power to borrow above this level. The authorised limit was not breached in 2021/22.

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 is acceptable subject to the authorised limit not being breached.

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.

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (summary in appendix1).

4.0 TREASURY POSITION AS AT 31 MARCH 2022

The Council's debt and investment position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

During 2021/22, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	31 March 2021 Actual £000	2021/22 Original £000	**31 March 2022 Actual £000**
Capital expenditure	9,402	7,960	**11,280**
Total Debt	44,320	44,320	**35,460**
Capital Financing Requirement at 31st March: • Non-HRA • HRA • **Total**	 -4,223 52,973 **48,750**	 -4,442 49,914 **45,472**	 **-4,442** **52,531** **48,089**
Over / (under) borrowing	(4,430)	(1,169)	**(12,629)**

The maturity structure of the debt portfolio was as follows (The upper and lower limits are also shown in appendix 1):

	31.3.21 actual	**31.3.22 actual**
Under 12 months	£8.86m	**£0m**
12 months and within 24 months	£0m	**£0m**
24 months and within 5 years	£0m	**£0m**
5 years and within 10 years	£8.87m	**£8.87m**
10 years and within 20 years	£8.87m	**£8.87m**
20 years and within 30 years	£8.86m	**£8.86m**
30 years and within 40 years	£0m	**£0m**
40 years and within 50 years	£8.86m	**£8.86m**

INVESTMENT PORTFOLIO	31.3.21 Actual £000	31.3.21 Actual %	**31.3.22 Actual £000**	**31.3.22 Actual %**
Treasury investments				
Banks	47,175	76%	**44,000**	**64%**
Building Societies - rated	0	0%	**0**	**0%**
Building Societies – unrated	2,000	3%	**4,000**	**6%**
Local authorities	2,000	3%	**0**	**0%**
Money Market Funds	4,000	7%	**13,950**	**20%**
Total managed in house	**55,175**	**89%**	**61,950**	**90%**
Property funds	5,000	8%	**5,000**	**7%**
Diversified funds	2,000	3%	**2,000**	**3%**
TOTAL TREASURY INVESTMENTS	**62,175**	**100%**	**68,950**	**100%**

The maturity structure of the investment portfolio was as follows:

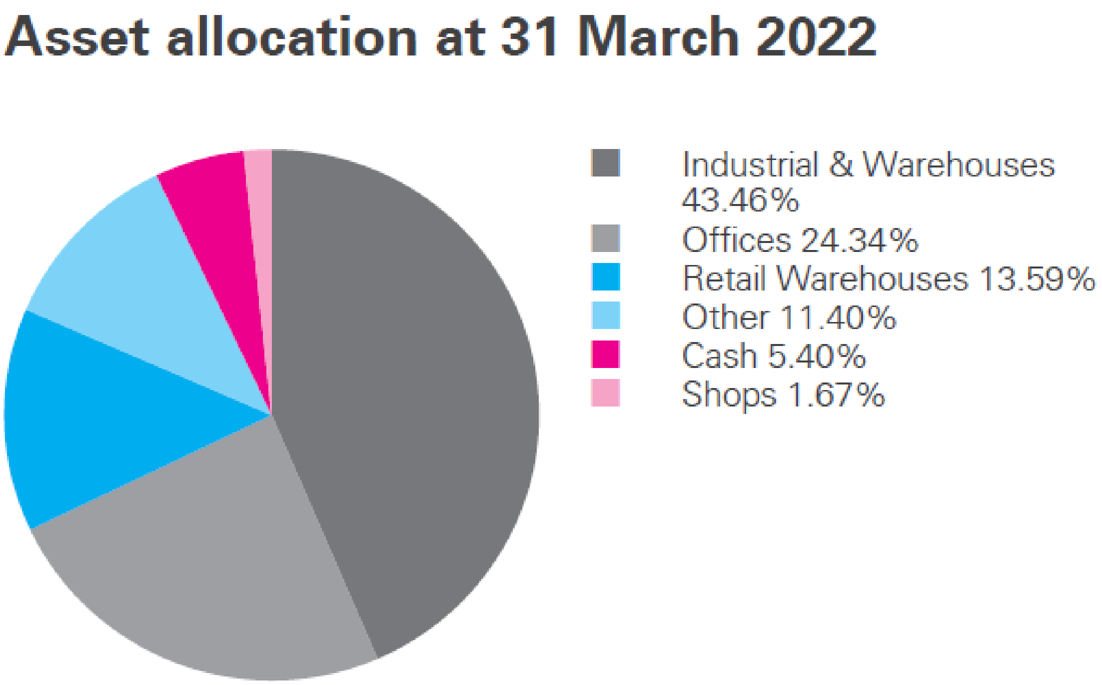
	31.3.21 Actual £000	2021/22 Budget £000	**31.3.22 Actual £000**
Investments			
Longer than 1 year	7,000	6,000	7,000
Up to 1 year	55,175	45,600	61,950
Total	**62,175**	51,600	**68,950**

Other prudential and treasury indicators are to be found in the body of this report and appendix 1.

The base rate increased from 0.10% to 0.75% in the last quarter of 2021/22. The rates, despite the increases remained low and therefore achieving a return around 1% was still challenging.

The Churches Charities and Local Authorities (CCLA) property fund and diversified fund, (investment of £5M & £2M) continue to enhance these returns.

This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate (although a few standalone shops). The spread as at 31 March 2022 is as follows.



These fund managers are experts in property management and are always actively managing their portfolio.

At the beginning and the end of 2021/22, the Council's treasury position was as follows:

Investments / Debt	2020/21 Rate/ Return (actual)	31st March 2021 Principal	**2021/22 Rate / Return (budget)**	**2021/22 Rate / Return (Actual)**	**31st March 2022 Principal**
Total Investments	0.86%	£62.12m	**0.64%**	**0.59%**	**£68.95m**
Total Debt	3.20%	£44.32m	**3.41%**	**3.41%**	**£35.46m**

5.0 THE STRATEGY FOR 2021/22

5.1 Investment strategy and control of interest rate risk

Investment returns remained close to zero for much of 2021/22. Arun District Council's lending managed to avoid negative rates. 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.

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).

While the Council has taken a semi-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.

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.

5.2 Borrowing strategy and control of interest rate risk

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 very low and minimising counterparty risk on placing investments also needed to be considered.

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

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.

Our Treasury advisor forecasts at the time of approval of the treasury management strategy report for 2021/22 were as follows:

Link Group Interest Rate View	9.11.20													
	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
5 yr PWLB	1.80	1.80	1.80	1.80	1.80	1.90	1.90	1.90	1.90	1.90	2.00	2.00	2.00	2.00
10 yr PWLB	2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70	2.70	2.70	2.80	2.80	2.80	2.80
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.60	2.60	2.60	2.60

Their interest rate forecast changed periodically during 2021/22 as below:

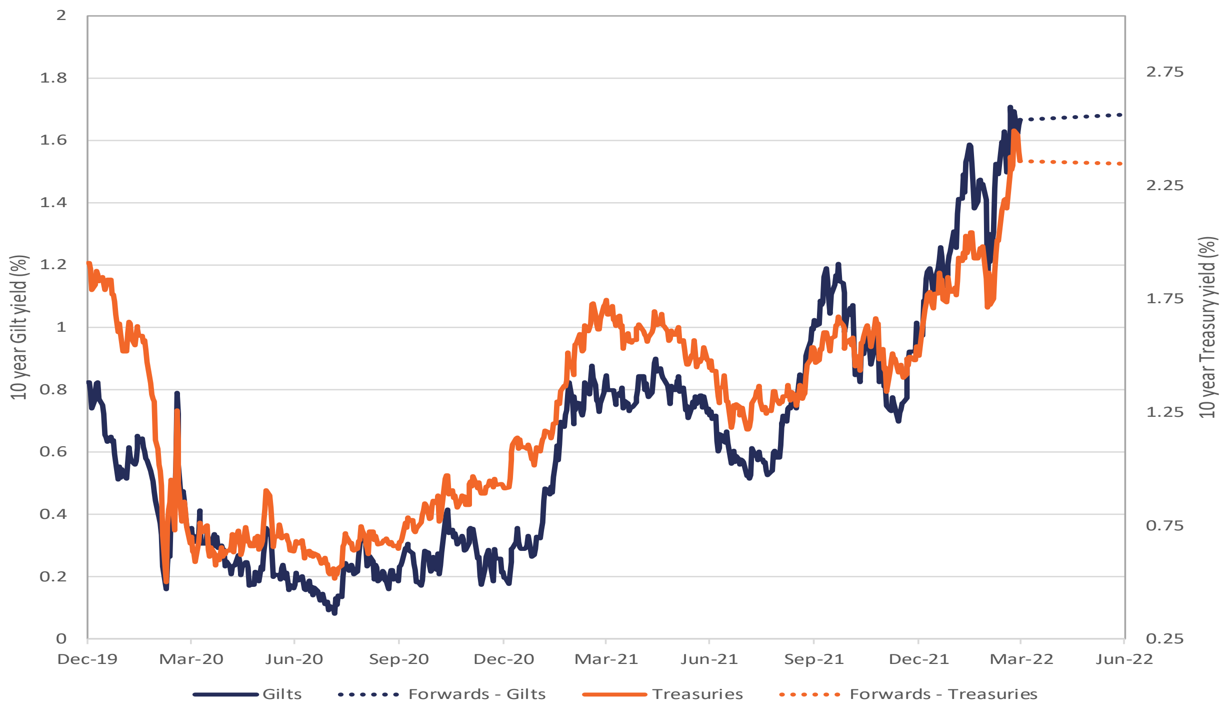
Link Group Interest Rate View			10.5.21								
	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
BANK RATE	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.25	0.25	0.25
3 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.30	0.30	0.30
6 month ave earnings	0.10	0.10	0.10	0.10	0.10	0.10	0.20	0.30	0.40	0.40	0.40
12 month ave earnings	0.20	0.20	0.20	0.20	0.20	0.30	0.30	0.40	0.50	0.50	0.50
5 yr PWLB	1.20	1.30	1.30	1.30	1.40	1.40	1.40	1.40	1.50	1.50	1.50
10 yr PWLB	1.70	1.70	1.80	1.80	1.90	1.90	1.90	2.00	2.00	2.00	2.00
25 yr PWLB	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50	2.50	2.60
50 yr PWLB	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.30	2.30	2.40

Link Group Interest Rate View	8.11.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.30	0.40	0.50	0.50	0.50	0.60	0.80	0.90	1.00	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.10	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.50	0.60	0.70	0.70	0.80	0.90	1.00	1.10	1.20	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.50	1.50	1.60	1.60	1.70	1.70	1.70	1.80	1.80	1.80	1.90	1.90	2.00	2.00
10 yr PWLB	1.80	1.90	1.90	2.00	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30	2.40
25 yr PWLB	2.10	2.20	2.30	2.40	2.40	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.70	2.70
50 yr PWLB	1.90	2.00	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.50	2.50

Link Group Interest Rate View	7.2.22												
	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.75	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month av. earnings	0.80	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month av. earnings	1.00	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month av. earnings	1.40	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.20	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.40	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.20	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

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.

Graph of UK gilt yields v. US treasury yields



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 is forecast to rise from 0.75% in March 2022 to 1.25% later this year, 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 is also embarking on a process of Quantitative Tightening when Bank Rate hits 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.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2021/22 approved by the Council on 24 March 2021 was subject to no revisions during the year.

A full list of the Council's approved counterparties is included in appendix 2.

6.0 BORROWING OUTTURN FOR 2021/2022

Maturity loans for £70.902m were taken out on the 28 March 2012 to fund the new HRA self-financing system. The borrowing remaining as at 31 March 2022 was £35.46 as shown below.

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£35.46m		**3.41%**	

A maturity loan is a bullet repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into very low borrowing rates. The average rate of these loans at 31 March 2022 was 3.41%.

No new external borrowing was undertaken during the year and therefore the Council has not borrowed in advance of its need.

No rescheduling was carried out during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.0 INVESTMENT OUTTURN IN 2021/22

Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 24 March 2021. 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.

Resources – the Council's cash balances comprise, primarily, revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources comprised as follows, and met the expectations of the budget:

Balance Sheet Resources (£m)	31st March 2021 £m	**31st March 2022 £m**
Balances	16.0	**11.8**
Earmarked reserves	29.1	**29.1**
Provisions	3.0	**3.0**
Usable capital receipts	1.9	**2.0**
Total	**50.0**	**45.9**

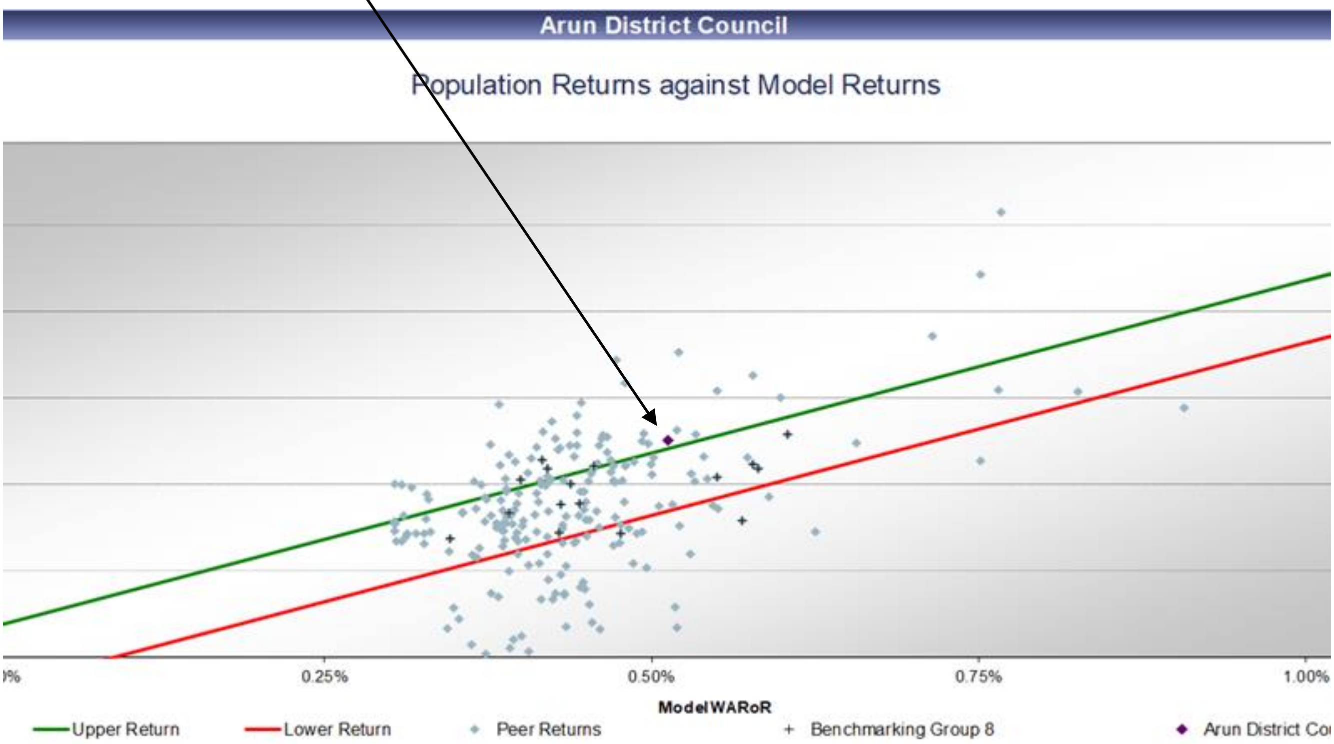
Investments held by the Council

The Council maintained an average balance of approximately £79m of internally managed funds. These internally managed funds earned an average rate of return of 0.32% plus 3.71% for the property fund and 2.48% for the diversified fund giving an overall return of 0.59%.

The comparable performance indicator was the average 7-day LIBID rate, uncompounded, which was -0.0740% but this ceased to be used at the end of December 2022. The overnight (o/n) Sonia was used instead, and the average rate was 0.068%. This compares with a budget assumption of £52m investment balances earning an average rate of 0.64%.

Total investment income was £460k compared to a budget of £332k, largely due to additional balances in the form of grants and a further £1m placed into the CCLA Diversified fund.

A full list of investments at the 31 March 22 is included in appendix 3 and below shows a comparison of Arun's investments against other Councils.



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performa
Arun District Council	0.63%	0.51%	0.12%	0.42%	0.60%	Above

The Councils performance for the treasury investment portfolio is above the upper return boundary for the end of Q1 2022.
This is as a result of the yields on investments under 1 month (MMF, Call accounts & Notice accounts) rising in line with increase in the Bank rate and the investments made in 6 to 12 month investments (Fixed Deposit) at the end of March pushing the portfolio's weighted average rate of return (WARoR) to 0.63% against the model portfolio's WARoR of 0.51% and also exceeding the upper boundary WARoR of 0.60%.

8.0 THE ECONOMY AND INTEREST RATES for 2021/2022 (*April 22)*

UK. Economy. 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 Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021, 0.50% at its meeting of 4th February 2022 and then to 0.75% in March 2022.

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 GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Historically, a further rise in US Treasury yields will probably drag UK gilt yields higher. There is a strong correlation between the two factors. However, the squeeze on real household disposable incomes arising from the 54% leap in April utilities prices as well as rises in council tax, water prices and many phone contract prices, are strong headwinds for any economy to deal with. In addition, from 1st April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

Average inflation targeting. This was the major change in 2020/21 adopted by the Bank of England in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2020 was a new phrase in the policy statement, namely that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and *achieving the 2% target sustainably*". That mantra now seems very dated. Inflation is the "genie" that has escaped the bottle, and a perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions all point to inflation being at elevated levels until well into 2023.

USA. The flurry of comments from Fed officials following the mid-March FOMC meeting – including from Chair Jerome Powell himself – hammering home the hawkish message from the mid-March meeting, has had markets pricing in a further 225bps of interest rate increases in 2022 on top of the initial move to an interest rate range of 0.25% - 0.5%.

In addition, the Fed is expected to start to run down its balance sheet. Powell noted that the rundown could come as soon as the next meeting in May.

The upward pressure on inflation from higher oil prices and potential knock-on impacts on supply chains all argue for tighter policy (CPI is estimated at 7.8% across Q1), but the hit to real disposable incomes and the additional uncertainty points in the opposite direction.

More recently, the inversion of the 10y-2y Treasury yield spread at the end of March led to predictable speculation that the Fed’s interest rate hikes would quickly push the US economy into recession. Q1 GDP growth is likely to be only between 1.0% and 1.5% annualised (down from 7% in Q4 2021). But, on a positive note, the economy created more than 550,000 jobs per month in Q1, a number unchanged from the post-pandemic 2021 average. Unemployment is only 3.8%.

EU. With euro-zone inflation having jumped to 7.5% in March it seems increasingly likely that the ECB will accelerate its plans to tighten monetary policy. It is likely to end net asset purchases in June – i.e., earlier than the Q3 date which the ECB targeted in March. And the market is now anticipating possibly three 25bp rate hikes later this year followed by more in 2023. Policymakers have also hinted strongly that they would re-start asset purchases if required. In a recent speech, Christine Lagarde said “we can design and deploy new instruments to secure monetary policy transmission as we move along the path of policy normalisation.”

While inflation has hit the headlines recently, the risk of recession has also been rising. Among the bigger countries, Germany is most likely to experience a “technical” recession because its GDP contracted in Q4 2021, and its performance has been subdued in Q1 2022. However, overall, Q1 2022 growth for the Eurozone is expected to be 0.3% q/q with the y/y figure posting a healthy 5.2% gain. Finishing on a bright note, unemployment fell to only 6.8% in February.

World growth. World growth is estimated to have expanded 8.9% in 2021/22 following a contraction of 6.6% in 2020/21.

Central banks’ monetary policy. During the pandemic, the governments of western countries have provided massive fiscal support to their economies which has resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside under the impact of economic growth. This provides governments with a good reason to amend the mandates given to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Fed and Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

9.0 IFRS 9 fair value of investments

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government, [MHCLG] (now renamed the Department of Levelling Up, Housing & Communities) on IFRS 9 the Government previously 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.

The valuation of investments previously valued under the available for sale category e.g. equity related to property funds, equity funds and similar, will be changed to **Fair Value through the Profit and Loss (FVPL).** The Council made no losses on its investments in 2021-22.

Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2020/21	2021/22	2021/22
Extract from budget and rent setting report	**Actual**	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non – HRA	2,930	3,228	4,341
HRA	6,472	4,732	6,940
TOTAL	9,402	7,960	11,280
Ratio of financing costs to net revenue stream			
Non - HRA	-1.96%	-1.90%	-2.06%
HRA	31.84%	32.32%	31.35%
Capital Financing Requirement as at 31 March			
Non – HRA	-4,223	-4,442	-4,442
HRA	52,973	49,914	52,531
TOTAL	48,750	45,472	48,089
Annual change in Cap. Financing Requirement			
Non – HRA	-214	-219	-219
HRA	*609	-950	-442
TOTAL	395	-1,169	-661

* HRA CFR increased partly due to Osbourne leases inclusion effective from 2020/21

2. TREASURY MANAGEMENT INDICATORS	2020/21	2021/22	2021/22
	Actual	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Authorised Limit for external debt			
Borrowing	60,000	54,000	54,000
Other long term liabilities	1,000	1,000	1,000
TOTAL	**61,000**	**55,000**	**55,000**
Operational Boundary for external debt			
Borrowing	57,000	49,000	49,000
other long term liabilities	1,000	1,000	1,000
TOTAL	**58,000**	**50,000**	**50,000**
Actual external debt	44,320	*44,320	35,460
Upper limit for total principal sums invested for over 365 days (£m)	**18**	**18**	**18**
-	-		-

* £8.86m of debt being repaid (28 March 2022)

2021/22 potentially up to £3m borrowing for New Acquisitions

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/22	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

APPENDIX 2

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Bank of Nova Scotia (CAN)
DBS Bank Ltd (SING)
National Australia Bank
Oversea-Chinese Banking Corp Ltd (SING)
Handelsbanken Plc (UK)
JP Morgan Chase
United Overseas Bank Ltd (SING)
First Abu Dhabi Bank (U.A.E)

Category 2 - Limit of £11 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group)
Goldman Sachs International Bank (UK)
HSBC Bank plc (UK)
Standard Charted Bank (UK)
National Westminster Bank PLC (RFB) (UK)
Royal Bank of Scotland PLC (RFB) (UK)
Santander (UK)

Category 3 - Limit of £8 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)
Qatar National Bank (Qatar)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Leeds Building Society (UK)
Principality Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Bank Plc (RFB) (Cat 2)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2)

Category 6 - Limit of £11 million for each institution - Maximum investment period - 3 Years
banks effectively nationalised by UK government

		Long Term	Short Term
Min Criteria	**Fitch**	**BBB-**	**F3**
	Moody	**Baa3**	**P-3**
	S&P	**BBB-**	**A-3**

Category 7 - Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

	Fitch	NAV
• Money Market Funds (MMF's), (CNAV, LVNAV, VNAV) & Enhanced MMF's • Government Liquidity Funds		

Limit of £4million for each institution

Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
Northern Trust	AAA	

Category 8 - Alternative Investments (Asset Backed Bonds) - 25 Years

Maximum investment £4 million

Category 9 - Debt Management Office

Debt management Account - NO LIMIT (UK Govt)

Category 10 - Bonds issued by multilateral development banks - 5 Years

Maximum investment £4 million AAA

Category 11 – Property Funds - 25 Years

Maximum investment £6 million

CCLA

Category 12 - Multi-Asset Funds - 15 Years

Maximum investment £6 million

CCLA - Diversified Income Fund

Appendix 3

INVESTMENTS at 31st March 2022

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	783	Qatar National Bank	01/04/2021	01/04/2022	£1,000,000.00	0.535
Fixed Term Deposit	791	Goldman Sachs	21/05/2021	23/05/2022	£7,000,000.00	0.325
Fixed Term Deposit	792	Qatar National Bank	07/06/2021	06/06/2022	£1,000,000.00	0.56
Fixed Term Deposit	797	Close Brothers	10/08/2021	10/08/2022	£1,000,000.00	0.45
Fixed Term Deposit	799	Close Brothers	03/09/2021	05/09/2022	£3,000,000.00	0.45
Fixed Term Deposit	802	Qatar National Bank	03/08/2021	02/08/2022	£1,000,000.00	0.585
Fixed Term Deposit	807	Yorkshire Building Society	20/10/2021	20/10/2022	£4,000,000.00	0.56
Fixed Term Deposit	808	Standard Chartered Bank	28/10/2021	08/04/2022	£4,000,000.00	0.30
Fixed Term Deposit	809	Standard Chartered Bank	03/11/2021	06/04/2022	£2,000,000.00	0.35
Fixed Term Deposit	810	DBS	10/11/2021	06/04/2022	£4,000,000.00	0.20
Fixed Term Deposit	811	Goldman Sachs	22/11/2021	22/11/2022	£2,000,000.00	0.825
Fixed Term Deposit	817	Standard Chartered Bank - Sustainable Deposits	06/01/2022	05/01/2023	£1,000,000.00	0.8200
Fixed Term Deposit	818	Goldman Sachs International	07/01/2022	05/01/2023	£1,000,000.00	0.9300
Fixed Term Deposit	819	Goldman Sachs International	14/01/2022	14/12/2022	£1,000,000.00	0.9850
Fixed Term Deposit	821	Close Brothers Limited	21/03/2022	21/03/2023	£4,000,000.00	1.5000
Fixed Term Deposit	822	Standard Chartered Bank - Sustainable Deposits	24/03/2022	26/09/2022	£1,000,000.00	1.4400
Fixed Term Deposit	823	National Westminster Bank	24/03/2022	26/09/2022	£2,000,000.00	1.3000
Fixed Term Deposit	824	Standard Chartered Bank - Sustainable Deposits	28/03/2022	28/09/2022	£2,000,000.00	1.4400
Fixed Term Deposit	825	Standard Chartered Bank - Sustainable Deposits	31/03/2022	31/03/2023	£1,000,000.00	1.9400
Fixed Term Deposit	826	DBS	31/03/2022	05/05/2022	£5,000,000.00	0.720
Money Market Fund	110000	Federated			£2,000,000.00	0.5058
Money Market Fund	99999	Fidelity			£3,950,000.00	0.5563
Money Market Fund	120000	Aberdeen Standard			£4,000,000.00	0.5067
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£4,000,000.00	0.5785
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*3.25
Diversified Fund	140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*2.39
					£68,950,000.00	

* rates at 31-3-22