Appendix 1 - Treasury Management Outturn Report 2021/22

1. Introduction

1.1. The Authority has 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 semi-annual and annual reports.

1.2. The Authority's treasury management strategy for 2020/21 was approved at a full Council meeting on 1 March 2021. The Authority has borrowed and 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.

1.3. 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.

1.4. 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, complying with CIPFA's requirement, was approved by full Council on 1 March 2021.

2. External Context (provided by the Council's treasury management advisor, Arlingclose)

Economic background

2.1. The continuing economic recovery from the coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

2.2. At the beginning of the reporting period, the Bank of England's Bank Rate was 0.10%. In April and May of 2021, the economy gathered momentum as governments began to ease pandemic restrictions. Despite the improving outlook, market expectations at the time were that the Bank of England would delay raising interest rates until 2022. Rising and persistent inflation would later change this view.

2.3. UK CPI was 0.7% in March 2021 but thereafter began to steadily increase. This was initially driven by energy price effects and by inflation in sectors such as retail and hospitality which were re-opening after the pandemic lockdowns. The consensus view at the time was the impact of this inflation would to be temporary. However later in the year, price rises slowly became more widespread as a combination of rising global costs and strong demand was exacerbated by supply shortages.

2.4. The surge in wholesale gas and electricity prices led to higher inflation expectations. UK 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 (e.g., food and energy), rose to 5.2% year over year from 4.4%.

2.5. The government's jobs furlough scheme insulated the labour market from the worst effects of the pandemic. As a result, 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.

2.6. Having peaked at 5.2% in December 2020, unemployment continued to fall and the most recent labour market data for the three months to January 2022 showed the unemployment rate at 3.9% while the employment rate rose to 75.6%. The 3-month average annual growth rate for wages was 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%.

2.7. UK Gross domestic product (GDP) grew by an upwardly revised 1.3% in the fourth calendar quarter of 2021 and took UK GDP to just 0.1% below where it was before the pandemic.

2.8. In December 2021, the Bank of England increased the Bank Rate from 0.10% to 0.25%. Further increases followed in February 2022 (increase to 0.50%) and March 2022 (increase to 0.75%). 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.

2.9. In its March 2022 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. The Committee also noted that although GDP in January was stronger than expected with business confidence holding up and the labour market remaining robust, consumer confidence had fallen due to the squeeze in real household incomes.

2.10. Across the pond, the US economy expanded at an annualised rate of 6.9% in Q4 2021, a sharp in increase from a gain of 2.3% in the previous quarter. In its March 2022 interest rate announcement, the Federal Reserve raised the Fed Funds rate to between 0.25% and 0.50% and outlined further increases should be expected in the coming months. The Fed also repeated it plan to reduce its asset purchase programme which could start by May 2022.

Financial Markets

2.11. 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.

2.12. Bond yields were similarly volatile as the tension between higher inflation and flight to quality from the war pushed and pulled yields. However, the general upward trend from higher interest rates proved to be the dominant factor in rising bond yields.

2.13. 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%.

2.14. The Sterling Overnight Rate (SONIA) averaged 0.39% over the quarter.

Credit Review

2.15. In the first half of FY 2021-22 credit default swap (CDS) spreads were flat over most of period and are broadly in line with their pre-pandemic levels. 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.

2.16. 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 caused 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.

2.17. 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. The institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

2.18. 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, refinancing and treasury management.

2.19. 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.

2.20. 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 if they wish. The Authority has opted for the option to defer these report requirements until 2023/24.

2.21. 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 CFR 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.

2.22. Borrowing is permitted for cashflow 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.

3. Local Context

3.1. On 31st March 2022, the Authority had net borrowing of £700.4m 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

Type of Liability	31.03.21 Actual £m	31.03.22 Actual** £m
General Fund CFR	507.7	598.1
HRA CFR	332.3	404.6
**Total CFR ** **	**840.0**	**1,002.7**
Less: *Other debt liabilities	(28.2)	(28.2)
Borrowing CFR – comprised of:	**811.8**	**974.5**
- External borrowing	555.9	700.4
- Internal borrowing	255.9	274.1

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt
** subject to audit

3.2. Lower official interest rates have lowered the cost of short-term, temporary loans and investment returns from cash assets that can be used instead of borrowing. The Authority continued to pursue its long-standing strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

3.3. The treasury management position on 31st March 2022 and the change over the year is shown in Table 2 below.

Table 2: Treasury Management Summary

Type of Borrowing / Investment	31.03.21 Balance (£m)	Movement (£m)	31.3.22 Balance (£m)	31.3.22 Rate (%)
Long-term borrowing	496.9	103.5	600.4	2.99
Short-term borrowing	59.0	41.0	100.0	0.32
Total borrowing	**555.9**	**144.5**	**700.4**	**2.61**
Long-term investments	0.0	0.0	0.0	0.00
Short-term investments	5.0	0.0	5.0	0.12
Cash and cash equivalents	12.0	54.2	66.2	0.50
Total investments	**17.0**	**54.2**	**71.2**	**0.47**
Net borrowing	**538.9**	**90.3**	**629.2**	

4. Borrowing Update

4.1. The Authority was not planning to borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

Borrowing strategy during the period

4.2. At 31st March 2022, the Authority held £700.4m of loans, (an increase of £144.5m compared to 31st March 2021), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March 2022 are summarised in Table 3 below.

Table 3: Borrowing Position

	31.03.21 Balance £m	**Net Movement £m**	**31.03.22 Balance £m**	**31.03.22 Weighted Average Rate %**	**31.03.22 Weighted Average Maturity (years)**
Public Works Loan Board	371.9	103.5	475.4	2.54	30.20
Banks (LOBO)	125.0	0.0	125.0	4.72	38.19
Local authorities (short-term)	59.0	41.0	100.0	0.32	0.32
Total borrowing	**555.9**	**144.5**	**700.4**	**2.61**	**27.35**

4.3. The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

4.4. In keeping with these objectives, £120m of new long-term borrowing was undertaken during the year, while £16.5m of existing loans were allowed to mature without replacement. This strategy enabled the Authority to take advantage of the lower long-term borrowing rates and reduce overall treasury refinancing risk.

4.5. With short-term interest rates remaining much lower than long-term rates and temporary investments earning Bank Rate or lower, the Authority considered it prudent to undertake both short-term and long-term borrowing during the course of the year. The net movement in temporary / short-term loans is shown in Table 3 above.

4.6. The Authority has a significant capital programme which extends into the foreseeable future. A large proportion of this will be financed by borrowing, which the Authority will have to undertake in coming years. The Authority's treasury advisor, Arlingclose undertakes a weekly 'cost of carry' analysis which informs the Authority on whether it is financially beneficial to undertake borrowing now or delay this for set time periods based on PWLB interest rate forecasts.

4.7. Any borrowing which is taken prior to capital expenditure taking place, and reducing the extent of the Authority's internal borrowing, would have to be invested in the money markets at rates of interest significantly lower than the cost of borrowing, creating an immediate cost for revenue budgets. The Authority's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing is maintained.

LOBO Loans

4.8. The Authority continues to hold £125m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

5. Treasury Investment Activity

5.1. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

5.2. The Authority holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £17.0 and £71.2 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

Investments	31.03.20 Balance £m	Net Movement £m	31.03.21 Balance £m	31.03.21 Rate of Return %	31.03.21 Weighted Average Maturity (Days)
Banks & building societies (unsecured)	0.0	0.0	0.0	0.00	
Money Market Funds	0.0	0.0	0.0	0.00	
UK Government:					
- Local Authorities	5.0	0.0	5.0	0.12	144
- Debt Management Office	12.0	54.2	66.2	0.50	1
Total investments	**17.0**	**54.2**	**71.2**	**0.47**	**11**

5.3. Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

5.4. 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 had 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 0.40% - 0.55%.

5.5. 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.

5.6. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 on the following page.

Table 5: Investment Benchmarking – Treasury investments managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (Days)	Rate of Return
31.03.2021	**3.91**	**AA-**	**0%**	**8**	**0.28%**
31.03.2022	**4.46**	**AA-**	**44%**	**110**	**0.06%**
Similar Local Authorities	**4.77**	**A+**	**72%**	**56**	**0.55%**
All Local Authorities	**4.64**	**A+**	**66%**	**16**	**0.66%**

Scoring:
AAA = highest credit quality = 1; D = lowest credit quality = 26
Aim = A- or higher credit rating, with a score of 7 or lower, to reflect current investment approach with main focus on security

Non-Treasury Investments

5.7. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return.

5.8. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

5.9. The Authority also hold properties which are classified as 'investment properties" in the Authority's Statement of Accounts. These properties which are all within the local area, and the revenue stream associated with these (net of the costs of maintaining the properties) forms a modest part of the Authority's annual budget, therefore contributing to the resources available to the Authority to spend on local public services.

5.10. The balances of non-treasury investments as at 31st March 2022 were as follows:

Table 6: Non-treasury investment balances

Non-Treasury Investments	**31.03.22 Gross Balance £m**	**Loss Allowance £m**	**31.03.22 Net Balance £m**	**Weighted Average Rate of Return %**	**Net Total Revenue £m**
Local Businesses	1.6	(0.9)	0.7	5.20	0.1
Local Charities	49.0	(43.5)	5.5	3.00	0.2
Local Residents	0.1	0.0	0.1	4.00	0.0
Commercial Properties*	88.6	0.0	88.6		
Total investments	**139.3**	**(44.4)**	**94.9**		**0.3**

*corporate finance are assessing the full impact of the commercial properties revenue in 21/22

5.11. The largest balance above relates to Alexandra Palace debts (shown under local charities). There is a large amount of historic debt that a provision was created for, however this has not been written off.

5.12. Accounting standards require the Authority to set aside loss allowance for loans, reflecting the likelihood of non-payment. The figures for loans in the Authority's Statement of Accounts for 2018/19 onwards are shown net of this loss allowance. However, the

Authority makes every reasonable effort to collect the full sum lent and has appropriate credit control arranges in place to recover overdue repayments.

5.13. The Authority assesses the risk of loss before entering into and whilst holding service loans by weighing up the service outcomes any such loan could provide against the creditworthiness of the recipient. This is done on a case-by-case basis, given the low number of such arrangements. This forms part of the Authority's capital programme, further details of which are in the Authority's annual medium term financial strategy.

Treasury Performance

5.14. Treasury investments generated an average rate of return of 0.07% in the year. The Authority's treasury investment income for the year was £71k against a budget of £75k.

5.15. Borrowing costs for 2021/22 were £17.5m (£10.5m HRA, £7.0m General Fund) against a budget of £24.8m (£16.2m HRA, £8.6m General Fund).

6. Compliance

6.1. The Director of Finance reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

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

Table 7: Debt Limits

	31.03.22 Actual £m	2021/22 Operational Boundary £m	2021/22 Authorised Limit £m	Complied?
Borrowing	700.4	1,157.4	1,207.4	Yes
PFI and Finance Leases	28.2	28.2	31.0	Yes
Total debt	**728.6**	**1,185.6**	**1,238.4**	**Yes**

6.3. Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure, however, Haringey's debt remained well below this limit at all points in the financial year.

Treasury Management Indicators

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

Security

6.5. The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.03.22 Actual	2021/22 Target	Complied?
Portfolio average credit score	4.46 (AA-)	7.0 (A-)	Yes

Liquidity

6.6. 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.

	31.03.22 Actual	2021/22 Target	Complied?
Total cash available within 3 months	66.2	10.0	Yes

Interest Rate Exposures

6.7. 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 interests was:

Interest rate risk indicator	31.03.22 Actual	2020/21 Target	Complied?
Upper limit on one-year revenue impact of a 1% rise in interest rates	£0.45m	£1m	Yes
Upper limit on one-year revenue impact of a 1% fall in interest rates	£0.45m	£1m	Yes

6.8. The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

Maturity Structure of Borrowing

6.9. This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.03.22 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	15.70%	50%	0%	Yes
12 months and within 24 months	3.38%	40%	0%	Yes
24 months and within 5 years	3.31%	40%	0%	Yes
5 years and within 10 years	4.96%	40%	0%	Yes
10 years and within 20 years	12.19%	40%	0%	Yes
20 years and within 30 years	6.42%	40%	0%	Yes
30 years and with 40 years	20.91%	50%	0%	Yes
40 years and within 50 years	32.12%	50%	0%	Yes
50 years and above	0.00%	40%	0%	Yes

6.10. 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.

6.11. The Authority has used short term borrowing (under 1 year in duration) from other local authorities extensively in recent years, as an alternative to longer term borrowing from PWLB, due to lower interest rates, and corresponding revenue savings. Short term borrowing exposes the Authority to refinancing risk: the risk that rates rise quickly over a short period of time and are at significantly higher rates when loans mature, and new borrowing has to be raised. With this in mind, the Authority has set a limit on the total amount of short-term local authority borrowing, as a proportion of all borrowing.

Short term borrowing	**Limit**	**31.03.22**	**Complied?**
Upper limit on short-term borrowing from other local authorities as a percentage of total borrowing	30%	14%	Yes

Principal Sums Invested for Periods Longer than a year

6.12. 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:

	2020/21	**2021/22**	**2022/23**
Actual principal invested beyond year end	Nil	Nil	Nil
Limit on principal invested beyond year end	£10m	£10m	£10m
Complied?	Yes	Yes	Yes