Appendix A - Annual Treasury Management Outturn 2021/22

1. Introduction

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities along with the actual prudential and treasury indicators. 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).

The Treasury management strategy report for 2021/22 was approved by Council in February 2021. The Treasury reporting requirements for 2021/2022 are:

- an annual treasury strategy in advance of the year and a mid-year (minimum) treasury update report
- 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 Havant Borough Council Audit Committee before they were reported to the full Council.

2. The Council's Capital Expenditure and Financing

The underlying need to borrow is measured by the Council's Capital Financing Requirement (CFR). The CFR is anticipated to remain consistent over the period of the Medium Term Financial Strategy (MTFS).

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	2021/22 Budget £'000	2021/22 Actual £'000
Capital expenditure	**£ 2,157**	**£ 4,652**	**£ 2,947**
Financed in year	£ 2,157	£ 4,652	£ 2,947
Unfinanced capital expenditure			

3. The Council's Overall Borrowing Need

There is external borrowing in place of £3.152M relating to the acquisition of the Meridian Centre for which internal borrowing was also used.

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

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 (2020/21) plus the estimates of any additional capital financing requirement for the current (2021/22) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2021/22. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31-Mar-21 Actual £'000	31-Mar-22 Budget £'000	31-Mar-22 Actual £'000
CFR General Fund	£ 13,369	£ 13,082	£ 13,120
Gross borrowing position	£ 3,258	£ 8,652	£ 3,152
Under / over funding of CFR	-£ 10,111	-£ 4,430	-£ 9,968

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2021/22 the Council has maintained gross borrowing within its authorised limit.

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 are 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.

	2021/22 £'000
Authorised limit	145,000
Maximum gross borrowing position during the year	6,258
Operational boundary	113,000
Average gross borrowing position	3,155
Financing costs as a proportion of net revenue stream	0.88%

4. Treasury Position as at 31 March 2022

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

There were no new investments made in the year financial year 2012/22. Surplus balances were held in the Council's bank account.

The maturity structure of the debt portfolio was as follows:

	2021/22 Budget £'000		31/03/2022 Actual £'000	
Under 12 months	£	105	£	105
12 months to 2 years	£	109	£	109
2 years to 5 years	£	355	£	355
5 years to 10 years	£	696	£	696
10 years to 20 years	£	1,887	£	1,887

5. Borrowing Outturn

Treasury Borrowing –

DEBT PORTFOLIO	31 March 2021 Principal £'000		Rate/ Return	Average Life yrs	31 March 2022 Principal £'000		Rate/ Return	Average Life yrs
Fixed rate funding:								
-PWLB								
PWLB £4m 16/03/12 30yrs 4.04%	£	3,253	4.04%	30 years	£	3,152	4.04%	30yrs
Total debt	**£**	**3,253**			**£**	**3,152**		
CFR	**£**	**13,369**			**£**	**13,369**		
Over / (under) borrowing	**-£**	**10,111**			**-£**	**10,217**		
Total investments	**£**	**45,214**			**£**	**54,489**		
Net debt	**£**	**41,961**			**£**	**51,337**		

Borrowing in advance of need

The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

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

6. Investment Outturn

Investment Policy – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the TMS that is approved by the Council at the start of the financial year. 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).

There was no investment activity during the year and the Council had no liquidity difficulties.

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31/03/2021 £'000	31/03/2022 £'000
Balances		
General Fund	£ 3,509	£ 3,355
Earmarked reserves	£ 19,797	£ 13,425
Unapplied capital grant	£ 15,876	£ 20,531
Usable capital receipts	£ 10,321	£ 10,321
Total	**£ 49,504**	**£ 47,632**

The internally managed funds earned interest of £35,000 within the 2021/22 financial year

7. Non-Treasury Investments

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).

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

The Authority held £28m of such investments in directly owned investment property.

These investments generated £1.263m of investment income for the Authority after taking account of direct costs, representing a rate of return of 4%.