ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**EXECUTIVE**
Date:	**29 NOVEMBER 2022**
Subject:	**ANNUAL TREASURY MANAGEMENT REVIEW FOR 2021/22**
Portfolio Holder(s):	**COUNCILLOR ROBIN WYN WILLIAMS – PORTFFOLIO HOLDER FINANCE, CORPORATE BUSINESS & CUSTOMER EXPERIENCE**
Head of Service / Director:	**R MARC JONES**
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Local Members:	**n/a**

A –Recommendation/s and reason/s

- To note that the outturn figures in the report will remain provisional until the audit of the 2021/22 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in the report will be reported as appropriate.
- To note the provisional 2021/22 prudential and treasury indicators in the report.
- Consider the Annual Treasury Management Report for 2021/22 and pass on to the next meeting of the full Council with any comments.

B – What other options did you consider and why did you reject them and/or opt for this option?

n/a

C – Why is this a decision for the Executive?

- To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2021/22 (Appendix 8 of the Treasury Management Strategy Statement 2021/22). In accordance with the Scheme of Delegation, this report was scrutinised by the Governance & Audit Committee on 21 September 2022. The report will be presented to the full Council once it has been accepted by this Committee.

CH – Is this decision consistent with policy approved by the full Council?

Yes

D – Is this decision within the budget approved by the Council?

N/A

DD – Who did you consult?		What did they say?
1	**Chief Executive / Senior Leadership Team (SLT)**(mandatory)	
2	**Finance / Section 151**(mandatory)	n/a – this is the Section 151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	

4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	
7	**Procurement**	
8	**Scrutiny**	
9	**Local Members**	
10	**Other**	The Governance & Audit Committee resolved to:- • Note that the outturn figures in the report will remain provisional until the audit of the 2021/22 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in the report will be reported as appropriate. • Note the provisional 2021/22 prudential and treasury indicators in the report. • Consider the Treasury Management Annual Review report for 2021/22, and to recommend it to the full Council without comment.
E – Assessing the potential impact (if relevant)		
1	**How does this decision impact on our long term needs as an Island**	
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-**	
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	
5	**Note any potential impact that this decision would have on the groups protected under the Equality Act 2010**	
6	**If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.**	
7	**Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.**	

F - Appendices:
Appendix A – Annual Treasury Management Review for 2021/22
FF - Background papers (please contact the author of the Report for any further information):
• Treasury Management Strategy Statement 2021/22 • Prudential and Treasury Indicators 2021/22 • Treasury Management Mid-Year Review Report 2021/22 • Capital Outturn Report 2021/22

1. Introduction

The 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 (received on 9 March 2021);
- a mid-year treasury update report (received on 10 March 2022);
- an annual review following 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 Governance & Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year 2019/20 financial in order to support members' scrutiny role and further training will take place in the 2022/23 financial year.

The Section 151 Officer confirms that borrowing was only taken out for capital purposes and the statutory borrowing limit (the authorised limit) was not breached.

Furthermore, the report sets out to the following outcomes in the financial year 2021/22:-

- External factors – including a review on the economy, the interest rate performance during the year and the impact of Covid 19;
- Internal factors – including the performance of capital expenditure, the impact on the reserves and cash balances, risk appetite to investments, the borrowing taken by the Council and the impact on the Capital Financing Requirement (CFR);
- The Treasury Management Strategy in 2021/22 – including the debt management of the council, the implementation on the new MRP policy, and the councils borrowing and investments during the year;
- Controlling Treasury Management – What are the Prudential Indicators and how are they measured;
- Comparison in Prudential Indicators – A comparison on the actual Prudential Indicators compared to the forecast at the beginning of the year;
- Looking forward to 2022/23 and beyond; and
- Conclusion.

2. A Review of the Year – External Factors

2.1 Interest Rates - 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 16 December 2021, 0.50% at its meeting of 4 February 2022 and then to 0.75% in March 2022.

2.2 The Economy – United Kingdom - Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. 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.

3. A Review of the Year – Internal Factors

3.1 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

- Financed from borrowing: 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.

	2021/22 Estimate (£'m)	2021/22 Actual (£'m)
General Fund capital expenditure	41	23
HRA capital expenditure	22	10
Total capital expenditure	**63**	**33**
General Fund financed in year by Grants & Contributions	24	17
HRA financed in year by Grants & Contributions	3	5
General Fund financed in year by Council Resources	4	2
HRA financed in year by Council Resources	18	4
General Fund capital expenditure financed by borrowing	**12**	**5**
HRA capital expenditure financed by borrowing	**2**	**0**

The main reason for the underspend was the large underspend against the projects listed below.

Scheme	Under spend £'m	Comment
Refurbishment of school buildings	1.847	In the latter part of 2021/22, the Authority was awarded £1.236m of additional grant funding for school Capital maintenance works. The grant funding was used to fund locally determined capital schemes in 2021/22, replacing funding from the Authority's own resources. The funding saved by the Authority from this grant will now be used to fund school Capital works in 2022/23
Free School Meals	0.547	In the latter part of 2021/22, the Authority was awarded £0.588m of additional grant funding for schools in relation to the preparation of the free school meals roll out. The grant funding was used to fund locally determined capital schemes in 2021/22, replacing funding from the Authority's own resources. The funding saved by the Authority from this grant will now be used to fund school Capital maintenance works in 2022/23
Sustainable Communities for Learning schemes	2.864	Progress has now been made for the final Band A scheme and works on site are progressing well. Tenders have been re-invited on the new Foundation Phase Unit at Ysgol y Graig. Updated matrix of funding has been received and 2022/23 budgets will reflect this.
Canolfan Addysg y Bont Roof	0.991	Delays in the appointment of a contractor to commence the roofing works before year end means this scheme will slip into FY 2022/23. This was anticipated in the quarter 3 capital monitoring report.
Tourism Gateway	1.340	The Breakwater Park Visitor Centre works were successfully re-tendered using a regional framework and a contractor is now in place, with works to upgrade the toilets and kiosk also now commissioned for delivery. This is an ongoing scheme with a new budget allocation in the 2022/23 capital programme.

Scheme	Underspend £'m	Comment
Various Flood schemes	2.262	Some schemes are ongoing and span across different financial years. Others have seen delays and time extensions for completion agreed by Welsh government to carry forward the funding.
Local Transport Fund – Infrastructure enhancements	0.673	Due to the nature of the works and lead time on delivery of infrastructure, time extension has been secured until July 2022.
Holyhead Regeneration (THI Phase II)	0.673	Various delays throughout the year meant projects did not progress at the pace originally intended, which resulted in such a large variance to budget. New budget allocation for 2022/23.
Penrhos Phase 2	1.130	Works on site are progressing and the scheme will slip into FY 2022/23.
Llangefni Gateway Units	0.872	Works on site are progressing and the scheme will slip into FY 2022/23 for completion anticipated in quarter 1.
Residential Site for Gypsies & Travellers	0.491	The initial tender prices received exceeded the funding available. Work is ongoing to redesign the scheme to reduce the costs in order to match the available funding.
IT Projects	0.281	Intentional underspend due to having to replace the main flash storage system in 22/23
Capital works to existing assets	0.369	Delays experienced on Plas Arthur projects due to the use of the site by Ysgol y Bont.
Leisure Improvements	0.189	Projects are in the pipeline and works are planned to continue in 2022/23, specifically at Plas Arthur.
Vehicles	0.274	A plan is being put in place to deliver electric vehicle charging points in the compound, however they have not yet been finalised and until finalisation is achieved, orders for electric vehicles have been postponed. Other vehicles have been ordered before year end, however due to the lead time in delivery, they will be received post year end and so the budget will be required to slip to financial year 2022/23.

3.2 Reserves and Cash balances - the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:-

Usable Reserves and Provisions	Draft 31-Mar-22 £'m	Final 31-Mar-21 £'m
Council fund general reserve	12.050	11.437
Earmarked reserves	23.181	14.079
Housing Revenue Account (HRA) reserve	12.333	9.723
School reserves	7.827	3.974
Capital receipts Reserves	2.381	0.767
Total Usable Reserves	**57.633**	**39.980**
Provisions	**5.143**	**5.047**
Total Usable Reserves and Provisions	**62.915**	**45.027**

3.3 Externalisation of borrowing – The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. The CFR results from the capital activity of the Council and the resources utilised to pay for the capital spend. It represents the 2021/22 capital expenditure financed by borrowing, and prior years' capital expenditure funded by borrowing 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 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. There was no externalisation of borrowing in 2021/22 financial year.

3.3.1 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 plus the estimates of any additional capital financing requirement for the current and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

The internal borrowing strategy has now been implemented over the last few years. The gross borrowing of £125.3m at 31 March 2022 is less than the forecast CFR for the following two years.

	Actual 2021/22 £'m	Estimated 2022/23 £'m	Estimated 2023/24 £'m
Capital Financing Requirement	137.8	151.5	161.2

3.3.2 Internal borrowing - is when over the medium term, the investment rates are expected to continue to be below long term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt. This would maximise short term savings. The Internal borrowing figure is the difference between the CFR and the Gross Borrowing Position. As can be seen in the table below, at the beginning of the year the internal borrowing position was £12.1m. There were no new PWLB loans in the year and no principal repayments, with an interest free loan of £0.991m received in the year (as per 3.4 and 3.5 below). This has resulted in the Internal borrowing position at 31 March 2022 now being £12.5m:

	31 March 2021 Actual £'m	**31 March 2022 Actual £'m**
Gross borrowing position	124.5	125.3
CFR	136.6	137.8
(Underfunding) / overfunding of CFR	(12.1)	(12.5)

3.4 Other Borrowing- During the year, the Council did not enter into any other short-term borrowings. An interest free loan of £0.991m was received during 2021/22 to fund capital expenditure on energy saving projects and will be repaid in annual instalments.

3.5 Debt Repayments – There were no PWLB loans that matured during the year. There are no short term borrowings outstanding.

3.6 Investments – The expected investment strategy was to keep to shorter term deposits (up to 364 days) although the ability to invest out to longer periods was retained. Cash balances were expected to be up to £52m, ranging between £25m and £52m. The interest budget was set at £0.036m after adjusting for the estimated potential rate fall in 2021/22 at the time of producing the budget. As it turned out, average balances of £42.3m returned £0.019m at an average interest rate of 0.046%. Limited investments in other Local Authorities and interest rates dropping to below what was anticipated at the time of producing the budget contributed to this decrease in interest receivable. Investment returns remained close to zero for much of 2021/22. Most local authority lending managed to avoid negative rates and one feature of the year was the continued growth of inter local authority lending. 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.

On 18 June 2021 a £5.0m investment with Flintshire County Council matured, and was repaid to Isle of Anglesey County Council. On 23 June 2021 the Isle of Anglesey County Council invested £5m with Flintshire County Council with an interest rate of 0.03%. This matured on 23 September 2021 and was repaid to Isle of Anglesey County Council.

Part of the Council's deposits were held in no notice deposit accounts which pay interest at rates near the prevailing base rate, £38.616m at 0.05% on 31 March 2022 (31 March 2021 £20.066m at 0.03%). There was one other short term investment as at 31 March 2022 - £7.5m at an interest rate of 0.77% (£5m at 0.15% as at 31 March 2021). All investments were for under 1 year.

3.7 Treasury Position at 31 March 2022 – The Council's debt and investment position is organised by the Treasury Management Service in order 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 in accordance with the Treasury Management Strategy 2021/22. The upper limits for fixed rate and variable rate exposures were not breached during the year. The borrowing and investment figures for the Council as at the end of the 2020/21 and 2021/22 financial years are as follows:-

	31 MARCH 2021			31 MARCH 2022		
	£'m	Average Rate (%)	Average Maturity (years)	£'m	Average Rate (%)	Average Maturity (years)
Debt PWLB	121.9	4.59	30.57	121.9	4.58	29.58
Debt Non-PWLB	2.6	0	3.93	3.4	0	4.03
Total	**124.5**			**125.3**		
CFR	136.6			137.8		
Over / (under) borrowed	(12.1)			(12.5)		
Fixed term investments (all < 1 year, managed in house and fixed rate)	5.000	0.15		7.500	0.765	
No notice investments (all managed in house)	20.066	0.03		38.616	0.05	
Total Investments	25.066	0.06		46.116	0.17	

Borrowing is further broken down by maturity as:-

	31 MARCH 2021		31 MARCH 2022	
	£'m	% of total	£'m	% of total
Total borrowing	124.5	100	125.3	100
Under 12 months	0.3	0.2	2.7	2.2
1 – 3 years	5.1	4.1	3.4	2.7
4 – 6 years	4.5	3.6	4.5	3.6
7 – 10 years	4.8	3.9	4.9	3.9
10 years and above	109.8	88.2	109.8	87.6

There have been no new borrowings taken out in the year (long or short term) and debt repayments have been as described in point 3.5 above. Therefore, the movement in the categories above are simply as per the loan maturity dates.

4. The Council's Treasury Management Strategy in 2021/22

4.1 Debt 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.

4.2 Borrowing in advance of need – During the year, the Council did not borrow more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

4.3 Investment Policy – the Council's investment policy is governed by Welsh Government investment guidance, which has been implemented in the annual Treasury Management Strategy Statement approved by the Council on 09 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. When the Council invests its surplus cash, the most important aspect of the investment is security, followed by liquidity and then the yield. This essentially means that the main priority is the safety of the cash, followed by how readily available the cash is should the Council require it followed by the percentage interest rate return that the Council will receive for the investment. The strategy on investing surplus cash would be to borrow short term with other Local Authorities to maximize returns in a secure way.

4.4 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

4.5 MRP Policy – In 2018/19 the Council implemented its new MRP policy after seeking advice from its Treasury advisors and consultation with External Audit. The new policy is a more prudent approach to charging Revenue for Capital Financing costs. The New policy can be seen in Appendix 6 of the Treasury Management Strategy Statement 2021/22 that was approved by full Council on 09 March 2021.

5. Controlling Treasury Management

The following Prudential indicators are contained in Appendix 11 of the Treasury Management Strategy Statement. See below a brief explanation of what the indicators are and how they are calculated. Section 6 of this report analyses the differences between the Actual and the forecast Prudential Indicators for 2021/22.

- **Capital Expenditure – Estimates of Capital Expenditure -** This is the forecast Capital Expenditure from 2021/22 to 2024/25, and is based on the Capital Programme for 2021/22 and the Capital Strategy for 2022/23.

- **The Council's borrowing need (the Capital Financing Requirement) -** Another prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each assets life, and so charges the economic consumption of capital assets as they are used.

- **Prudence - Gross Debt and the CFR -** The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2021/22 and the following two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes.

- **External Debt - The authorised limit for external debt -** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report. The Authorised Limit is set annually in the Treasury Management Strategy Statement and is approved by full Council.

- **The operational boundary** - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The Operational Limit is set annually in the Treasury Management Strategy Statement and is approved by full Council.

- **Affordability - Ratio of financing costs to 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.

6. Prudential Indicators Actual vs Expected

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

Data for actual prudential and treasury indicators	2020/21 Actual £'m	2021/22 Original £'m	2021/22 Actual £'m
Capital expenditure			
• Non-HRA	20.507	15.842	23.734
• HRA	12.622	20.313	9.723
• **Total**	**33.129**	**36.155**	**33.457**
Total Capital Financing Requirement:			
• Non-HRA	97.360	105.669	99.387
• HRA	39.200	40.415	38.415
• **Total**	**136.560**	**146.084**	**137.802**
Gross borrowing	124.524	140.991	125.349
External debt	124.524	140.991	125.349
Investments			
• Longer than 1 year	0	0	0
• Under 1 year	25.066	15.000	46.116
• **Total**	**25.066**	**15.000**	**46.116**
Financing costs as a proportion of net revenue stream – CF	4.75%	4.78%	4.55%
Financing costs as a proportion of net revenue stream – HRA	16.52%	9.63%	9.04%

6.2 The first Prudential Indicator in the above table is the Capital Expenditure. The forecast Capital Expenditure at the time of producing the Prudential indicators for 2021/22 was £36.155m. However, the actual expenditure was £33.457m. The prudential indicator was based on the capital budget approved for 2021/22 (£36.155m). However, this budget does not include any slippage amounts from the previous year and also that fact that throughout the year, additional schemes are added to the capital programme, hence why the Non-HRA capital expenditure is higher than was what originally budgeted for. Please refer to paragraph 3.1 in this report for the final Non-HRA capital budget compared with the actual expenditure and the reasons for the actual underspend against budget. The HRA capital expenditure is significantly underspent, mainly due to difficulty to procure houses at a price which meets investment criteria (budget assumed 15 former council houses would be purchased but only nine were purchased). Additionally three significant developments that were forecast to commence in 2021/22 suffered from delays in the process, and building contracts will not now be signed until the 2022/23 financial year.

6.3 The second Prudential indicator in the above table in the Capital Financing Requirement. The Council's 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 borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. 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 forecast CFR at the time of producing the Prudential indicators for 2021/22 was £146.084m. However, the actual CFR was significantly lower at £137.802m. The reduction in the HRA CFR is due to the underspend against the HRA budget, meaning there was no borrowing in 2021/22 for HRA. One of the reasons for the reduced Non-HRA CFR was the reduced amount of Unsupported Borrowing needed in relation to the Sustainable Communities for Learning programme in 2021/22. The expenditure was mainly funded by grant, hence reducing the need for borrowing. Another reason was that additional grants were awarded during the year to subsidise other funding sources such as Supported Borrowing. This meant less Supported Borrowing was needed and therefore reducing the CFR figure. However, in future years, this subsidised funding source will be used to fund the Capital Expenditure in 2022/23 and will increase the CFR.

6.4 The Authorised Borrowing Limit (£183m) and the Operational Boundary (£178m) were not breached during the year, with the amount of External debt peaking at £125.362m only.

6.5 The Financing costs as a proportion of net revenue stream for the General Fund (4.55%) was very close to the anticipated total (4.78%) meaning this indicator performed as expected, and also in line with the prior year. The Financing costs as a proportion of net revenue stream for the HRA (9.04%) was below the anticipated total (9.63%) which is due to the financing costs being lower and the net revenue stream being also being lower than expected at the time of producing the proposed indicator for 2021/22. The underspend on HRA reduced the amount of Revenue contributions needed to fund the capital programme in 2021/22 from £17.9m to £4.3m.

7. Looking forward to 2022/23 and beyond

7.1 On 10 March 2022 the full Council approved the Treasury Management Strategy Statement for 2022/23. The Strategy Statement was based on the Capital Strategy and it is forecast that the Council will need to borrow an additional £14.7m in 2022/23 for the General Fund and HRA, a total of £14.4m in 2023/24 and a further total of £10.8m in 2024/25 to fund its Capital Programme. This additional borrowing will affect the General Fund with an increased Minimum Revenue Provision (MRP) being charged to fund the capital financing costs. In 2022/23 the forecast MRP is £4.2m, in 2023/24 £4.5m and £4.7m in 2024/25.

7.2 On 11 April 2022 the Isle of Anglesey County Council invested £10m with NatWest with an interest rate of 1.3%. The investment is for 6 months.

7.3 On 10 May 2022 the Isle of Anglesey County Council invested £7.5m with Santander with an interest rate of 1.47%. The investment is for 6 months.

7.4 On 17 May 2022 the Isle of Anglesey County Council invested £7.5m with Nationwide Building Society with an interest rate of 0.97%. The investment matured on 17 August 2022 and was rolled over for a further 3 months with an interest rate of 1.87%.

7.5 On 22 July 2022 a £7.5m investment with Goldman Sachs matured, and was rolled over for a further 5 months with an interest rate of 2.18%.

7.6 On 19 August 2022, a £1m borrowing from the PWLB was repaid by the Isle of Anglesey County Council. This loan was taken out on 03 July 2007 with an interest rate of 8.5%. There is a further £1.285m due to be repaid later in the 2022/23 financial year.

7.7 The interest receivable budget of £5k that was set for 2022/23 was based on the previous year's interest received, taking into account the low interest rates, limited investments in other Local Authorities and the fact investment returns remained at close to zero at the time of producing the interest receivable budget for 2022/23. However, with interest rates rising to above what was anticipated at the time of producing the 2022/23 budget and hence providing more opportunities for investment of surplus cash, interest received to quarter 1 of 2022/23 was £78k with a further £225k due to be received from existing investments, meaning the revised estimate of interest receivable for 2022/23 is £404k.

7.8 The latest interest rate forecast from Link Assets Services can be seen in the table below.

Link Group Interest Rate View	09.08.22												
	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	2.25	2.50	2.75	2.75	2.75	2.50	2.50	2.25	2.25	2.25	2.25	2.25	2.00

8. Conclusion

The Council's Treasury Management performance during the year was in line with the strategy of low risk, low return investments and a planned approach to borrowing designed to minimise interest charges.

The performance against the Prudential Indicators set by the Council show that the Council's Treasury Management activities are being undertaken in a controlled way which ensure the financial security of the Council and do not place the Council at any significant financial risk in terms of unaffordable or excessive borrowing.

The Council's Treasury Management Strategy and its performance against the strategy take into account the external economic factors and it is constantly reviewed to ensure that it is the most appropriate strategy moving forward

R MARC JONES
DIRECTOR OF FUNCTION (RESOURCES) &
SECTION 151 OFFICER