Item No: 6.1	Classification: Open	Date: 12 July 2023	Meeting Name: Council Assembly
Report title:		Treasury Management – Outturn 2022-23	
Wards or Groups affected:		All	
From:		Strategic Director, Finance	

RECOMMENDATION

1. That Council Assembly note the 2022-23 treasury management outturn report and in particular:

   - the update on the Economic Background
   - that all treasury management activity was undertaken in compliance with the 2022-23 approved treasury management strategy and within the council's prudential indicators for 2022-23, attached at appendix A
   - that the balance outstanding on all external debt as at 31 March 2023 was £991m
   - that the balance on investments at 31 March 2023 stood at £220m.

BACKGROUND INFORMATION

2. In compliance with the Local Government Act 2003, the council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (the Code). The Code requires local authorities to determine an annual treasury management strategy and, as a minimum, formally report on their treasury activities and arrangements to Council Assembly mid-year and after the year-end.

3. The Code provides the following objective with regard to treasury management:

   "It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield, in that order of importance. No treasury management transaction is without risk and management of risks is the key purpose of the treasury management strategy."

4. The council is exposed to financial risks from its investments, existing external debt, as well as future borrowing requirements arising from the council's capital programme. The risks include potential losses from investments and increased borrowing costs from changing interest rates. The successful identification, monitoring and control of risk remain central to the Authority's treasury management strategy.

5. CIPFA published its revised Treasury Management Code of Practice and Prudential Code for Capital Finance in 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. The principles within the two Codes took immediate effect, although local authorities could defer introducing the revised reporting requirements within the revised Codes until the 2023/24 financial year if they wish, which the council has elected to do.

6. Treasury management within the council is conducted within the framework of the Treasury Management Code. The code now also includes extensive additional requirements for service and commercial investments.

KEY ISSUES FOR CONSIDERATION

Economic Background: April 2022 to March 2023

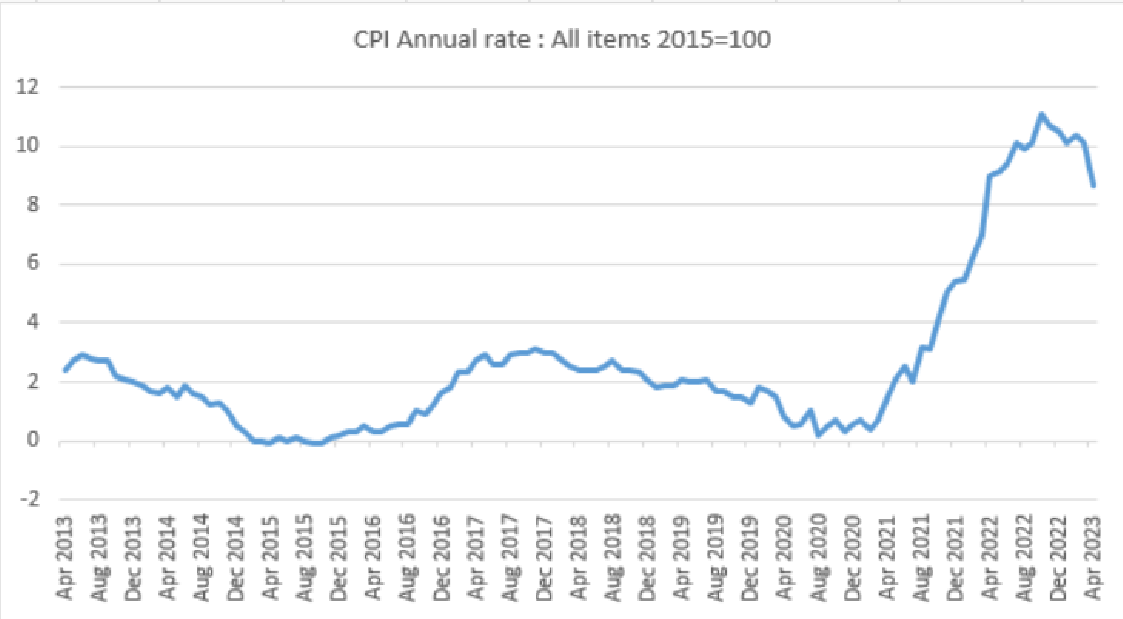
7. The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending. Starting the financial year at 5.5%, annual CPI measure of UK inflation rose to 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again to 10.4% in February, up from 10.1% in January. By March 2023, inflation reduced slightly but remained stubbornly high at 10.1%.

8. The Bank of England base rate rose from 0.75% in March 2022 to 4.25% in March 2023, the Monetary Policy Committee (MPC) pushing through rises at every subsequent meeting over the period.

9. Uncertainty continued to be a key driver of financial market sentiment. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

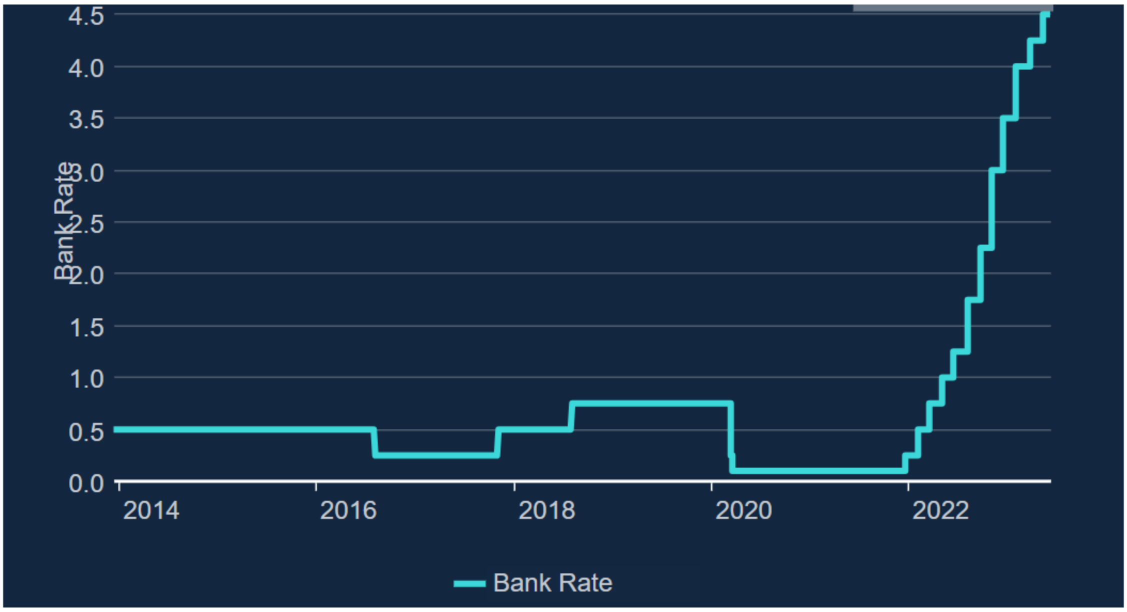
10. As market volatility is expected to remain a feature, at least in the near term, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

CPI Inflation 2013 – 2023



11. From 0.75% in March 2022, the Bank of England's Monetary Policy Committee (MPC) pushed through interest rate rises at every subsequent meeting over the period, with recent hikes of 0.50% in December and February and then 0.25% in March, taking Bank Rate to 4.25%.

Bank of England base rate 2014 - 2023



OUTTURN 2022-23

12. The 2022-23 treasury management strategy was approved by Council Assembly in February 2022. Under financial delegation, all executive,

managerial and operational decisions are the responsibility of the strategic director of finance and governance.

Debt Management

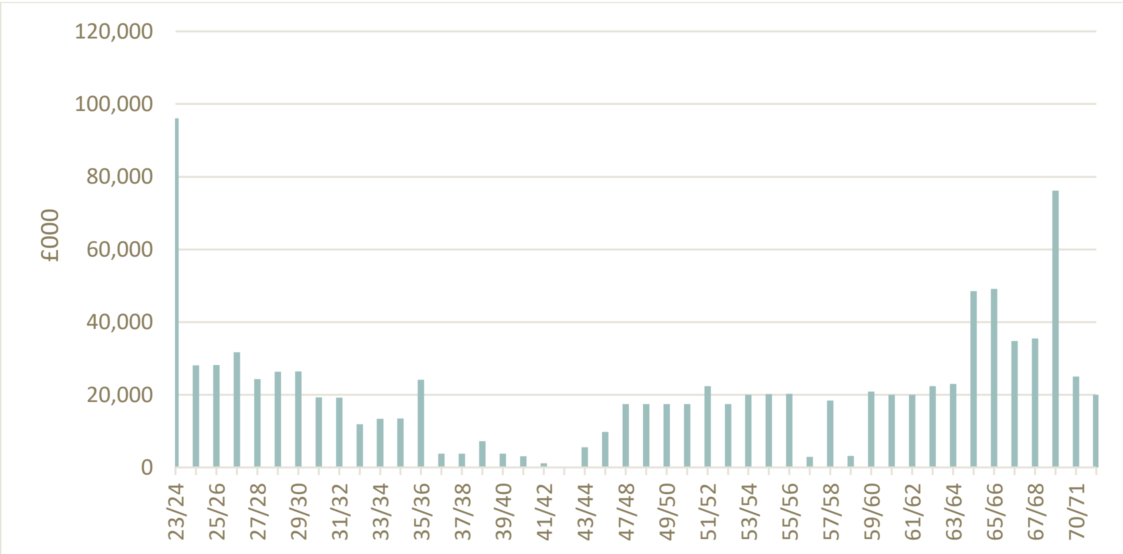
13. As at 31 March 2023, the outstanding debt held by the council was £991m, (£896m as at 31 March 2022).

14. During the financial year to 31 March 2023, the council borrowed £220m from the Public Works Loans Board, in various tranches with maturing terms ranging from 10 to 50 years, at an average interest rate of 3.36%.

15. Drawing of long-term borrowing is supplemented by short-term borrowing from other local authorities, to reduce overall debt interest expense for the council and to manage cash-flow. This approach continued during 2022-23. The level of outstanding short-term borrowing from other local authorities as at 31 March 2023 was £70m at an average rate of 4.33%. The weighted average rate of interest for the council's overall debt portfolio was 3.30% as at 31 March 2023. (Long-term weighted average rate of 3.72% and short-term weighted average was 1.49%.

16. Short-term debt drawn during 2022-23 will mature in 2023-24 and there will be a requirement to refinance this by drawing down further borrowing. The council will consider a number of borrowing sources, both long and short term. Decisions on the most optimal and value for money source and duration of the borrowing will be made in the context of any changes in interest rates and the longer term cash flow requirements of the council. It is expected that further borrowing will be required in 2023-24 both to re-finance maturing debt and to finance the growing capital programme.

17. The maturity profile of outstanding long-term debt as at 31 March 2023 is shown in the chart below:



Provision for repayment of debt

18. Each year, the general fund sets aside sums, known as the minimum revenue provision (MRP), to reduce its borrowing liabilities. In 2022-23, £11.2m (£9.1m in 2021-22) was set aside to repay debt. The HRA can, voluntarily, also set aside sums to reduce its borrowing liabilities. There were no additional sums set aside in 2022-23.

Investment Management

19. 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 cash is required for use in the course of business.

20. The council has significant funds invested, representing income received in advance of expenditure plus balances and reserves held. Council cash that is not immediately required for current expenditure is invested in money market instruments in accordance with the DLUHC Guidance on Local Authority Investments and the investment strategy as approved by Council Assembly each financial year.

21. In accordance with DLUHC guidance, the council gives priority to the security and liquidity of any investments made and then seeks an investment return commensurate with these principles. 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.

22. Council investments are managed both in-house and delegated to two external fund managers (Alliance Bernstein and Aberdeen Standard Investments). The focus for in-house investment is to meet variable near-term cash liquidity requirements.

23. The external fund managers invest over a longer term, across a range of investment instruments including UK government gilts, supranational bank bonds, and certificates of deposits and covered bonds issued by major banks/ building societies. The use of fund managers has the advantage of diversification of investment risk, coupled with the services of professional fund managers, which over the longer term, provides enhanced returns commensurate with the council's risk appetite. Although investments can be redeemed from the fund managers at short notice, the intention is to hold them for the medium term. Their performance and suitability in meeting the council's investment objectives are regularly monitored.

24. As at 31 March 2023, total investments stood at £220m (£161m at 31 March 2022). The overall rate of return on investments during 2022-23 was 2.07% (-0.04 % in 2021-22).

25. Internally managed funds achieved return on its share of the portfolio of 2.14% in 2022-23. (0.06% in 2021-22)

26. To assess the external fund manager's portfolio, the council measures the return against a composite investment benchmark of three month LIBID and one to three year gilt index. For the financial year, the benchmark index annualized return was 0.74%. Actual fund manager return was –2.01%, indicating a better performance compared to the benchmark.

27. The rate of return generated by the treasury management portfolio is a consequence of the council's prudent, low risk approach to treasury management investment policy. This is in line with the requirements of the statutory guidance for local government treasury investments issued by DLUHC.

28. The distribution of investments by maturity and credit rating as at 31 March 2023 is set out in the following table.

Maturity Profile and Credit Ratings

	A		AA		AAA		Total	
Investment Maturity	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Up to 1 Year	26	12	63	29	116	53	206	94
1-2 Years	2	1	0	0	4	2	6	3
2-5 Years	1	0	2	1	5	2	8	3
Total	**29**	**13**	**65**	**29**	**125**	**58**	**220**	**100**

AAA represents the highest credit quality, AA represents very high credit quality and A represents high credit quality.

Non-Treasury Investments

29. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which are held primarily or partly for financial return. These include:

- The council's commercial property portfolio is valued at £309.5m (£338.2m at 31 March 2022), and investment income of £20.6m was generated in 2022-23.

- The balance of loans to local institutions totalling £26.7m at 31 March 2023.

Prudential Indicators - Actuals

30. Local authority borrowing, investment and capital finance activity is supported by the Prudential Code for Capital Finance, the Treasury Management in the Public Services Code of Practice and related guidance published by CIPFA. The codes require councils to set a series of indicators

and limits each year. The 2022-23 indicators were agreed in February 2023, before the start of the financial year. Appendix A shows the outturn of the Authority against the 2022-23 prudential indicators.

31. The council complied with its prudential indicators throughout 2022-23.

Community, Equalities (including socio-economic) and Health Impacts

32. This report monitors the council's compliance with the treasury management strategy and Council's prudential indicators as agreed in February 2022. This report has been judged to have no direct impact on local people and communities.

Climate change implications

33. There are no climate change implications arising directly from this report.

Resource implications

34. There are no direct resource implications in this report.

Consultation

35. There has been no consultation on this report.

SUPPLEMENTAL ADVICE FROM OTHER OFFICERS

Assistant chief executive – governance and assurance

36. The constitution determines that agreeing the treasury management strategy is a function of the council assembly and that review and scrutiny of strategies and policies is the responsibility of the audit, governance and standards committee.

37. Financial standing orders require the strategic director of finance and governance to set out the treasury management strategy for consideration and decision by council assembly, and report on activity on a regular basis to cabinet and at mid and year-end to council assembly. Furthermore all executive and operational decisions are delegated to the strategic director of finance and governance.

38. The Local Government Act 2003 ("the 2003 Act") and supporting regulations require local authorities to determine annual borrowing limits and have regard to the Prudential Code for Capital Finance, and the Treasury Management in the Public Services Code of Practice and Guidance, published by the Chartered Institute of Public Finance and Accountancy, when considering borrowing and investment strategies, determining or changing borrowing limits or prudential indicators.

39. Section 15(1) of the 2003 Act requires a local authority "to have regard (a) to such guidance as the Secretary of State may issue". This guidance is

found in the Ministry of Housing, Communities and Local Government Guidance on Local Authority Investments updated February 2018 and there is statutory guidance on the Minimum Revenue Provision (MRP) made under section 21(1A) of the 2003 Act.

40. Section 12 of the 2003 Act grants local authorities the powers to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
Capital and Treasury Management Strategy 2022-23	Tooley Street	othy Jones

APPENDICES

No.	Title
Appendix A	Prudential Indicators – 2022-23 Actuals

AUDIT TRAIL

<table>
<tr><td>Lead Officer</td><td colspan="2">Clive Palfreyman, Strategic Director, Finance</td></tr>
<tr><td>Report Author</td><td colspan="2">Timothy Jones, Departmental Finance Manager</td></tr>
<tr><td>Version</td><td colspan="2">Final</td></tr>
<tr><td>Dated</td><td colspan="2">29 June 2023</td></tr>
<tr><td>Key Decision?</td><td colspan="2">No</td></tr>
<tr><td colspan="3">CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</td></tr>
<tr><td>Officer Title</td><td>Comments Sought</td><td>Comment included</td></tr>
<tr><td>Assistant Chief Executive – Governance & Assurance</td><td>Yes</td><td>Yes</td></tr>
<tr><td>Strategic Director, Finance</td><td>No</td><td>N/A</td></tr>
<tr><td>Cabinet Member</td><td>Yes</td><td>No</td></tr>
<tr><td colspan="2">Date final report sent to Constitutional Team</td><td>29 June 2023</td></tr>
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APPENDIX A

PRUDENTIAL INDICATORS: 2022-23 ACTUALS

BACKGROUND

1. Capital finance, borrowing and investment arrangements are supported by a series of prudential indicators, drawn from the Prudential Code on Capital Finance for Local Authorities and the Treasury Management in the Public Services Code of Practice plus Guidance, published by CIPFA. The Local Government Act 2003 requires that councils have regard to these codes. The indicators were approved by Council Assembly in February 2022. This appendix updates the 2022-23 indicators as per the un-audited statement of accounts for 2022-23.

2. The indicators are grouped into three broad areas: affordability and prudence, capital finance and treasury management. The indicators are of a technical nature and existing budgets take account of capital finance and treasury activities. The indicators themselves have no effect on those budgets.

AFFORDABILITY AND PRUDENCE INDICATORS

3. The indicators below are for affordability and prudence.

2021-22	2022-23	
		Ratio of Financing Cost to Net Revenue Stream A measure of the cost of borrowing and long term liabilities (e.g. PFI) net of interest income and set-asides, as a percentage of revenue.
8%	7%	HRA
4%	4%	General fund

		Capital Financing Requirements (CFR) and Gross Debt The CFR is the balance remaining on past capital expenditure financed through debt and long term liabilities (e.g. PFI). The level of gross debt should not exceed the CFR unless prudent over the short term. Actual gross debt remained below the CFR throughout 2022-23 on account of cash balances, internal borrowing and PFI transactions.
£1,363m	£1,492m	CFR
£896m	£991m	Maximum gross debt in the year

CAPITAL FINANCING INDICATORS

4. The indicators below are for capital finance.

2021-22	2022-23	
Capital Expenditure - Capital expenditure includes PFI funded spend.		
£211m	£318m	HRA
£101m	£88m	General fund
£312m	**£406m**	**Total**

. ***Capital Financing Requirement (CFR)*** - the CFR is the balance on past capital expenditure financed through borrowing and long term liabilities (e.g. PFI).		
£609m	£704m	HRA
£754m	£788m	General fund
£1,363m	**£1,492m**	**Total**

TREASURY MANAGEMENT INDICATORS

5. The indicators below are for treasury management.

Operational Boundary and Authorised Limit for External Debt:

These are limits the council determines to accommodate borrowing and long term liabilities.
The lower limit is the operational boundary and takes account of existing positions and ordinary activity and the higher limit is the authorised limit, enabling additional borrowing to be taken for very short periods, in the interest of prudence, within a risk controlled framework.

2021-22 Outturn	2022-23 Limit	2022-23 Outturn	Operational Boundary
£896m	£1,458m	£991m	Borrowing (maximum outstanding in year)
£81m	£ 101m	£76m	Other Long -Term Liabilities
£977m	**£1,559m**	**£1,067m**	**Total**

			Authorised Limit
£896m	£1,823m	£991m	Borrowing (maximum outstanding in year)
£81m	£ 101m	£76m	Other Long -Term Liabilities
£977m	**£1,924m**	**£1,067m**	**Total**

2021-22 Outturn	2022-23 Limit	2022-23 Outturn	
84%	100%	77%	**Gross and Net Debt** An upper limit on net debt as a percentage of gross debt. The net debt has remained below gross on account of investments held to meet spend.

			Maturity Structure of Borrowing Limits accommodating existing positions with flexibility to vary exposure within a risk controlled framework.
20%	35%	9%	Under 1 year
2%	35%	4%	1 year and within 2 years
9%	50%	9%	2 years and within 5 years
9%	75%	10%	5 years and within 10 years
60%	100%	69%	10 years and over
			Limits on Investments Greater than One Year Caps on the maximum exposure to longer investments, while recognising benefits from prudent exposure within a risk controlled
13%	65%	6%	Percentage longer than one year
9 months	2.5 years	9.4 months	Overall maximum average maturity