# Appendix B – Mid-Year Treasury Management Review 2022/23

## 1. Introduction

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 2022/23. 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 2022/23 Treasury Management Strategy report was approved by the Council in February 2022. Treasury reporting requirements for 2022/2023 are:

- an annual treasury strategy in advance of the year and a mid-year treasury update report;
- an annual review following the end of the year describing the activity compared to the strategy

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 an update 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.

| | 2021/22 Actual | 2022/23 Budget £'000 | 2022/23 Estimated Outturn £'000 |
|---|---|---|---|
| **Capital expenditure** | **£ 2,947** | **£ 3,657** | **£ 3,657** |
| Financed in year | £ 2,947 | £ 3,657 | £ 3,657 |
| **Unfinanced capital expenditure** | | | |

# 3. The Council's Overall Borrowing Need

There is external borrowing in place of £3.047M which relates to the acquisition of the Meridian Centre which has also been funded through internal borrowing.

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 (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. This indicator could allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

| | 31-Mar-22 Actual £'000 | 31-Mar-23 Budget £'000 | 31-Mar-23 Estimated Outturn £'000 |
|---|---|---|---|
| CFR General Fund | £ 13,120 | £ 12,894 | £ 12,894 |
| Gross borrowing position | £ 3,152 | £ 3,047 | £ 3,047 |
| Under / over funding of CFR | -£ 10,448 | -£ 9,847 | -£ 9,847 |

**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 2022/23 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.

| | 2022/23 £'000 |
|---|---|
| Authorised limit | £ 145,000 |
| Maximum gross borrowing position during the year | £ 3,152 |
| Operational boundary | £ 143,000 |
| Average gross borrowing position | £ 3,100 |
| Financing costs as a proportion of net revenue stream | 0.10% |

# 4. Borrowing Position as at 31 March 2023

The maturity structure of the debt portfolio is as follows:

| | 2021/22 Actual£'000 | 2022/23 Estimated £'000 |
|---|---|---|
| Under 12 months | £ 105 | £ 109 |
| 12 months to 2 years | £ 109 | £ 114 |
| 2 years to 5 years | £ 355 | £ 370 |
| 5 years to 10 years | £ 696 | £ 724 |
| 10 years to 20 years | £ 1,887 | £ 1,730 |

The Council took out a £4m, 30 year, Public Works Loan Board loan in 2012 with an estimated remaining principal of £3.047m by March 2023

| **DEBT PORTFOLIO** | 31 March 2022 Principal *£'000* | Rate/ Return | Average Life yrs | 31 March 2023 Principal £'000 | Rate/ Return | Rate/ Return | Average Life yrs |
|---|---|---|---|---|---|---|---|
| Fixed rate funding: | | | | | | | |
| -PWLB | | | | | | | |
| PWLB £4m 16/03/12 30yrs 4.04% | £ 3,152 | 4.04% | 30 years | £ 3,047 | 4.04% | | 30yrs |
| **Total debt** | **£ 3,152** | | | **£ 3,047** | | | |
| **CFR** | **£ 13,120** | | | **£ 12,894** | | | |
| **Over / (under) borrowing** | **-£ 10,448** | | | **-£ 9,847** | | | |
| **Total investments** | **£ 54,489** | | | **£ 56,543** | | | |
| **Net debt** | **£ 51,337** | | | **£ 53,496** | | | |

**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.

# 5. 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).

**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 | 31/03/2022 £'000 | |
|---|---|---|
| Balances | | |
| General Fund | £ | 3,355 |
| Earmarked reserves | £ | 13,425 |
| Unapplied capital grant | £ | 20,531 |
| Usable capital receipts | £ | 10,321 |
| Total | **£** | **47,632** |

Cash balances are currently elevated over and above the resources in the above table due to grants received for various government support programmes which will need to be re-paid.

Up to March 2022, the Council maintained a passive approach on Treasury investments, earning an annual return of just £35k from cash balances which were in excess of £40m throughout the 2021/22 financial year. However, a more proactive approach has been adopted during 2022/23 which has resulted in:

- revision of the Council's 2022/23 Treasury Management Strategy approved in April 2022;
- appointment of ArlingClose as the Council's new Treasury Management advisors in July 22;
- a targeted intention to create a £10m, longer term investment portfolio;
- a targeted approach to invest, (securely), cashflow on a rolling 12-month basis to increase revenue returns;
- a further revision of the Council's Treasury Management Strategy presented to this Committee as recommended through ArlingClose

This change in approach, enacted through the delegation to the Council's Section 151 Officer, in compliance with the approved Treasury Management Strategy, will deliver revenue income in excess of £450k in the 2022/23 financial year with the potential to deliver far greater financial returns in 2023/24

**Investments held by the Council as at October 2022**

| INVESTMENT PORTFOLIO | Actual 31.3.22 £'000 | Actual 31.3.21 % | As at 10.10.2022 £'000 | Actual 31.3.22 % | Limt | Interest rate | Term | Interest Estimated 2022/23 £'000 % |
|---|---|---|---|---|---|---|---|---|
| **Treasury investments** | | | | | | | | |
| Council's banker | £ 49,460 | 91% | £ 35,511 | 63% | unlimited | | | £ 0.63 |
| Building Societies - rated | £ 5,029 | 9% | £ 5,032 | 9% | £10m | 1.90% | 9 months | £ 54.92 |
| Standard Chartered Bank | | | £ 3,000 | 5% | £5M | 1.97% | 6 month | £ 29.55 |
| Goldman Sachs International | | | £ 5,000 | 9% | £5M | 2.13% | 6 month | £ 53.25 |
| Lloyds Bank Corporate Markets | | | £ 2,000 | 4% | £5M | 1.83% | 6 month | £ 18.30 |
| | | | | | | | | |
| Local authorities | | | | | | | | |
| DMADF (H M Treasury) | | | | | | | | |
| **Total managed in house** | £ 54,489 | | £ 50,543 | | | | | £ 156.65 |
| Fundamentum REIT (Social Housing) | | | £ 500 | 1% | | 2.5% | Long | £ 6.25 |
| Aegon (Multi Asset) | | | £ 2,000 | 4% | | 4.5% | Long | £ 45.00 |
| Ninety One (Multi Asset) | | | £ 2,000 | 4% | | 4.5% | Long | £ 45.00 |
| Foresight (Infrastructure) | | | £ 1,500 | 3% | | 4.0% | Long | £ 30.00 |
| **Total managed externally** | £ - | | £ 6,000 | | | | | £ 126.25 |
| **TOTAL TREASURY INVESTMENTS** | £ 54,489 | | £ 56,543 | 100% | | | **Total Interest** | £ 282.90 |

A further £184.74K of interest is receivable in 2022/23 from forward investments with three separate local authorities at interest rates of between 4.5% and 4.65%. These investments, each being £5m, take effect from November '22, December '22 and January '23 – each running for a 12 month duration.

# 6. 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.