Appendix A – Annual Treasury Management Outturn 2022/23

1. Introduction

The council has adopted the Chartered Institute of Public Finance and Accountancy *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the council to approve treasury management semi-annual and annual reports.

The council's treasury management strategy for 2022/23 was approved at a meeting on 23rd February 2022. The council has 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 council's treasury management strategy.

The 2021 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 council's Capital Strategy, complying with CIPFA's requirement, was approved by Council on 23rd February 2022.

2. Local Context

On 31st March 2023, the council had net investments of £48.2m 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.

<u>Table 1: Balance Sheet Summary</u>

	31.3.23 Estimate £m
General Fund CFR	12,884
Less: External Borrowing	-3,052
Internal Borrowing	**9,832**
Less: Usable Reserves	-43,220
Less: Working Capital Position	-14,817
Net Debt (Investments)	**-48,205**

The treasury management position at 31st March 2023 and the change during the year is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.03.2022 £	Movement	31.03.2023 £	31.03.23 Rate %
Long-term borrowing	2,921	-100	2,821	4.04%
Short-term borrowing	237	-6	231	4.04%
Total borrowing	**3,158**	**-106**	**3,052**	
Long-term investments	0	8,593	8,593	
Short-term investments	0	30,259	30,259	4.33%
Cash & cash equivalents	54,489	-45,143	9,346	1.48%
Total investments	**54,489**	**-6,291**	**48,198**	
Net borrowing/(investments)	**-51,331**	**6,185**	**-45,146**	

Borrowing

The council did not borrow to invest primarily for commercial return in this period.

Borrowing Update

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions for the council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

Borrowing Strategy and Activity

As outlined in the treasury strategy, the council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the councils long-term plans change being a secondary objective. The councils borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

The cost of both long- and short-term borrowing rose dramatically over the year, with rates at the end of March 2023 around 2% - 4% higher than those at the beginning of April 2022. Rates have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September after Liz Truss' 'mini budget' included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four period some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10-year maturity certainty rate stood at 4.33% on 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

As at 31st March 2023 the council held £3.052m, a decrease of £0.106m from 31st March 2022. This relates to a loan with the PWLB, with an interest rate of 4.04% for a 30-year period, the council took no further borrowing in 2022/23.

Treasury Investment Activity

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.

The council holds invested funds, representing income received in advance of expenditure plus balances and reserves held.

The investment position is shows below.

Table 3: Treasury Investment Portfolio

	31.03.22 £m	Net Movement £m	31.03.2023 £m	31.03.23 Income Return %	31.03.23 Weighted Ave Maturity days
Banks & Building societies (unsecured)	54,489	-45,143	9,346	1.48%	1
Local Authorities (short-term)	0	30,259	30,259	4.33%	293
Bonds (long-term)	0	2,593	2,593	4.34%	1,574
Funds (long-term)	0	6,000	6,000	2.36%	-
Total investments	**54,489**	**-6,291**	**48,498**	**4.06%**	

Both the CIPFA Code and government guidance require the council 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 council'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.

Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

Given the risk of short-term unsecured bank investments, the council has invested more with Local Authorities which are more secure with similar yield rates as banks, as shown in the table above.

The progression of risk and return metrics are shows in the extracts from Arlingclose quarterly investment benchmarking in the table below.

Table 4: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.03.2023	4.85	A+	22%	278	3.90%
Similar LAs	4.74	A+	63%	56	0.59%
All LAs	4.72	A+	59%	13	1.61%

The change in the council's funds' capital values and income earned over the 12-month period is shown in Table 3.

Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns should exceed cash interest rates.

The council had budgeted £0.225m income from these investments in 2022/23. Income received was £0.390m, with a further £0.310m due to be received in 2023/24.

The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

Non-Treasury Investments

The definition of investments in CIPFAs revised 2021 Treasury Management Code covers all the financial assets of the council as well as other non-financial assets which the council 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 wither 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 broadens the definition of investments to include all such assets held partially or wholly for financial return.

The council held £38m of investments in investment properties. These investments generated £1.290m of investment income for the council after taking account of direct costs.

Treasury Performance

The council measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in the table below.

Table 5: Performance

	Actual £000	Budget £000	Variance £000	Actual %
Interest Payable	126	134	-8	5.97%
Interest Receivable	-700	-225	-475	211%

Compliance

Table 6: Debt Limits

	2022/23 Maximum	31.03.23 Actual	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
Borrowing	3,158	3,052	143,000	145,000	Yes

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. In any case, borrowing in the financial year was below the operational boundary.

Table 7: Investment Limits

	2022/23 Maximum	31.3.23 Actual	2022/23 Limit	Complied?
DMAF UK Government	-	-	£30m	Yes
UK Government gilts	-	-	20%	Yes
UK Government Treasury bills	-	-	20%	Yes
Money Market Funds	-	-	£10m per fund £25m limit	Yes
Term Deposits with UK banks	£5m	£5m	20% per bank	Yes

Councils Banker	£57.8m	£4.4m	100%	Yes
Strategic pooled funds	£6m	£6m	£15m	Yes
Deposits with Local Authorities	£30m	£30m	£13m per LA	Yes
Real Estate Investment Trusts	-	-	£15m	Yes
Loans to Registered Providers	-	-	20%	Yes
Bonds	£2.5m	£2.5m	N/A	No

A bond investment was entered in to towards the end of the 2022/23 financial year and whilst this was not compliant with our investment limits at the time, the investment was made within an acceptable risk appetite, alongside the advice of our external Treasury Advisors. The investment limits were updated to include Bonds in the 2023/24 refresh of the Treasury Management Strategy.

Treasury Management Indicators

Principal Sums Invested for Periods Longer than a year

The purpose of this indicator is to control the council'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:

	Within 1 Year	Between 1 and 2 Years	2+ Years
Limit on principal Invested	Unlimited	£0	£15m
Actual principal invested	£52m	£0	£8.587m
Complied?	Yes	Yes	Yes

Interest Rate Exposures

The purpose of this indicator is to limit the council's risk of reduced investment arising from exposure or lack of exposure to interest rate movements. The council set purposely wide limits in 2022/23 due to changes it was making to its investment strategy.

	2022/23 Actual	2022/23 Limit	Complied?
Fixed Rate Exposure	5.38%	100%	Yes
Variable Rate Exposure	94.62%	100%	Yes