



# Cabinet

<b>Report for:</b>	Cabinet
<b>Title of report:</b>	Treasury Management Outturn and Performance Indicators 2022/23
<b>Date:</b>	17 <sup>th</sup> October 2023
<b>Report on behalf of:</b>	Cllr Sally Symington, Portfolio Holder for Corporate & Commercial Services
<b>Part:</b>	I
<b>If Part II, reason:</b>	N/A
<b>Appendices:</b>	None
<b>Background papers:</b>	Cabinet 15th February 2022 – Treasury Management Strategy (Appendix K to Budget 2022/23 Report) Audit Committee 20 <sup>th</sup> September 2023 - Treasury Management Outturn and Performance Indicators 2022/23
<b>Glossary of acronyms and any other abbreviations used in this report:</b>	CIPFA-The Chartered Institute of Public Finance and Accountancy CFR- Capital Financing Requirement CPI- Consumer Price Index

## Report Author / Responsible Officer

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<b>Corporate Priorities</b>	Ensuring efficient, effective and modern service delivery
<b>Wards affected</b>	All

<b>Purpose of the report:</b>	1. To report upon the outturn performance for treasury management in 2022/23.
<b>Recommendation (s) to the decision maker (s):</b>	1. That Cabinet recommends that Council approves the contents of the report on Treasury Management performance and the Prudential Indicators for 2022/23.
<b>Period for post policy/project review:</b>	Not applicable.

## **1 Introduction/Background:**

- 1.1 The Council is required by 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 in the Public Services (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 1.2 For 2022/23 the minimum reporting requirements were that Full Council should receive:
  - an annual Treasury Management Strategy Statement in advance of the year;
  - a mid-year Treasury Management update report;
  - an annual review following the end of the year describing the activity compared to the strategy (this report).
- 1.3 This report provides the outturn position for the Council's treasury activities and highlights compliance with the Treasury Management Strategy previously approved by Members in February 2022.

## **2 Key Issues/proposals/main body of the report:**

### **The Economy and Interest Rates**

- 2.1 2022/23 has seen inflationary pressures, easing of pandemic restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies.
- 2.2 The Bank of England increased interest rates steadily throughout 2022/23, starting at 0.75% and finishing at 4.25% in order to try to manage inflation.
- 2.3 The CPI measure of inflation peaked at 11.1% in October 2022, due to gas and electricity prices and supply-side factors impacting food prices.

### **Treasury Position as at 31 March 2023**

- 2.4 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend.
- 2.5 The Council's CFR was £349.3m at the end of the year. This includes the borrowing from the Public Works Loan Board following the introduction of HRA Self-financing and borrowing taken in 2015/16 for General Fund capital expenditure. HRA self-financing involved the transfer of national housing debt from central government to local authorities with HRA responsibilities. No new loans were undertaken during 2022/23.
- 2.6 The table below shows a decrease in balances available for investment as at 31<sup>st</sup> March 2023 compared to as at 31<sup>st</sup> March 2022 due to the Council having lower unspent grant balances, repaying loans early for a discount, using reserves and providing a £6m interest bearing loan to a local authority body.

	31-Mar-22	Rate/ Return	Average Life	31-Mar-23	Rate/ Return	Average Life
<b>HRA and GF COMBINED</b>	£m	%	Years	£m	%	Years
<b>Capital Financing Requirement</b>	345.1			349.3		
<b>Total external debt*</b>	349.9			337.6		
<b>Total investments</b>	139.1	0.11	0.41	103.7	2.03	0.46
<b>Net external debt</b>	210.8			234.0		

\*including finance lease obligations

### General Fund

- 2.7 The General Fund CFR (its need to borrow) was £18.3m at 31 March 2023. This has increased due to providing a £6m capital loan to other local authorities. This loan is interest bearing and will provide a revenue income stream for 20 years.
- 2.8 The General Fund is under borrowed by £11.7m. This means the Council is utilising its own cash balances to fund past capital expenditure rather than borrowing externally. This is usually cheaper.

	31-Mar-22	Rate/ Return	Average Life	31-Mar-23	Rate/ Return	Average Life
<b>GENERAL FUND (GF)</b>	£m	%	Years	£m	%	Years
<b>Total external debt</b>	17.2	3.16%	21	6.4	3.04%	10
<b>Finance leases</b>	0.2			0.2		
<b>Capital Financing Requirement</b>	12.6			18.3		
<b>Over / (under) borrowing</b>	<b>4.8</b>			<b>-11.7</b>		

### Housing Revenue Account

- 2.9 The HRA's CFR and external borrowing is £331.1m at 31 March 2023. During 2022/23 £1.37m of external borrowing was repaid in year.

<b>HOUSING REVENUE ACCOUNT (HRA)</b>	31-Mar-22	Rate/ Return	Average Life	31-Mar-23	Rate/ Return	Average Life
	£m	%	Years	£m	%	Years
<b>Total external debt</b>	332.4	3.40%		331.1	3.40%	
<b>Capital Financing Requirement</b>	332.4			331.1		
<b>Over / (under) borrowing</b>	<b>0.0</b>			<b>0</b>		

### Investment Outturn

- 2.10 The Council's 2022/23 investment policy (contained in its Treasury Management Strategy) sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.) provided by Link Asset Services, the Council's treasury management advisors.
- 2.11 The Council maintained an average balance of £131.3m of internally managed funds throughout 2022/23, earning an average rate of return of 2.03% compared with the previous year of 0.11%. The increase in return between years is attributable to interest rate rises described in 2.2.

2.12 Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

### Prudential and Treasury Indicators

2.13 During 2022/23, the Council complied with its legislative and regulatory requirements set out in the Treasury Management Strategy. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Actual prudential and treasury indicators	2021/22	2022/23	2022/23
	Actual	Original Budget Estimate	Actual
	£'000	£'000	£'000
<u>Capital expenditure</u>			
· General Fund	8,248	22,854	8,199
· HRA	17,400	67,920	34,884
· <b>Total</b>	<b>25,648</b>	<b>90,774</b>	<b>43,083</b>
<u>Capital Financing Requirement:</u>			
· General Fund	12,603	19,260	18,272
· HRA	332,448	341,280	331,077
· <b>Total</b>	<b>345,051</b>	<b>360,540</b>	<b>349,349</b>
External debt excluding finance leases	<b>349,680</b>	<b>347,975</b>	<b>337,446</b>
<u>Investments- balance at year end</u>			
· Longer than 1 year	0	0	0
· Under 1 year	139,090	41,761	103,668
· <b>Total</b>	<b>139,090</b>	<b>41,761</b>	<b>103,668</b>

2.14 To ensure borrowing levels are prudent over the medium term, Local Authority external borrowing can only be for capital purposes, i.e. it cannot be used to support revenue expenditure. Gross borrowing should not, except in the short term, exceed its CFR i.e. the Council's need to borrow. The Council complies with this indicator.

2.15 The **Authorised Limit** - the authorised limit is the "affordable borrowing limit" required by the Local Government Act 2003. The Council does not have the power to borrow above this level. During 2022/23 the Council maintained gross borrowing within its authorised limit.

2.16 The **Operational Boundary** – the operational boundary reflects the current borrowing position with an allowance for additional borrowing for cash flow purposes during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2022/23
Authorised limit	£410.00m
Operational boundary	£350.868m

2.17 **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.

Ratio of financing costs to net revenue stream	31-Mar-22 Actual	2022/23 Original Limits	31-Mar-23 Actual
General Fund	0.83%	0.98%	-2.11%
HRA	19.32%	18.77%	19.14%

2.18 Due to higher interest rates the general fund's interest received was higher than interest paid and minimum revenue provision costs. This produces a negative percentage for the indicator in the table at 2.18.

2.19 The following table shows the **net debt position for the Council**. Net debt has increased by £24m due to a decrease in investments held as at 31 March 2023. Cash balances were lower at this date than at 31 March 2022 due to having lower unspent grant balances, using reserves to fund revenue expenditure, repaying loans early for a discount and providing a £6m interest bearing loan to a local authority body.

	31 March 2022	Rate/ Return	Average Life	31 March 2023	Rate/ Return	Average Life
Fixed rate funding:	£m	%	Years	£m	%	Years
PWLB and Finance Leases	349.9	3.39%	15	337.6	3.40%	14
<b>Total external debt</b>	<b>349.9</b>	<b>3.39%</b>	<b>15</b>	<b>337.6</b>	<b>3.40%</b>	<b>14</b>
CFR	345.1			349.3		
Over/ (under) borrowing	4.8			-11.7		
<b>Total investments</b>	<b>139.1</b>	<b>0.11</b>	<b>0.41</b>	<b>103.7</b>	<b>2.03</b>	<b>0.46</b>
<b>Net debt</b>	<b>210.8</b>			<b>234.0</b>		

2.20 The following table shows the **maturity structure of the debt portfolio**:

	31-Mar-22 actual	31-Mar-23 actual
Under 12 months	1.8	2.8
12 months and within 24 months	2.6	3.7
24 months and within 5 years	14.4	16.2
5 years and within 10 years	40.7	48.2
10 years and above	290.2	266.7

### 3 Options and alternatives considered

None. An annual treasury management review is a statutory requirement.

### 4 Consultation

The Council liaises with Link Asset Services, its Treasury advisors.

### 5 Financial and value for money implications:

In accordance with the CIPFA Treasury Management in the Public Services Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.

**6 Legal Implications:**

There are no direct legal implications arising from this report.

**7 Risk implications:**

A prudent approach to investment is required to minimise the risk to the Council of investment losses, as outlined in the Council's Treasury Management Strategy 2022/23. This report provides an update on the delivery of that strategy.

**8 Equalities, Community Impact and Human Rights:**

A Community Impact Assessment is not required. There are no Human Rights Implications.

**9 Sustainability implications (including climate change, health and wellbeing, community safety):**

None arising directly from the report.

**10 Council infrastructure (including Health and Safety, HR/OD, assets and other resources):**

None arising directly from the report.

**11 Statutory Comments**

**Monitoring Officer:**

This report is a statutory requirement under the Local Government Act 2003 and is an important part of the Council's financial governance to enable officers and Members to review the Council's financial position.

**S151 Officer:**

This is a S151 Officer report.

**12 Conclusion:**

The Annual Treasury Management Outturn Report for 2022-23 provides the outturn position for the Council's 2022-23 treasury activities and highlights compliance with policies previously approved by Members. Its approval is required for the Council to meet its statutory obligations in respect of Treasury Management activities.