Treasury Management Outturn Report 2022/23

1. Introduction

1.1 In February 2011 this Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

1.2 The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

1.3 UK CPI (UK measure of inflation) was 5.5% in March 2022 but rose strongly to hit 10.1% in July 2022 and then peaked at 11.1% in October 2022. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February 2023. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October 2022.

1.4 The Bank of England, to combat global inflation, increased interest rates over the period. The UK's official rate in March 2022 was 0.75%, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the financial year, taking the Base Rate to 4.25% in March 2023. At the time of writing this report, the MPC put rates up to 5% on the 22nd June 2023, a further increase of 0.50% to combat the current high inflation.

2. Headlines for 2022/23

2.1 Investment and borrowing interest for 2022/23 have produced a net surplus of £46,562 against the revised budget. The revised budget saw a cost increase of £40,837k compared with the original budget. The variance against the original budget was a surplust of £5,725.

2.2 Pooled Funds have returned dividends that were budgeted at the start of the financial year, and starting against higher capital values returned 4.14% against the £7m invested in this area. This was slightly better than what was budgeted for in February 2022 but fell £2k short of the revised budget.

2.3 The capital values of the Pooled Funds realised losses of over £803k for 2022/23. UK and global equities remained volatile against a backdrop of high and sticky inflation, rapid policy rates tightening and an increasing risk of recession. There was a large sell-off in global equities in April, and again in June and September 2022 for both UK and global equities.

2.4 The Council had total borrowings of £179.133m as at 31st March 2023 at an average rate of 3.09% compared with borrowing of £174.417m at an average rate of 2.20% as at 31st March 2022. The increase is mainly down to receiving in March 2022, Energy relief grants of over £6m to distribute to the local community. This reduced the need to borrow temporarily until the grant money was spent in May/June 2022.

2.5 All treasury prudential indicators were within their permitted limits for 2022/23.

3. Local Context

3.1 On 31 March 2022, the Authority had net borrowing of £166.351m arising from its revenue and capital expenditure, an increase of £13.484m from 31 March 2021. 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.

3.2 The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31 March 2023 and the year-on-year change is shown in table 1 below.

Table 1: Treasury Management Summary

	31.3.22 Balance £m	2022/23 Movement £m	31.3.23 Balance £m	31.3.23 Rate %
Long-term borrowing Short-term borrowing	118.420 56.000	(2.309) 7.000	116.111 63.000	3.15 2.99
Total borrowing	**174.420**	**4.691**	**179.111**	**3.09**
Long-term investments Short-term investments Cash and cash equivalents Other Investments	8.382 0 10.420	(504) 0 (5.515)	7.878 0 4.905	4.25 - 4.14
Total investments	**18.802**	**(6.019)**	**12.783**	**4.21**
Net borrowing	**155.618**	**10.710**	**166.328**	

3.3 Borrowing Activity as at 31st March 2023, the Authority held £179.111m of loans, an increase of £4.694m on the previous year. The Council back in February 2022 was forecasting to borrow up to £17.7m in respect of asset purchases for the Housing Revenue Account (HRA) and new build. No borrowing was taken from the PWLB in 2022/23 due to the increase in long term borrowing rates, instead further temporary borrowing known also as internal borrowing was used in order to reduce risk and keep interest costs low. As an example, the 40 year PWLB maturity rate averaged 4.04% for 2022/23 financial year compared to a rate of 1.53% for temporary borrowing taken. This amounts to saving circa of £440k interest costs on the forecast prudential borrowing of £17.7m.

Table 2: Borrowing Position

	31.3.22 Balance £m	2022/23 Movement £m	31.3.23 Balance £m	31.3.23 Rate %
Public Works Loan Board Banks (LOBO) Banks (fixed-term) Banks (short-term LOBO) Local authorities (short-term)	102.520 7.000 8.900 0 56.000	(0.309) (2,000) 0 2,000 5.000	102.211 5.000 8.900 2.000 61.000	3.05 3.95 3.87 4.95 2.93
Total borrowing	**174.420**	**4.691**	**179.111**	**3.09**

3.4 The council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the council's long-term plans change being a secondary objective.

3.5 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 of 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.

3.6 The Authority currently holds PWLB debt of £42.86m for commercial investments that were purchased prior to the change in the CIPFA Prudential Code.

4. Investment Activity

4.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2022/23, the Council's investment balance ranged between £15m and £32m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 3 below.

Table 3: Investment Position (Treasury Investments)

	31.3.22 Balance £m	2022/23 Movement £m	31.3.23 Balance £m	Interest Rate %
MMF's/Call Accounts		(5.515)	4.905	4.14
Pooled Funds	10.420	0	7.000	4.13
Other Investments*	7.000	3.408	8.886	3.17
	5.478			
Total Investments	**22.898**	**(2.107)**	**20.791**	**4.14**

- **Other Investments include non- treasury investments which are not included in table 1 above.**

4.2 £7m of the Council's investments are held in externally managed strategic pooled (bond, equity, multi-asset and property) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £289,107 (4.13%), however the capital value of these funds fell by £803,754, which is treated as an unrealised capital loss. See table 4 below for a breakdown of the individual returns for each fund.

4.3 For fixed income bond investors, 2022 was a very difficult year - bonds had their worst year of performance in several decades; long-term government bonds had their worst year ever as central banks delivered larger interest rates hikes than initially expected and promised more to combat inflation. As policy rates rapidly rose from very low levels, bond investors suffered large unrealised losses from rising sovereign and corporate bond yields (i.e. falling prices). The return on the All-Gilts index was -16.3% over the 12 months to March 2023.

4.4 The Council has invested £2m with the Schroders Maxmiser Income Fund, which has a 9% exposure to equities within the oil and gas industries as at 31st March 2023. This equates to £184,000 of our investment fund. Due to the fund being valued at £472,000 below our original investment, the time is not right to crystallise this investment, but wait for the value to increase before selling.

Table 4: Current Pooled Funds

Fund Manager	Investment	Capital Value as at 31st March 2022	Capital Value as at 31st March 2023	Dividends Received 2022/23	2022/23 Gain/(Loss)	Gain/(Loss) v Original Investment
	£	£	£	£	£	£
CCLA Property Fund	3,000,000	3,238,505	2,704,632	117,093	(533,873)	(295,368)
Schroders Income Maximiser Fund	2,000,000	1,614,650	1,528,554	115,001	(86,096)	(471,446)
CCLA Diversified Income Fund	2,000,000	2,068,773	1,884,988	57,013	(183,785)	(115,012)
Total –current Funds	**7,000,000**	**6,921,928**	**6,118,174**	**289,107**	**(803,754)**	**(881,826)**

4.5 The nature of these funds is that values can fluctuate from one year to another. Their performance and suitability in meeting the Council's investment objectives are monitored and discussed with Arlingclose on a regular basis. 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 investment objectives is 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 will exceed cash interest rates.

5. Financial Implications

5.1 The outturn for debt interest paid in 2022/23 was £4.549 million (2.68%) on an average debt portfolio of £169.271 million against a budgeted £4.522 million. A deficit of £17k was recorded for the financial year after taking into account the re-imbursement of £2.017m for the debt associated to the HRA for 2022/23.

5.2 The outturn for investment income received in 2022/23 was £736k which equates to a 2.98% return (21/22 – 1.67%) on an average investment portfolio of £24.701 million against a budgeted £667k. The General Fund reimbursed the HRA £45k for revenue balances held within investment balances during 2022/23. A General Fund surplus of £64k was made for investment income.

5.3 Net loans and investments budget for 2022/23 which also includes leasing and third party loans repayments, was a budgeted cost of £1.589m but made an actual cost return of £1.542m, a surplus of £47k. See table 5 below for a breakdown.

Table 5 – Borrowing and Investment Costs

Borrowing Costs	2022/23 Original £	2022/23 Revised £	2022/23 Actual £	Variance (surplus)/loss £
Temp Borrowing	260,000	735,095	768,676	33,581
LT Borrowing	3,787,239	3,787,239	3,780,630	(6,609)
HRA Share	(1,930,290)	(2,007,408)	(2,017,149)	(9,741)
Total GF Cost	**2,116,949**	**2,514,926**	**2,532,157**	**17,231**
Investment Income	2022/23 Original £	2022/23 Revised £	2022/23 Actual £	Variance (surplus)/loss £
Pooled Funds	271,000	287,915	289,107	(1,192)
Short term/call	10,950	123,900	182,112	(58,212)
Other Loans/Lease	317,821	554,196	563,835	(9,639)
HRA Share	(30,800)	(39,900)	(45,150)	5,250
Total GF Income	**568,971**	**926,111**	**989,904**	**(63,793)**
NET COST (Saving)	**1,547,978**	**1,588,815**	**1,542,253**	**(46,562)**

6. Compliance Report

6.1 The Council can confirm that it has complied with its Prudential Indicators for 2022/23, which was set in March 2022 as part of the Council's Treasury Management Strategy and Capital Strategy. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2022/23. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

The Prudential Indicators include:

- Authorised and Operational Boundary for External Debt
- Average Credit rating
- Upper limits for fixed interest rate exposure and variable interest rate exposure
- Upper limit for total principal sums invested over 364 days.

Table 6: Debt Limits

	2022/23 Maximum £m	**31.3.23 Actual £m**	**2022/23 Operational Boundary £m**	**2022/23 Authorised Limit £m**	**Complied**
Borrowing	179.111	179.111	264	274	✓

6.2 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. Total debt was never above the operational boundary during 2022/23.

7. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

7.1 Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

Table 7 Maturity structure of borrowing

	31.3.23 Actual	Actual Debt Due	Upper Limit	Lower Limit	Complied
Under 12 months	43.80%	£78.447m	50%	0%	✓
12 months and within 24 months	1.63%	£2.925m	50%	0%	✓
24 months and within 5 years	4.12%	£7.388m	100%	0%	✓
5 years and within 10 years	23.97%	£42.925m	100%	0%	✓
10 years and above	26.48%	£47.426m	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The actual maturity percentages for 31st March 2022 are calculated on the debt outstanding of £179.111m.

7.2 Principal Sums Invested for Periods Longer than 364 days

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

Table 8 Principal invested over 364 days

	2020/21	2021/22	2022/23
Actual principal invested beyond year end	7m	7m	7m
Limit on principal invested beyond year end	10m	10m	10m
Complied	✓	✓	✓