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REPORT AUTHOR: **ASSISTANT CHIEF OFFICER/FRA TREASURER**

SUBJECT: **TREASURY MANAGEMENT – ANNUAL REPORT FOR 2022/23**

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Background Papers: Treasury Management Strategy 2022/23

Implications:

This table provides a short statement of the impact of the recommendations in this report and/or a reference to the relevant paragraph/s in the report.

Will this report affect any of the following?

Implications	Yes/No	Impact/Reference
Financial	Yes	In terms of informative backwards look at the Treasury management activities of 2022/23
Risk Management	No	
Legal	No	
Privacy and Security	No	
Duty to collaborate	No	
Health and Safety	No	
Equality, Diversity and Inclusion	No	
Environmental Sustainability	No	
Consultation and Communication	No	

PURPOSE:

To consider the Authority's Annual Report for Treasury Management for 2022/23.

RECOMMENDATION:

That Members review and consider the information presented in the report.

1. Introduction

1.1 This Authority 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).

During 2022/23 the minimum reporting requirements were that the full Authority should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year (minimum) treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

1.2 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 details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

The Service 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 full Authority. Training can be provided to Members by our Treasury Advisor's, Link Treasury Services, in 2023 at the FRA's request.

2. The Authorities Capital Expenditure and Financing

2.1 The Authority 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 Authorities 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 for 2022/23:

Capital Expenditure by Service	**2021/22 Actual £'000**	**2022/23 Budget £'000**	**2022/23 Actual £'000**
As per Statement of Accounts & Budget Book	1,494	1,357	1,466

3. The Authorities Overall Borrowing Need

3.1 The Authorities 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 Authority should monitor with the general aim 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). This is plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Authority is not borrowing to support revenue expenditure. The Treasurer will discuss this indicator and over borrowed position at the next Treasury Strategy meeting. The continued over borrowed position stems from the historical borrowing, the loan of £9.987m predominantly for the build of Dunstable Community Fire Station.

The table below highlights the Authorities gross borrowing position against the CFR. The Authority has complied with this prudential indicator previously agreed by the FRA.

	31 March 2022 Actual £'000	**31 March 2023 Budget £'000**	**31 March 2024 Budget £'000**
Prudential Indicator – Capital Financing Requirement			
Borrowing	9,987	9,987	9,987
Other long term liabilities	414	120	167
Total Debt	10,401	10,107	10,154
TOTAL CFR	7,779	7,771	7,625
Under/(over) borrowing	(2,622)	(2,336)	(2,529)

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 Authority does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Authority has maintained gross borrowing within its authorised limit.

The operational boundary – the operational boundary is the expected borrowing position of the Authority 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	12,187
Maximum gross borrowing position during the year	9,987
Operational Boundary	9,987
Average gross borrowing position	9,987
Financing costs as a proportion of net revenue stream	**1.30%**

4. Treasury Position as at 31 March 2023

4.1 At the beginning and the end of 2022/23 the Authorities treasury position was as follows:

	31 March 2022 Principal £'000	**Rate/Return**	**Average Life yrs**	**31 March 2023 Principal £'000**	**Rate/Return**	**Average Life yrs**
Fixed rate funding:						
PWLB	9,987	4.27%	35	9,987	4.27%	34
Other long term liabilities	414			120		
Total debt	10,401			10,107		
CFR* (year-end position)	**7,779**			**7,771**		
Over/(under) borrowing	**2,622**			**2,336**		
Total investments	**17,975**	**0.45%**		**19,352**	**3.70%**	
Net debt	**(7,574)**			**(9,245)**		

4.2 The maturity structure of the debt portfolio was as follows:

	31 March 2022 Actual £'000	**2022/23 Original limits £'000**	**31 March 2023 Actual £'000**
Under 12 months	0	0	0
12 months to 2 years	0	0	0
2 years to 5 years	0	0	0
5 years to 10 years	0	0	0
10 years and above	9,987	9,987	9,987

Investment Portfolio	Actual 31 March 22 £'000	Actual 31 March 22 %	Actual 31 March 23 £'000	Actual 31 March 23 %
Treasury Investments				
UK banks	13,225	74%	13,352	69%
Foreign bank (via Links)	4,750	26%	6,000	31%
Total	**17,975**	**100%**	**19,352**	**100%**

5. The 2022/23 strategy

5.1 **Investment strategy and control of interest rate risk**

Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting in April 2022 at 0.75%, the Bank of England Base Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with further increases to date in 2023/24 (the current rate is 5.25%).

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

Meantime, through the autumn of 2022, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

Nonetheless, while the Authority has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/9. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.2 Borrowing strategy and control of interest rate risk

During 2022-23, the Authority maintained an over-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), has been exceeded by loan debt. The strategy for the CFR and the under/over borrowed position going forward will be discussed at the next meeting with our Treasury advisors.

The policy of avoiding new borrowing by funding capital from revenue and using reserves, has served well over the last few years. However, this will be kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The ACO therefore monitored interest rates in financial markets and adopted a pragmatic strategy.

Interest rate forecasts, as per the table below from February 2022, had expected only gradual rises in medium and longer term fixed borrowing rates during 2022/23 and the two subsequent financial years until the turn of the year, when inflation concerns increased significantly. Variable, or short-term rates, were expected to be the cheaper form of borrowing until well in to the second half of 2022/23.

Forecasts at the time of approval of the Treasury Management Strategy Report for 2022/23 were as follow:

Link Group Interest Rate View	7.2.22											
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month ave earnings	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month ave earnings	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month ave earnings	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

For up to date interesting comparison, Link Group Interest Rate forecasts as of August 2023 are as follows:

LINK GROUP – AUGUST 2023

	End Q3 2023	End Q4 2023	End Q1 2024	End Q2 2024	End Q3 2024	End Q4 2024	End Q1 2025	End Q2 2025	End Q3 2025	End Q4 2025	End Q1 2026	End Q2 2026
Bank Rate	5.50%	5.50%	5.50%	5.25%	4.75%	4.25%	3.75%	3.25%	2.75%	2.75%	2.50%	2.50%
5yr PWLB Rate	5.60%	5.30%	5.10%	4.80%	4.50%	4.20%	3.90%	3.60%	3.40%	3.30%	3.30%	3.20%
10yr PWLB Rate	5.20%	5.00%	4.90%	4.70%	4.40%	4.20%	3.90%	3.70%	3.50%	3.50%	3.50%	3.40%
25yr PWLB Rate	5.40%	5.20%	5.10%	4.90%	4.70%	4.50%	4.20%	4.00%	3.90%	3.80%	3.80%	3.70%
50yr PWLB Rate	5.10%	5.00%	4.90%	4.70%	4.50%	4.30%	4.00%	3.80%	3.60%	3.60%	3.50%	3.50%

6. Borrowing Outturn

6.1 It was anticipated at the beginning of 2022/23 that the Authority would have surplus funds available for short-term investment, either within its Special Interest Bearing Account (SIBA) at its bankers or through the money market. As at the 31st March 2023 the SIBA account was paying a rate of 1%.

The Authority's call-account with Barclays Bank has been used during 2022/23. As at 31st March 2023 the Barclays account was paying a rate of 3.95%

The Authority's 120-Day Interest account with Santander continued to be used during 2022/23. During 2022/23 this account was paying a rate of 0.65% but increased to 0.98% as at 1st June and then increased again to 1.10% as at 1st July. Notice was given on 1st August which then reduced the rate back down to 0.98% and the monies were received back into the Authority on 4th November.

The Authority's 180-Day Interest account with Santander continued to be used during 2022/23. During 2022/23 this account was paying a rate of 0.87% but increased to 1.01% as at 1st June and then increased again to 1.21% as at 1st July. Notice was given on 1st August which then reduced the rate back down to 1.91% and the monies were received back into the Authority on 4th January 2023.

The Authority had £19.75M investments maturing during 22/23. Three of these investments were placed during 21/22 (£6.75M) via Link Group with Goldman Sachs (£2M) and Qatar National Bank (£4.75M). The remainder of £13M were from new investments placed in 22/23 for either six months or nine months and therefore matured in 22/23, via Link with First Abu Dhabi Bank (£4M), Lloyds Group (£5M) and Standard Chartered Bank (£4M).

The Authority also re-invested or placed new investments of £11M. These matured in early 23/24 and were with First Abu Dhabi (£1M @ 2.24%) that matured in May 2023, Goldman Sachs (£2M @ 3.85%) that also matured in May 2023, Standard Chartered Bank (£1M & £2M @ 3.93% and 4.27% respectively) that matured in May and August 2023 and Qatar National Bank (£3M & £2M @ 4.51% and 4.53% respectively) that matured in July and August 2023.

6.2 During 2022/23 the Authority did not use Money Market Funds for short-term investments.
Borrowing has not been undertaken in 2022/23 to finance the Capital Programme. The funding for the 2022/23 Capital Programme was through revenue contributions and asset sales such as vehicles disposals.

No debt rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7. Investment Outturn

7.1 **Investment Policy** – the Authorities investment policy is governed by DLUHC investment guidance which has been implemented in the annual investment strategy for 22/23 approved by Members on 24th March 2022. 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.).

The investment activity during the year conformed to the approved strategy, and the Authority had no liquidity difficulties.

7.2 **Resources –** the Authorities cash balances comprise revenue and capital resources and cash flow monies. The Authorities core cash resources comprised as follows:

Balance Sheet Resources (£m)	**31 March 2022** **£'000**	**31 March 2023** **£'000**
Balances	2,400	2,400
Earmarked reserves	12,724	12,438
Grants and other Contributions unapplied	159	159
Usable capital receipts	548	548
Total	**15,831**	**15,545**

7.3 **Investments held by the Authority**

- The Authority maintained an average balance of £27M of internally managed funds.(including fixed term investments)
- The internally managed funds earned an average rate of return of 1.6%
- The comparable performance indicator is the average Local Authority 365 days backward looking compounded rate which was 0.1470%
- Total investment income was £0.426M higher than the set budget of £0.065M

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