AGENDA ITEM:

COUNCIL: 19 July 2023

Report of:	**Head of Finance, Procurement and Commercial Property.**
Contact for further information:	**Mr J Smith (Extn.5093)**

SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR PERFORMANCE 2022-23

Borough wide interest

1.0 PURPOSE OF THE REPORT

1.1 To inform Members of the Treasury Management performance and Prudential Indicators for the year ended 31 March 2023.

2.0 RECOMMENDATION

2.1 That the performance for the 2022-23 financial year be noted.

3.0 BACKGROUND

3.1 Treasury Management covers the management of the Council's cash flows, banking, investments and borrowing. Given the large sums of money involved it is an important area of the Council's finances and is subject to a specific set of rules and regulations.

3.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, which has been adopted by the Council, requires a number of reports to be made to Council on Treasury Management activities. This includes details of performance during the year and the exercise of powers delegated to the Head of Finance, Procurement and Commercial Property.

3.3 The introduction of the Prudential Code for Capital Finance has allowed Councils to determine their own level of borrowing, taking account of a set of prudential indicators. The general principle is that borrowing is to be affordable, prudent and by conclusion sustainable.

4.0 INVESTMENT PERFORMANCE

4.1 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 April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

4.2 Our treasury advisors Link now expect the MPC will further increase Bank Rate during the second half of 2023 to combat on-going inflationary and wage pressures. They do not think that the MPC will increase Bank Rate above 5.5%, but it is possible. The current economic climate will obviously improve returns on investments during 2023-24.

Bank Rate	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
26.06.23	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
25.05.23	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
Change	0.25	0.50	0.50	0.75	0.75	0.75	0.75	0.50	0.50	0.25	0.25	0.00	0.00

4.3 The Council's treasury management investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2022/23 the Council's investment position was as follows:

INVESTMENT PORTFOLIO	31.3.22 Actual £000	31.3.22 Actual %	31.3.23 Actual £000	31.3.23 Actual %
Treasury investments				
Banks	11,500	41%	5,000	45%
Building Societies - rated	11,500	41%	1,000	9%
Building Societies – unrated		0%		0%
Local authorities	5,000	18%	5,000	45%
DMADF (H M Treasury)		0%		0%
etc				
Total managed in house	28,000	100%	11,000	100%
Bond funds				
Property funds				
Cash fund managers				
Total managed externally	0	0%	0	0%
TOTAL TREASURY INVESTMENTS	28,000	100%	11,000	100%

Non Treasury investments				
Third party loans				
Subsidiaries	1,575	100%	1,300	100%
Companies				
Property				
etc				
TOTAL NON TREASURY INVESTMENTS	1,575	100%	1,300	100%

Treasury investments	28,000	95%	11,000	89%
Non Treasury investments	1,575	5%	1,300	11%
TOTAL OF ALL INVESTMENTS	29,575	100%	12,300	100%

The maturity structure of the investment portfolio was as follows:

	31.3.22 Actual £000	31.3.23 Actual £000
Investments		
Longer than 1 year		
Up to 1 year	29,575	12,300
Total	29,575	12,300

The gross interest earned was as follows:

	31.3.22 Actual £0	31.3.23 Actual £0
Gross interest earned	133,472	476,111

4.4 As part of the ongoing exercise to achieve best value in treasury management we continue to monitor performance of the Council's investment activities against a benchmark, 3-month average SONIA (Sterling Overnight Index Average). The average interest rate earned by the Council on its investments was 2.691%, which was less than the benchmark rate of 2.7434%.

4.5 At its meeting in February 2020 the Council approved the use of Property Funds, Corporate Bonds, Infrastructure investments and longer term borrowing with local authorities and UK based banks and building societies with high credit ratings. However, given the reduction in funds available for investment and current market conditions, and the lack of in-house expertise investments of this type have not been pursued to date.

4.6 The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

Type of Counterparty	Maximum loan by Council	Maximum Period
Major British Based Banks and Subsidiaries with at least A- credit rating.	£5m	Up to £5m 364 days Up to £3m 3 years
British Based Building Societies. – Only those with at least A- credit rating as advised by Link.	£5m	Up to £5m 364 days Up to £3m 3 years
Other Local Authorities, where agreed.	£5m	Up to 5 years
Property Funds, Corporate Bonds, Infrastructure Investments	£3m	Up to 3 years for Corporate, and 5 years for Property and Infrastructure
Money Market Funds AAA rated	£3m	N/A Callable deposits

5.0 COUNCIL BORROWING

5.1 At the start of the financial year the Council had outstanding long-term borrowing of £88.212m, from the Public Works Loan Board which was related to HRA self-financing.

5.2 By the end of the financial year the position had remained unchanged. Total interest payments of £3.06m were made in 2022-23 to service the HRA self-financing debt.

5.3 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered. However, several large capital projects such as the Skelmersdale Town Centre redevelopment, the proposed construction of new leisure centres and the HRA business plan will require external borrowing to be taken out and this position has been reflected in the budgets previously agreed by Council.

5.4 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

5.5 Link's long-term (beyond 10 years) forecast for Bank Rate stands at 2.5%. As all PWLB certainty rates are currently significantly above this level, borrowing strategies will need to be reviewed in that context. Overall, better value can generally be obtained at the shorter end of the curve and short-dated fixed LA to LA monies should be considered. Temporary borrowing rates will remain elevated for some time to come but may prove the best option whilst the market continues to wait for inflation, and therein gilt yields, to drop back later in 2023 and 2024.

6.0 EXERCISE OF DELEGATED POWERS

6.1 The current counterparties list is set out in 4.6 above. This shows the types of organisations that have been approved for investment purposes, and the maximum amount and loan period for investing with a single organisation. This is in accord with the previously agreed treasury management protocol which has been reported to Members.

6.2 The Head of Finance, Procurement and Commercial Property Services has delegated powers to take out new debt and repay existing debt. These powers ensure that the Council can obtain the best possible deals in a market where conditions can change rapidly. However, this facility was not utilised during the year.

7.0 PRUDENTIAL CODE PERFORMANCE

7.1 The actual Prudential Indicators for the financial year 2022-23. The overall information conveys a healthy financial position and this confirms that the Council has a good financial standing.

1. PRUDENTIAL INDICATORS Extract from budget and rent setting report	2021/22 actual £'000	2022/23 original £'000	2022/23 actual £'000
Capital Expenditure (note 1 & 5)			
Non - HRA	9,348	11,156	7,709
HRA (applies only to housing authorities)	16,611	14,431	13,097
TOTAL	25,959	25,587	20,806
Ratio of financing costs to net revenue stream (note 2)			
Non - HRA	1.15%	-1.08%	-0.61%
HRA (applies only to housing authorities)	12.91%	10.88%	12.02%
Gross borrowing requirement General Fund			
in year borrowing requirement	1,405	5,438	2,563
Gross borrowing requirement HRA (*where relevant)*			
in year borrowing requirement	7,052	6,997	3,230
Gross debt	88,212	88,212	88,212
CFR (note 3 & 5)			
Non – HRA	23,263	18,048	25,512
HRA (applies only to housing authorities)	88,429	125,023	91,297
TOTAL	111,692	143,071	116,809
Annual change in Cap. Financing Requirement			
Non – HRA	893	4,906	2,249
HRA (applies only to housing authorities)	6,529	10,692	2,868
TOTAL	7,422	15,598	5,117

2. TREASURY MANAGEMENT INDICATORS	2021/22 actual £'000	2022/23 original £'000	2022/23 actual £'000
Authorised Limit for external debt (note 4)-			
borrowing	88,212	153,071	88,212
other long term liabilities	0	500	0
TOTAL	88,212	153,571	88,212
Operational Boundary for external debt -			
borrowing	88,212	143,071	88,212
other long term liabilities	0	0	0
TOTAL	88,212	143,071	88,212
Actual external debt	88,212	88,212	88,212

Maturity analysis of loans	Average Rate %	Interest Payable £'000	2022/2023 £'000	2021/2022 £'000
Between 5 and 10 years	3.01	132.76	8,821	4,411
Between 10 and 15 years	3.30	145.55	8,821	4,411
Between 15 and 20 years	3.44	303.45	8,821	8,821
Between 20 and 25 years	3.50	308.74	8,821	8,821
Between 25 and 30 years	3.53	621.89	17,642	17,642
Between 30 and 35 years	3.52	620.13	17,642	17,642
Between 35 and 40 years	3.50	617.48	17,642	17,642
Between 40 and 45 years	3.48	306.98		8,822
Total	3.47	3,056.99	88,212	88,212

Notes

1. This Indicator demonstrates that there is effective control of the capital programme and that expenditure is incurred in line with resources approved.

2. This is a measure of the interest paid on borrowing / debt taking account of the interest earned on investments as a percentage of the overall Council tax or HRA expenditure requirement.

3. The capital financing requirement measures the Authority's underlying need to borrow in order to fund its capital programme.

4. The Head of Finance, Procurement and Commercial Property has delegated authority to borrow up to the limits detailed above and to affect movement to these figures for borrowing and other long term liabilities. Such changes will be reported to Council at the meeting following the change. The Council undertook borrowing of £88.212m on 28th March 2012 and had no other long term liabilities at the end of financial year 2021-22. Hence, the Authority is comfortably within the parameters detailed.

5. The capital outturn and capital financing figures may be subject to small variations as the year end accounts have not been completed at the time of writing.

7.2 The purpose of the indicators is to ensure that financing costs associated with capital activities are managed in a prudent, affordable and by definition, sustainable manner.

7.3 The Council aims to achieve this objective by undertaking a robust annual budget setting cycle. During this process, Budget Holders detail the revenue implications of any capital decisions, while the capital process identifies the resources available to fund the capital programme. This ensures that strategic resource planning and option appraisal of bids are fully reviewed prior to setting the programme.

7.4 The HRA net revenue position is at the level detailed primarily due to the interest payments of £3.057m on the self-financing debt. However, it must be borne in mind that the Council does not now have to pay housing subsidy to the Government, which was some £6m p.a. and consequently is in a much better financial position.

7.5 As a result of the self-financing payment, there is another relevant indicator that requires reporting the maturity structure of borrowing. This details the differing amounts of debt, the dates of maturity and the associated interest costs relating to the payment of £88.212m. By structuring the debt on a long-term basis that the Council benefitted from the low interest charges that were available at the time.

This enables the HRA to develop a business plan with the backdrop of a clear financial picture relating to its debt.

8.0 SUSTAINABILITY IMPLICATIONS

8.1 There are no significant sustainability implications associated with this report and in particular no significant impact on Crime and Disorder.

9.0 RISK ASSESSMENT

9.1 The formal reporting to Council of Treasury Management performance and Prudential Indicators for Capital Finance is part of the overall framework set out in the Code of Practice to ensure that the risks associated with this activity are effectively controlled.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

Date	Document	File Ref
2017	CIPFA Updated Prudential Code for Capital Finance in Local Authorities	Accountancy Office
2017	CIPFA Updated Treasury Management Code of Practice	Accountancy Office

Equality Impact assessment

The decision does not have any direct impact on members of the public, employees or elected members and/or stakeholders. Therefore, no Equality Impact Assessment is required.

Appendices

None