Treasury Management Outturn 2022/23

Report of the Finance and Resources Portfolio Holder

Recommended:

That the Annual Treasury Management Report for 2022/23 and the Prudential Indicators for the year, as shown in the Annex to the report, be noted.

SUMMARY:

- This report reviews the performance of the Treasury Management function in 2022/23 compared with the forecasts and policies set out for the year.
- Investment income for the year was around £114,100 higher than the level of income included in the forecast in February 2023.

1 Introduction

1.1 The Council 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 each financial year. 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).

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 Council's policies previously approved by members.

2 The Council's Capital Expenditure and Financing

2.1 The Council 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 Council's 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.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£M	2021/22 Actual	2022/23 Forecast	2022/23 Actual
Capital expenditure	8.7	13.3	7.2
Financed in year	8.7	13.3	7.2
Unfinanced capital expenditure	**0**	**0**	**0**

3 The Council's Overall Borrowing Need

3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

3.2 **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 Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table in the Annex highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

4 Treasury Performance in 2022/23

4.1 The Council managed all investments in-house in 2022/23.

4.2 Most investments during the year were placed in call-accounts or fixed-term deposits for durations of up to one year. At the year-end, the Council also held investments with five Local Authorities, totalling £25M, for periods of up to five years.

4.3 The average return on investments for the year was 1.86% compared to the average benchmark rate of 3.13%, an underperformance of 1.27%. This is largely the result of fixed-rate investments that were placed before interest rates started to rise in late 2021.

4.4 The Council's investment position at the end of the year is detailed below.

	Principal at 31/03/23 £M	Principal at 31/03/22 £M	Rate of Return 2022/23 %	Benchmark Return %	Variance %
Internally Managed Investments	90.4	90.4	1.86	3.13	-1.27

4.5 Of the principal invested on 31 March 2023, £60M was invested in fixed rate, fixed term deposits. The remainder was invested in call and notice accounts with access ranging from immediate to 95 days' notice.

4.6 A comparison of the investment interest earned with the original budget and forecast is shown in the table below.

	Original Budget 2022/23 £000	Forecast 2022/23 £000	Actual 2022/23 £000	Variance to Original £000
Interest on Investments	535.2	1,877.5	1,991.6	1,456.4

4.7 Income received on the Council's cash balances exceeded the income expected within the budget forecast, which was prepared in February 2023, by £114,100. Overall, there was a positive variance of £1,456,400, compared to original budget. These variances are due to rates obtained on investments being higher than forecasted plus multiple increases in Interest Rates from December 2021 onwards.

5 The strategy for 2022/23

5.1 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.

5.2 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.

5.3 The sea-change in investment rates meant the Council was 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.

5.4 Meanwhile, through the autumn, 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.

5.5 While the Council 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 financial crisis. 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.

5.6 Investment balances in 2022/23 have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

6 Prudential Indicators and Treasury Limits

Prudential Indicators

6.1 The prudential indicators and borrowing limits are shown in the Annex and are relevant for setting an integrated treasury management statement.

6.2 The first indicator is the ratio of financing costs to net revenue stream. This compares the Council's net investment income and borrowing expenditure as a ratio of the budget requirement. A negative figure shows that investment income is greater than borrowing costs.

6.3 The second indicator is the Capital Financing Requirement (CFR). This is the total amount by which the funding of capital expenditure is reliant on external borrowing.

7 Consultations/ Communications

7.1 The Council's treasury advisors, Link Asset Services, have been consulted in the preparation of this report.

8 Equality Issues

8.1 An EQIA screening has been completed in accordance with the Council's EQIA methodology and no potential for unlawful discrimination or low level negative impact have been identified, therefore a full EQIA has not been carried out.

9 Conclusion and reasons for recommendation

9.1 The Council achieved an average investment income rate of 1.86% in the year compared with an average benchmark figure of 3.13%.

9.2 Actual income for the year was above the original estimate by £1,456,400 and was also £114,100 above the forecast set in February 2023.

9.3 The report summarises performance during 2022/23. It does not propose any changes in respect of Treasury Management in the future and therefore the recommendation is that the report be noted.

Background Papers (Local Government Act 1972 Section 100D) None			
Confidentiality It is considered that this report does not contain exempt information within the meaning of Schedule 12A of the Local Government Act 1972, as amended, and can be made public.			
No of Annexes:	1	File Ref:	N/A
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