TRAFFORD COUNCIL

Report to:	**Accounts & Audit Committee 27th September 2023** **Executive 23rd October 2023** **Council Meeting 22nd November 2023**
Report for:	**Information**
Report of:	**The Executive Member for Finance and Governance and the Director of Finance and Systems**

Treasury Management Annual Performance 2022/23 Report

Summary

This report outlines the main treasury management activities undertaken during 2022/23 as follows:

- All legislative and regulatory requirements, including all treasury management prudential indicators have been complied with.
- The average level of external debt and interest rate payable for 2022/23 was £318.2m and 2.71% and this compares to £332.8m & 2.82% in 2021/22.
- The average level of treasury investments for 2022/23 was £119.6m with a rate of return of 2.27% compared with 2021/22 when the equivalent figures was £122.0m and 0.35% respectively.
- The outturn position for the Council's Treasury Management function was a favourable outturn of £6.97m resulting from a revision to the Minimum Revenue Provision (MRP) policy as agreed at the 15th February 2023 Council Meeting, which provided a saving of £4.29m in year, and from higher than expected returns on short-term investments due to increases in interest rates which resulted in a favourable £2.70m above budget. A contribution has been made towards the Interest Rate Smoothing Reserve of £500k to absorb a potential increase in borrowing costs over the short-term.

Recommendations

That the Accounts & Audit Committee note the treasury management activities undertaken in 2022/23 and recommend that both Executive and Council also note the report.

Contact person for background papers:
Frank Fallon – Finance Manager Place & Central Services

Background papers: None

Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	Not applicable
Financial	The net outturn for treasury management was a favourable variance to budget of £6.97m and details of this are provided at paragraph 10.1.
Legal Implications:	Treasury Management activities are subject to requirements detailed in legislation, Department for Levelling Up, Housing and Communities (DLUHC), Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice. The report sets out details of compliance in respect of these requirements.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Council, when undertaking any treasury management investment fully supports the ethos of socially responsible investments and will avoid direct investment in institutions with material links to environmentally harmful activities. Opportunities to invest monies in products which both supports sustainable assets and complies with the Council's investment strategy will continue to be explored as and when they become available.
Carbon Reduction	Not directly applicable – See above
Staffing/E-Government/Asset Management Implications	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury Management activity is without risk and the Council's in-house team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable

Executive Summary

During 2022/23, the Council achieved compliance of its legislative and regulatory requirements via the following activities:

Economic position (Section 2)

- The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak.
- Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to 10.1% by March 2023. The CPI in July 2023 was 6.8%.
- In order to try to control inflation the Bank of England raised the Bank Rate from 0.75% in March 2022 to 4.25% by the end of the financial year. The base rate is currently 5.25% in August 2023.

Debt (Section 5)

- Total loan debt fell from £322.4m as at 31.03.2022 to £318.2m by 31.03.2023. The decrease of £4.2m comprises loans, £3.9m PWLB and £0.3m Salix, due to natural maturity of the loan periods.
- Loan interest totalling £8.5m was paid of which £3.8m was wholly funded from rental income received from the Council's regeneration programme.
- Average rate of interest payable was 2.71% in 2022/23 and compared to 2.82% in 2021/22 a drop of 0.11%.
- Level of under-borrowing was £93.9m at 31.03.2023 which represents an increase of £40.0m from the 31.03.2022 closing position of £53.9m.
- Statutory borrowing limits, the authorised limit and operational boundary, were not breached.

Investments (Section 6)

- The high interest environment of 2022/23 resulted in the Council receiving a greater level of investment income in year than that originally budgeted for.
- Total level of investments fell from £130.6m at 31.03.2022 to £70.4m at 31.03.2023 a movement of £60.2m due to cash surpluses being utilised in advance of any new external borrowing, which would be costly.
- The average rate of return for all investments in 2022/23 was 2.27% which resulted in a return of £2.5m, £2.1m above budget. This average rate was -0.14% or -£0.17m below the recognised performance indicator of 1 month SONIA which was 2.41%.
- Weighted average life of investments at 31.03.2022 was 26 days or 0.84 months excluding all long-term investments.
- All investments were repaid on time without issue and undertaken in accordance with the approved strategy.

Prudential Indicators and limits (Section 8 and Appendix E)

- No breaches to any of these limits occurred.

1. BACKGROUND

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 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).

1.2 For the financial year 2022/23, the Accounts & Audit Committee together with the Executive and Council received the following three reports:

- annual treasury management strategy for the year ahead (issued February 2022)
- mid-year update report (issued November / December 2022)
- annual outturn report describing the activity undertaken (September 2023 this report).

1.3 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.

1.4 It is confirmed that in accordance with the requirement of the Code, prior scrutiny of all the above treasury management reports has been undertaken by the Accounts & Audit Committee before they were reported to the Executive and Council.

1.5 Figures in this report are based on the actual amounts borrowed and invested and as such will differ from those stated in the final accounts which are shown in compliance with International Financial Reporting Standards.

1.6 For reference a list of abbreviations used within the report has been provided and can be found in Appendix F.

1.7 This report comprises of the following sections:

- Major Economic Headlines (Section 2);
- Interest Rates (Section 3);
- Treasury Position (Section 4);
- Borrowing Position (Section 5);
- Investment Position (Section 6);
- Related Treasury Issues (Section 7);
- Prudential and Performance indicators (Section 8);
- Outlook 2023/24 (Section 9);
- 2022/23 Summary Outturn position (Section 10);
- Appendices including details of abbreviations used in the report.

2. MAJOR ECONOMIC HEADLINES

2.1 A brief summary of the main events which occurred during 2022/23 are highlighted below for reference;

- The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.
- Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. The year ended with CPI reducing again in March to 10.1%. RPI followed a similar pattern during the year, hitting 14.2% in October. In March RPI measured 13.5%, down from 13.8% in the previous month.
- In order to try to control inflation the Bank of England raised the Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%.
- Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.
- Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. The October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

3. INTEREST RATES

3.1 Within the 2022/23 Treasury Management Strategy, a forecast for interest rates was provided which indicated that minor increases in rates would occur during the year. Actual interest rates seen in the period have risen above this forecast, with the growth in the rates seen across all markers from April 2022 to March 2023, as shown in the table below.

	2022/23	1 April 2022	31 March 2023	2022/23
	Forecast Average	Actual	Actual	Actual Average
	%	%	%	%
Bank Rate	0.56	0.75	4.25	2.30
Investment Rates				
3 month	0.58	1.10	4.43	2.83
1 Year	0.78	1.57	4.89	3.68
Loan Rates				
5 Year	1.60	2.32	4.32	3.62
25 Year	2.10	2.68	4.71	4.07
50 Year	1.90	2.42	4.40	3.74

3.2 The expectation for interest rates within the treasury management strategy for 2022/23 was that the Bank Rate would continue on an upwards path following the first increase in Bank Rate being implemented by the MPC on 16th December 2021, with the rate reaching 0.81% by the end of the year. The Bank Rate instead increased at a much faster rate, ending the year at 4.25%. Since the end of the year the Bank Rate has increased further to 5.25% in August 2023, with a further increase likely when the Bank of England's Monetary Policy Committee meet again on the 21st September 2023.

4. TREASURY POSITION

4.1 The Council's Treasury Management in-house team actively ensure that:

- All transactions are carried out in accordance with the current Scheme of Delegation,
- All borrowing has been carried out in accordance with the Council's current Debt Strategy and Prudential Indicators,
- All investments placed have been done so in accordance with the criteria stipulated within the current Investment strategy,
- Security for investments and the management of risks within all treasury management activities is maintained,
- Access to funds is available at all times enabling all payments to be made on time preserving the Council's reputation and
- Procedures and controls to achieve these objectives are in place and that these are reported to members as detailed in the background section and through officer activity as highlighted in the annual Audit and Assurance report.

4.2 The table below shows the loan and investment positions at the beginning and end of 2022/23 for reference:

	31 March 2023		31 March 2022	
	Principal (£m)	**Avg. Int. Rate %**	**Principal (£m)**	**Avg. Int. Rate %**
DEBT				
- PWLB	282.2	2.39	286.2	2.44
- Government Loans - Salix	0.0	0.0	0.2	0.0
- Market	36.0	4.56	36.0	4.56
Total debt	***318.2***	**2.63**	***322.4***	**2.68**
CFR (to finance past capital expenditure)	412.0		376.3	
Over/ (under) borrowing	***(93.9)***		***(53.9)***	
INVESTMENTS				
- Instant access	26.3	4.07	30.7	0.52
- Call account	0.0	0.0	0.4	0.10
- Term deposit	27.4	3.92	76.2	0.75
- CCLA	4.7	4.65	5.7	4.33
- Asset Investment Programme (AIP)	12.0	n/a	17.6	n/a
Total investments	***70.4***	**3.95**	***130.6***	**1.24**

4.3 Whilst the table at paragraph 4.2 details the position as at the beginning and end of 2022/23 the average position for 2022/23 and 2021/22 was as follows:

	2022/23		2021/22	
	Principal	**Interest Rate**	**Principal**	**Interest Rate**
Average Debt	£318.2m	2.71%	£332.8m	2.82%
Average Investment *	£119.6m	2.27%	£122.0m	0.35%

* Excludes Strategic Asset Investments

5. BORROWING POSITION

5.1 As highlighted in paragraph 4.1 above, part of the Council's treasury management remit is to address any potential borrowing needed to be taken in order to fund the capital expenditure programme. This may result in funds being borrowed by the in-house treasury management team from external bodies, such as the Government, through the PWLB, the money markets or utilising temporary cash resources which the Council may have.

5.2 The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents capital spend, not yet paid for by revenue or other capital resources, incurred from current and prior years' activities reflecting the level of the Council's indebtedness.

5.3 During 2022/23, the Council maintained an under-borrowed position as highlighted in the table at paragraph 4.2 which means that the capital borrowing needed was not fully funded with new loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was deemed prudent due to the increased cost of new external borrowing in the current economic environment and the availability of internal funds. External borrowing may be taken at a later date to replace this internal funding, should the terms of the new loans and cost implications of the borrowing be commensurate with the financial plans of the Council.

5.4 To safeguard the Council's finances, the level of CFR is not allowed to rise indefinitely and statutory controls are in place to ensure that any borrowing costs incurred are charged to revenue over the useful life of the asset. The Council is required to make an annual revenue charge called the Minimum Revenue Provision (MRP) and this reduces the CFR and effectively is a repayment of borrowing. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.5 The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts) or
- charging more than the statutory revenue charge MRP each year through a Voluntary Repayment Provision (VRP).

5.6 The Council's 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved by Members as part of the Treasury Management Strategy report for 2022/23 in February 2022. In February 2023, as part of the setting for Treasury Strategy 2023/24, the Council approved a change to its Minimum Revenue Provision (MRP) Strategy to be implemented in the 2022/23 financial year (see para 7.4).

5.7 The Council's CFR includes PFI and any leasing schemes held on the balance sheet, which increase the overall borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

5.8 During 2022/23 the Council repaid two PWLB Loans totalling £3.9m at an average rate of 6.75% due to the natural maturity of those facilities. In the year to March 2023 the Council did not undertake any new borrowing.

5.9 As at 1 April 2022 there was no short term debt outstanding. The use of an overdraft facility provided by the Council's bank is available, although unutilised as this is an expensive form of borrowing and would result in higher interest costs.

5.10 The level of under borrowing rose from £53.9m as at 31 March 2022 to £93.9m at 31 March 2023. This growth in the under borrowing has been largely driven by using cash balances to support the Asset investment Strategy. This process could create additional financial risk should the Council need to borrow from an external source at a later date to fund these investments given the increase in borrowing costs. This additional risk is offset, however, as the business case for these investments is priced accordingly to afford additional borrowing cost from income received. This action was undertaken in conjunction with advice obtained from LG, the treasury management advisors..

5.11 The Director of Finance and Systems can confirm that during 2022/23 the Council's level of gross external borrowing did not exceed its CFR thereby ensuring its long term borrowing levels are prudent, only taken for capital purposes and not used to support revenue expenditure.

5.12 From the table at paragraph 4.2 it can be seen that the level of external debt decreased during 2022/23 from the opening position of £322.4m to close at £318.2m and this was as a result of the following transactions:

Lender	Principal – New	Principal – (Repayment)	Average Interest rate	Notes
Long Term				
PWLB		£(0.0m)	0.00%	Early Repayment
Sub total	**£0m**	**£(0.0)m**		
Short Term				
PWLB		£(3.9)m	6.75%	Natural maturity
Government Loans - Salix		£(0.3)m	0.00%	Natural maturity
Local Authorities	£5.0m	£(5.0)m	4.15%	Natural maturity – Drawn and repaid in year
Sub total	**£5.0m**	**£(9.2)m**		
Grand total	**£5.0m**	**£(9.2)m**		

5.13 From the total debt outstanding of £318.2m, £0.6m is administered on behalf of Greater Manchester Probation Service which leaves £317.6m in respect of the Council's own long term requirement and a maturity profile of the Council's debt can be found at Appendix B & C for reference.

5.14 Gross loan interest paid during 2022/23 totalled £8.5m and of this £3.8m was funded from applying a proportion of the Council's regeneration programme rental income. The balance of £4.7m was incurred within the MTFP budget provision.

5.15 During 2022/23 the Director of Finance and Systems continued to monitor interest rate movements in the financial markets and caution was adopted with the treasury operations.

6. INVESTMENT POSITION

6.1 The Council's investment policy is governed by the DLUHC guidance which has been implemented within the annual investment strategy approved by Council in February 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.).

6.2 Using this information the Council's in-house treasury management team is able to produce an approved lending list in order to ensure investments are only placed with low risk institutions. Funds are invested for a range of periods reflecting cash flow requirements together with counterparty limits as set out in the approved investment strategy ensuring that an excessive level of funds are not placed in a single counterparty.

6.3 The Director of Finance and Systems can confirm that;

- during the year all investment activity conformed to the approved strategy,
- the approved limits within the Annual Investment Strategy were not breached,
- the Council had no liquidity difficulties and
- in-line with previous years, security and liquidity of its investments remained the overall priorities followed by optimum return (yield) consummate with this approach.

6.4 In 2022/23 the Council maintained an average balance of £114.2m of internally managed funds (this figure excludes £5m placed in the Property Fund managed externally by CCLA group) earning an average rate of return of 2.17% which generated £2.26m in investment interest. This return was £2.07m above the agreed budget figure of £0.20m and 2.73% below the performance indicator of the average 7-day LIBID rate of 5%.

6.5 With regards to the Council's long term investments, in 2015, £5m was placed into the CCLA Property Fund for a minimum period of 5 years which after entry costs had been deducted of £0.3m, enabled 1,643,872 units to be purchased in the fund. At 31 March 2022 the value of these units, were £5.67m however this has since fallen to a value of £4.67m at 31 March 2023.

6.6 The outlook for this fund is steady growth in value 2023/24. The UK commercial property sector has shown signs of stabilising after a sharp downturn in the later part of 2022. Transaction volumes remained well below the long-term average but were higher than in recent periods, and capital values improved, albeit marginally, for the first time in many months. In contrast to capital values, which were badly damaged by last year's surge in bond yields, occupier markets have remained solid and there was further rental growth in most sectors.

6.7 In response to the implementation in 2018/19 of IFRS 9 into the CIPFA Code of Practice on Local Authority Accounting, any movement in valuation would normally have to be taken and reflected in full to the Council's revenue account. As a consequence of this change to the CIPFA Code of Practice DLUHC put in place a 5 year statutory override effective from 1 April 2018. This override has since been extended for a further two years to 31st March 2025. The Council will use this override facility to account for any changes in the value of this investment during this period thereby avoiding any adverse movements being taken to the revenue account in full during the year they occurred.

6.8 After the expiry of this override any fall in valuation could place a burden on the Council's revenue account. The value of this investment will be closely monitored to ensure that the likelihood of this happening is minimised.

6.9 Annualised returns generated from the CCLA property fund in 2022/23 (gross of fees on the original value invested) were 4.65% and this compares with that achieved in 2021/22 of 4.33%.

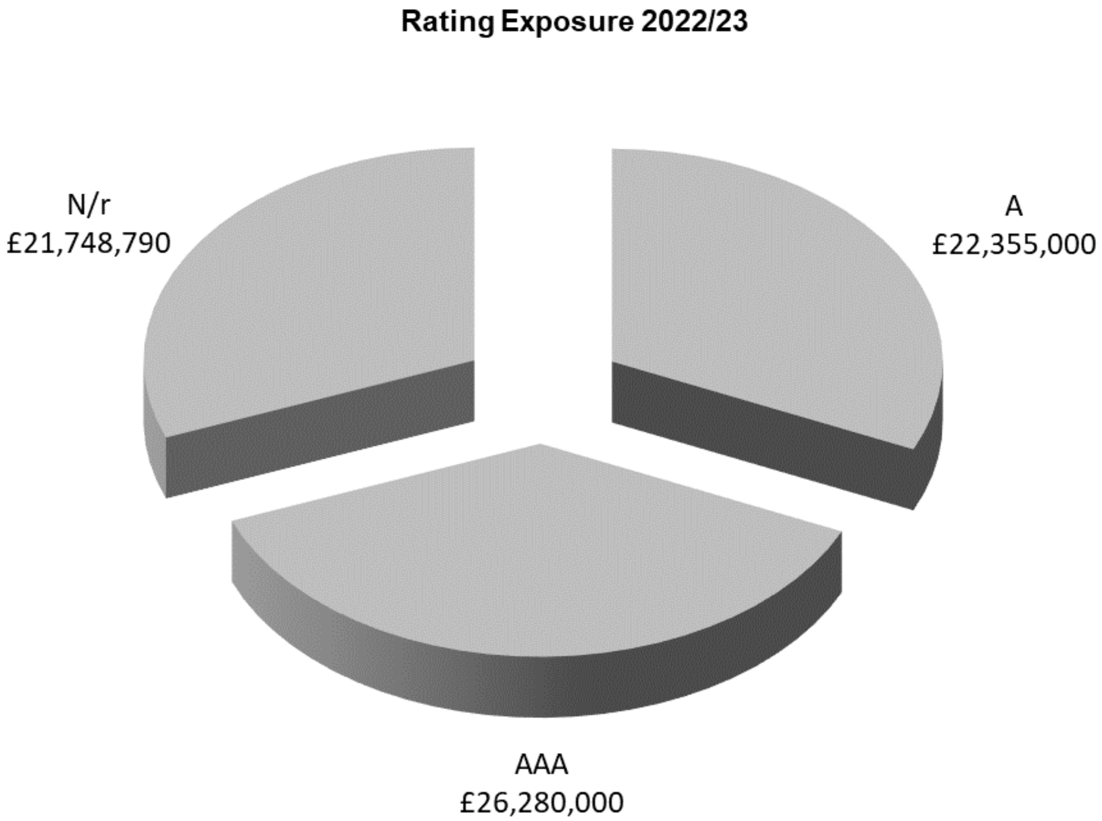
6.10 When the rates of return for both short and long term investments are combined, this produces an average level invested of £119.6m, generating a rate of return of 2.27% worth £2.50m which is £2.1m above budget and -0.14% or £-0.17m below the performance indicator of the average SONIA 1 Month rate of 2.41%.

6.11 In addition to the £5m CCLA investment, the Council in August 2019 undertook a further long term investment when it entered into a £17.6m 5 year loan facility agreement with Queens Holding Limited secured on 4 prominent income producing properties known as Albert Estate within Manchester City Centre. A sale of part of the estate resulted in a partial early repayment to the Council of £5.6m, in April 2022, reducing the facility to £12.0m.

6.12 The Council's main bank account with Barclays, is non-interest bearing and consequently if no investments were undertaken by the in-house team, the Council would lose the opportunity to generate £2.26m of income.

6.13 Levels of funds available to be invested on a daily temporary basis are subject to a number of factors such as timing in the form of monies being received ahead of spend requirements and progress on the Capital Programme.

6.14 The graph below provides a breakdown of the Council's investments placed as at 31 March 2023 by long term credit rating and further information detailing the make-up of this can be found at Appendix C & D



7. RELATED TREASURY ISSUES

7.1 Member training – In accordance with the Code, Members are responsible for ensuring effective scrutiny of the treasury management strategy and policies takes place. In order to be able to do so effectively a member training session was provided by the Council's advisors LG and in-house staff to members of the Accounts and Audit Committee on 24 January 2023 via the Teams facility.

7.2 Greater Manchester Pension Fund (GMPF) - During April 2020, the Council along with several other Greater Manchester councils paid over to GMPF a discounted advance equivalent to 3 years of employer pension contributions in order to take advantage of the pension fund's wider investment powers. This initial payment scheme expired on 31st March 2023. The Council will not be making a similar upfront payment for next period due to the current market conditions making such a payment less favourable.

7.3 Asset Investment Strategy - During 2017/18 the Council introduced a programme to acquire and invest in suitable assets which will help deliver corporate objectives and priorities. Any transactions made under this strategy are made to support policy related activities. These transactions are therefore considered outside the treasury management of purely financial investments however their implementation will have an impact on the Council's cash flow.

7.4 In February 2023, as part of the setting for Treasury Strategy, the Council approved a change to its Minimum Revenue Provision (MRP) Strategy. This implemented a change in the way in which the majority of MRP was set aside, to an annuity basis from a previous straight-line basis. The change was considered prudent and is permitted under the MRP Guidance issued by central government, and it was applied to the 2022/23 financial year.

This method is now being increasingly applied by a number of authorities and The Chartered Institute of Public Finance and Accountancy (CIPFA) puts forward the following reasoning for using the annuity method in 'The Practitioner's Guide to Capital Finance in Local Government' (2019) which states:

- The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 years' time is less of a burden than paying £100 now.
- The schedule of charges produced by the annuity method thus results in a consistent charge over an asset's life, considering the real value of the amounts when they fall due.
- The annuity method would then be a prudent basis for providing for assets that provided a steady flow of benefits over their useful life.

8. PRUDENTIAL AND PERFORMANCE INDICATORS

8.1 It is a statutory duty for the Council to determine and keep under review the Council's Prudential Indicators as approved within the Treasury Management Strategy for 2022/23.

8.2 During the year ended 31 March 2023, the Council operated within these indicators and these are shown in Appendix E for reference.

9. OUTLOOK 2023/24

9.1 As a result of the ongoing Russian hostilities in Ukraine and the effect on fuel prices, the global economy has not recovered as was originally expected in 2022. Inflation is expected to reduce from the CPI rate of 10.1% in March 2023 to the target figure of 2% over the next 24 months. The CPI in July 2023 was 6.8%.

9.2 Since the end of 2022/23, the Bank of England has increased the base rate further from 4.25% in March 2023 to 5.25% in August 2023. It is expected that this rate will be increased again to at least 5.50% by the end of the 2023/24 financial year.

9.3 The growth in the Bank Rate has increased the cost to the Council to borrow but has also increased the return on any investments undertaken. The Treasury team will look to manage cash flows to minimise the need for borrowing and maximise any investment return.

10. 2022/23 SUMMARY OUTTURN POSITION

10.1 Activities undertaken as part of the treasury management function are subject to many factors beyond the control of the Council impacting on actual performance e.g. worldwide economic and political events and interest rate movements. The table below reflects the summarised outturn position compared to that originally forecasted for reference;

Treasury	Budget £000	Outturn £000	Variance £000

DEBT			
Loan Interest	5,803	4,645	(1,158)
MRP	5,668	1,376	(4,292)
PFI Interest & Premium	894	1,064	170
Other Costs (see Note if any)			
Sub-total	**12,365**	**7,085**	**(5,280)**
INVESTMENTS			
Investment Interest & other net interest receipts	(748)	(3,446)	(2,698)
MAH Ltd – Main Share dividend Loan interest and car park dividend	 0 (3,393)	 0 (3,483)	 0 (90)
Sub-total	**(4,141)**	**(6,929)**	**(2,788)**
RESERVES			
Contribution to / (from) Interest Smoothing Reserve	(598)	500	1,098
Sub-total	**(598)**	**500**	**1,098**
TOTAL	**7,626**	**655**	**(6,970)**

Non-Treasury items	Budget £000	Outturn £000	Variance £000
EXPENDITURE			
Loan Interest	3,769	3,836	67
Loss of Investment interest	1,154	1,029	(125)
MRP	2,253	2,365	112
Sub-total	**7,176**	**7,230**	**54**
RECHARGES			
Sub-total	**(7,176)**	**(7,230)**	**(54)**
TOTAL	**0**	**0**	**0**

Note: The above figures reflect all associated debt servicing costs in respect to the Council's Asset Investment Programme are self-financing i.e. paid for from the income stream generated from the investment;

10.2 A review of the MRP policy was carried out in year and agreed at the February 2023 Budget Council (see para 7.4). This new policy was applied in 2022/23 and released a benefit of £4.29m.

10.3 The average investment interest rate at the time of setting the budget was 0.72% and increased to 3.78% by the end of the year. This saw a subsequent increase in the average investment rate, which generated additional investment income of £2.70m. Through management of the cash flow, the Council has avoided taking on any significant new debt in 2022/23 while repaying some existing loans, which has saved £1.16m of interest costs. This saving has been used to make a contribution of £0.50m to the Council's Interest Rate Smoothing Reserve, to mitigate against adverse borrowing or investment market conditions in future years. In addition to the MRP savings mentioned above this resulted in a net position for Treasury Management of £6.97m favourable variance to budget.

10.4 The application of the Interest Smoothing Reserve will, should it be needed over the forthcoming years, be applied to finance future cash implications arising from:

- The increased cost of future borrowing in a high interest environment
- Potential adverse changes in investment interest rates,
- Short term temporary borrowing funding requirements and
- Non-treasury management activities which have an impact on cash flows.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Regulations and relevant legislation and provides an overview of transactions undertaken during 2022/23. There are no other options to consider.

Consultation

There are no consultation requirements in respect of this report.

Reasons for Recommendation

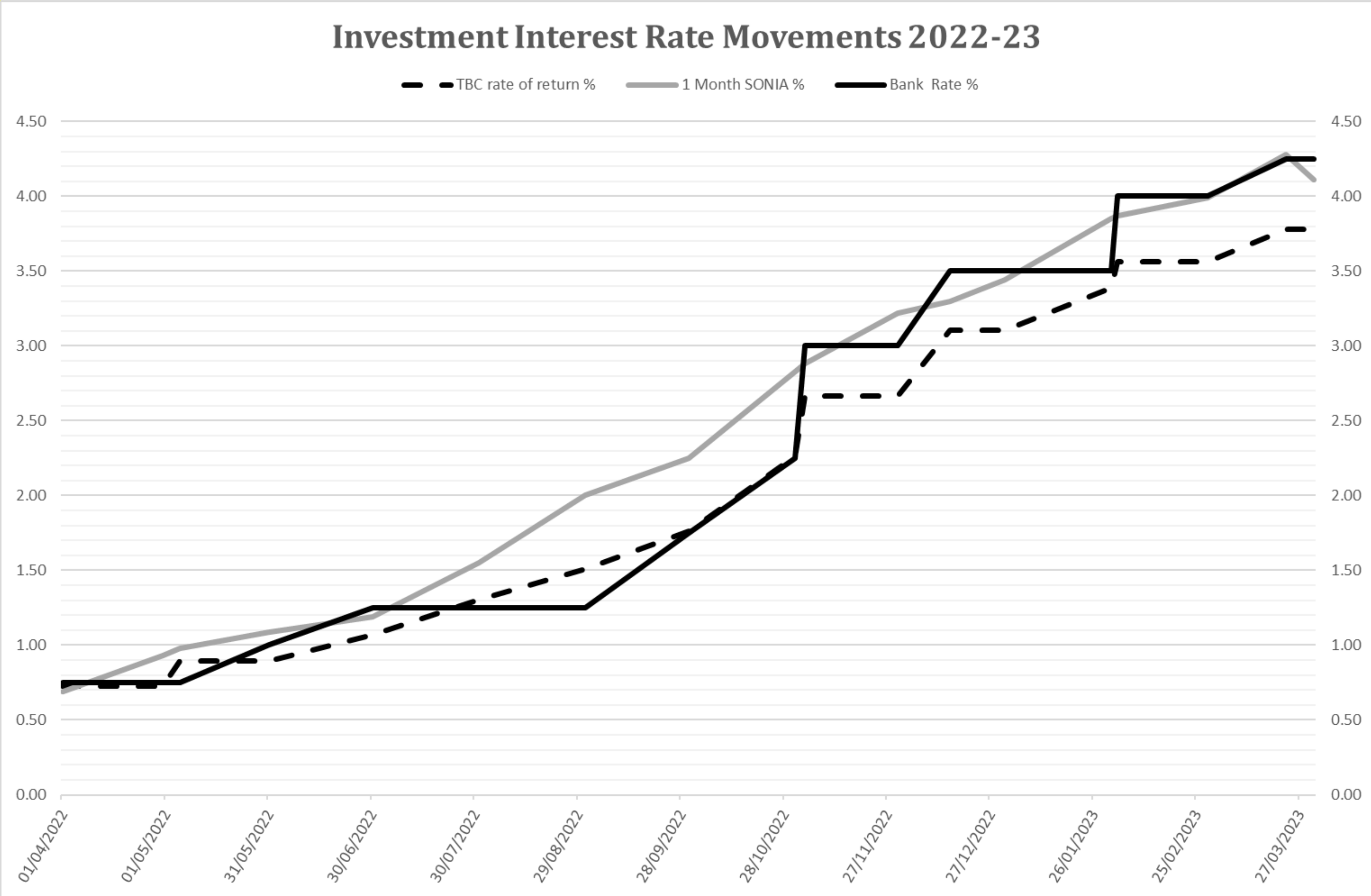
The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

Finance Officer Clearance DM

Legal Officer Clearance DS

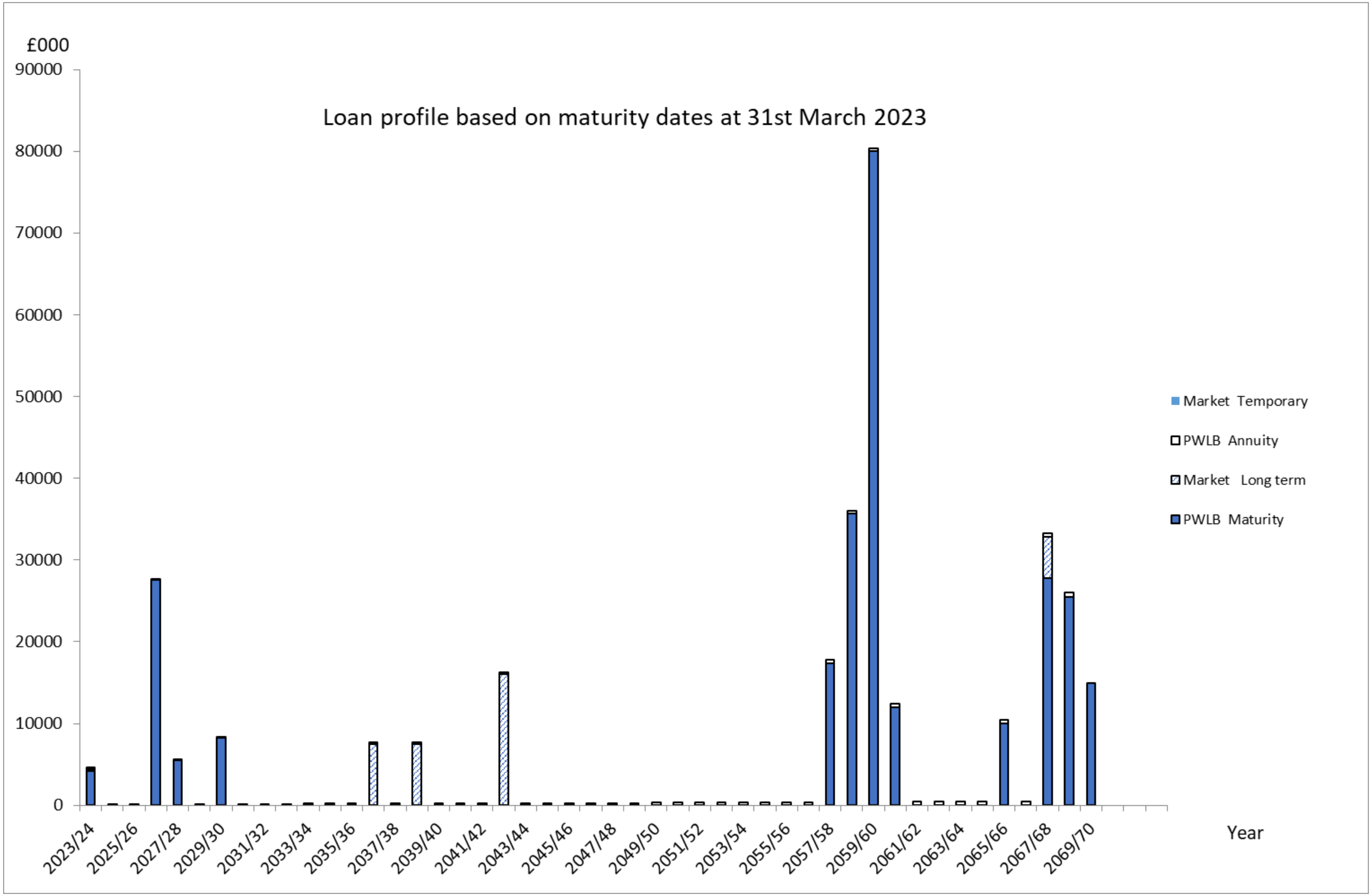
DIRECTOR'S SIGNATURE GB

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.


Investment Interest Rate Movements 2022-23
TBC rate of return %
1 Month SONIA %
Bank Rate %
4.50
4.00
3.50
3.00
2.50
2.00
1.50
1.00
0.50
0.00
01/04/2022
01/05/2022
31/05/2022
30/06/2022
30/07/2022
29/08/2022
28/09/2022
28/10/2022
27/11/2022
27/12/2022
26/01/2023
25/02/2023
27/03/2023

Appendix A

Appendix B


£000
90000
80000
70000
60000
50000
40000
30000
20000
10000
0
Loan profile based on maturity dates at 31st March 2023
Market Temporary
PWLB Annuity
Market Long term
PWLB Maturity
2023/24
2025/26
2027/28
2029/30
2031/32
2033/34
2035/36
2037/38
2039/40
2041/42
2043/44
2045/46
2047/48
2049/50
2051/52
2053/54
2055/56
2057/58
2059/60
2061/62
2063/64
2065/66
2067/68
2069/70
Year

Appendix C

Maturity Profile

Debt portfolio:

	31 March 2023 (£m)	31 March 2022 (£m)
Under 12 months	19.3	19.2
12 months and within 24 months	0.1	4.3
24 months and within 5 years	33.5	28.0
5 years and within 10 years	9.1	14.6
10 years and above	256.2	256.3
Total	**318.2**	**322.4**

Investment portfolio:

	31 March 2023 (£m)	31 March 2022 (£m)
Instant Access	26.3	30.7
Up to 3 Months	27.4	22.7
3 to 6 Months	0.0	27.9
6 to 9 Months	0.0	18.5
9 to 12 months	0.0	7.5
Over 1 year	16.7	23.3
Total	**70.4**	**130.6**

Appendix D

Breakdown of Investments

Counterparty	Amount (30 Sept 2022) £	Amount (31 March 2023) £	Long Term Credit Rating
Money Market Fund			
Aberdeen	7,000,000	3,000,000	AAA
CCLA	5,000,000	6,450,000	AAA
Federated Investors	6,300,000	6,380,000	AAA
Insight	6,650,000	3,000,000	AAA
Invesco Aim	8,780,000	1,550,000	AAA
Legal & General	6,000,000	2,900,000	AAA
Morgan Stanley	7,000,000	3,000,000	AAA
Sub total	46,730,000	26,280,000	
Notice Accounts			
Lloyds 1 Day Notice	370,000	355,000	A
Sub total	370,000	355,000	
Term Deposit			
Australia and New Zealand Bank	*20,500,000*	*2,500,000*	A
Cornwall Council	0	5,000,000	Not rated
Barclays Bank	0	3,000,000	A
Development Bank of Singapore	8,000,000	3,000,000	A
First Abu Dhabi Bank	21,500,000	5,500,000	A
National Bank of Kuwait	10,000,000	2,500,000	A
Principality Building Society	3,000,000	0	Not rated
Nationwide Building Society	2,500,000	0	A
Santander	8,500,000	5,500,000	A
Sub total	74,000,000	27,000,000	
Property Funds			
Church Commissioners Local Authority	5,717,222	4,738,790	Not rated
Sub total	*5,717,222*	*4,738,790*	
Other			
Asset Investment Programme	12,010,000	12,010,000	Not rated
Sub total	*12,010,000*	*12,010,000*	
Total	**138,827,222**	**70,383,790**	

The above table shows the level of investments placed as at 31 March 2023 and 30 September 2022, the last time Members were provided with this information.

Appendix E

Prudential Indicators for 2022/23

Indicator	Indicator set by Council	Actual
Authorised Borrowing Limit Maximum level of external debt, including other long term liabilities (PFI & leases) undertaken by the authority including any temporary borrowing - this is a statutory limit under Section 3(1) of the Local Government Act 2003.	£613.9m	£318.2m
Operational Boundary Calculated on a similar basis as the authorised limit but represents the expected level of external debt & other long term liabilities (PFI & leases) excluding any temporary borrowing – this is not a limit.	£593.9m	£318.2m
Upper limits on fixed interest rates **Maximum** limit of net fixed interest rate exposure - debt less investment	£9.5m	£5.5m
Upper limits on variable interest rates **Maximum** limit of net variable interest rate exposure – debt less investment	£1.0m	£0.6m
Gross Debt and the Capital Financing Requirement – this reflects that over the medium term, debt will only be taken for capital purposes. During 2022/23 the Director of Finance and Systems can confirm that this indicator was complied with.		
Maturity structure of fixed rate borrowing These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.		
Under 1 year (this includes the next call date for Market loans)	40%	6%
1 year to 2 years	40%	0%
2 years to 5 years	40%	11%
5 years to 10 years	40%	3%
10 years to 20 years	40%	1%
20 years to 30 years	40%	6%
30 years to 40 years	70%	47%
40 years and above	90%	27%
Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment.	£100m	£54.4m

Performance Indicators for 2022/23

Indicator	Target	Actual
Security – potential default rate of the Council's investment portfolio based on default rates from the 3 main credit rating agencies – inclusion is recommended by CIPFA.	Max 0.05%	Max 0.04% (31 March 2023)
Liquidity – investments available within 1 week notice	£5m min.	Achieved
Liquidity – Weighted Average Life of investments	6 months	0.84 months (31 March 2023)
Yield – Investment interest return to exceed SONIA 1 Month **BID** rate (exclude CCLA)	Average SONIA 1 Month: 2.41%	Average rate of return for 2022/23 was 2.17%
Origin of investments placed - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	81% 19%

Liability Benchmark

In the update to the Treasury Management Code made in December 2021, a requirement has been made for the Council to estimate and measure its liability benchmark. The liability benchmark is not a single measure but is presented as a chart of four balances as described below. A warning would be indicated if the Liability Benchmark (which is the Net Loans Requirement plus a notional buffer of £15m) exceeds the Loans CFR.

■ Existing loan debt outstanding: the Council's existing loans which are still outstanding in future years.

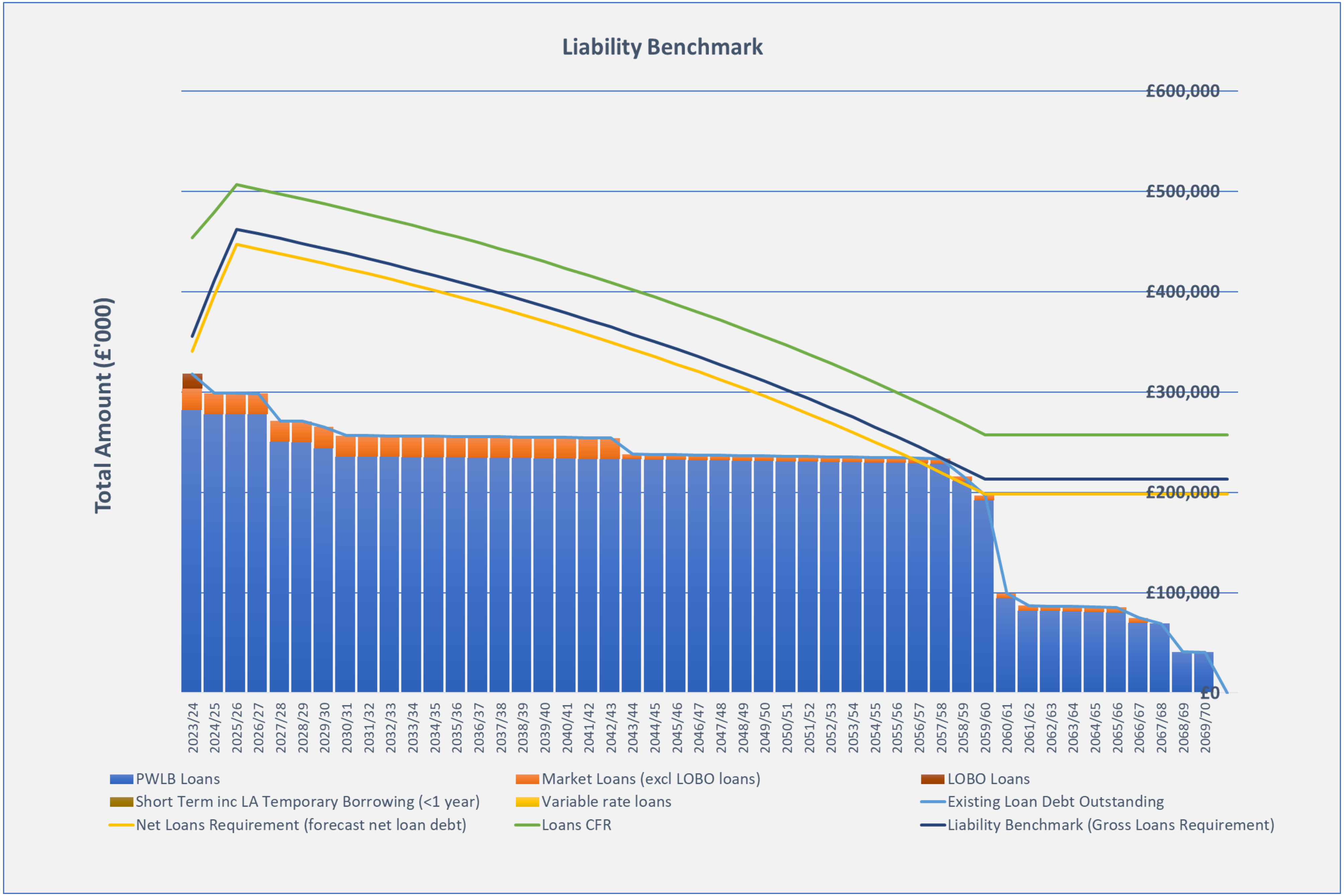
■ Loans CFR: calculated in accordance with the loans CFR definition in the Prudential Code, and projected into the future based on approved prudential borrowing and planned MRP taking account of approved prudential borrowing

■ Net Loans Requirement: the Council's gross loan debt, less treasury management investments, at the last financial year end, projected into the future based on its approved prudential borrowing, planned MRP and any other forecast major cash flows

■ Liability Benchmark (or Gross Loans Requirement) = Net loans requirement + short term liquidity allowance (a notional buffer of £35m)

The chart, below, shows that actual loans are less than the benchmark, which indicates a future borrowing requirement driven by spending with the capital strategy.

The chart below shows that the Liability Benchmark (forecast total external debt less investment) is less than the Loans Capital Financing Requirement.


Liability Benchmark
Total Amount (£'000)
£600,000
£500,000
£400,000
£300,000
£200,000
£100,000
£0
2023/24
2024/25
2025/26
2026/27
2027/28
2028/29
2029/30
2030/31
2031/32
2032/33
2033/34
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2060/61
2061/62
2062/63
2063/64
2064/65
2065/66
2066/67
2067/68
2068/69
2069/70
PWLB Loans
Market Loans (excl LOBO loans)
LOBO Loans
Short Term inc LA Temporary Borrowing (<1 year)
Variable rate loans
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)

APPENDIX F

ABBREVIATIONS USED IN THIS REPORT

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CCLA: Church Commissioners Local Authority - manage investments for charities, religious organisations and the public sector

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies which meet annually to discuss issues such as global economic governance, international security and energy policy consisting of United States, Canada, France, Germany, Italy, Japan and the United Kingdom.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets.

IFRS 9: is an International Financial Reporting Standard (**IFRS**) published by the International Accounting Standards Board (IASB). It addresses the accounting for financial instruments and contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

LG: Link Group – independent organisation which provides advice and guidance on all treasury matters including government legislation.

LIBID: the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MAH Ltd: Manchester Airport Holdings Limited - is a holding company which is owned by the ten metropolitan borough councils of Greater Manchester and an Australian investment fund IFM Investors.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

MTFP: A Medium Term Financial Plan is a key part of the Council's Policy and Budget Framework and sets out the strategic approach to the management of its finances.

OBR: Office for Budget Responsibility is a non-departmental public body funded by the UK Treasury that the UK government established to provide independent economic forecasts and independent analysis of the public finances

OECD: Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade

PEPP: Pandemic emergency purchase programme is the ECB's monetary policy measure initiated in March 2020 which is a temporary asset purchase programme of private and public sector securities.

PFI: Private Finance Initiative is a way of financing public sector projects through the private sector.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: Quantitative Easing - is a monetary policy whereby a central bank (e.g. Bank of England) buys government bonds or other financial assets in order to inject money into the economy to expand economic activity.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

UK: United Kingdom.

US: United States of America.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition)