Report To:	**AUDIT COMMITTEE**
Date:	**27TH JULY 2023**
Heading:	**COUNCIL'S TREASURY MANAGEMENT AND BORROWING ACTIVITIES 2022/23**
Executive Lead Member:	**EXECUTIVE LEAD MEMBER FOR FINANCE, REVENUES AND BENEFITS – CLLR RACHEL MADDEN**
Ward/s:	**N/A**
Key Decision:	**NO**
Subject to Call-In:	**NO**

Purpose of Report

This report provides information on the Council's Treasury Management activities which the Council conducts to manage both its funding and its cash flow, with the aim of minimising the risks to which the Council is exposed when borrowing and lending monies.

It sets out the performance in 2022/23 against the prudential indicators, which were previously approved by Full Council on 3rd March 2022, as part of the Treasury Management Strategy. This ensures that borrowing and lending are controlled within reasonable limits, in line with good practice.

Recommendation(s)

Members are requested to note the performance including the compliant prudential indicators, as outlined in the report.

Reasons for Recommendation(s)

In accordance with the requirements of the Council's Financial Regulations (C.31), the Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management Strategy and Policies.

In accordance with the requirements of the Council's Financial Regulations (C.30), Cabinet will receive an annual Treasury Management Performance Report.

In accordance with CIPFA Code of Practice for Treasury Management in Public Services (the "CIPFA TM Code"), Members should approve the annual report for Treasury Management activity in 2022/23 which forms part of this document.

Under CIPFA's Prudential Code for Capital Finance in Local Authorities, Members have a statutory duty to adopt a set of annual indicators relating to capital expenditure and Treasury Management.

Alternative Options Considered

None.

Detailed Information

TREASURY MANAGEMENT - ANNUAL REPORT 2022/23

1. Introduction

1.1 The Treasury Management Policy Statement includes a requirement for the production of an Annual Report on the Treasury Management activities undertaken during the year. This requirement is also incorporated in the Council's Financial Regulations and is considered as good practice in the Chartered Institute of Public Finance & Accountancy (CIPFA) Code of Practice for Treasury Management.

2. The Financial Markets During 2022/23

2.1 Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

3. Borrowing

3.1 The table below shows there has been no new borrowing undertaken during the year. One Mortgage Loan and one PWLB Loan have been repaid during the year.

Table 1 – Borrowing Activities 2022/23

Type of Loan	Amount Outstanding 01/04/22 £'000	Borrowed £'000	Repaid £'000	Amount Outstanding 31/03/23 £'000
Long Term Loans				
- PWLB	62,536	0	(5,000)	57,536
- Mortgage Loan	34,500	0	(1,500)	33,000
Total External Debt	**97,036**	**0**	**(6,500)**	**90,536**

3.3 The table represents the actual transactions and therefore will differ to those shown in the statement of accounts due to the statement of accounts including accruals for interest payable.

4. Prudential Borrowing Limits

4.1 One of the requirements of the CIPFA Prudential Code is to report performance against a range of indicators to Members. Underpinning the Prudential system for borrowing is the fundamental objective that any investment in assets needs to be both affordable and remain within sustainable limits. The Council sets its own targets, boundaries or limits against which it monitors actual performance. For 2022/23 these were approved by Council on 3rd March 2022. The comparison of out-turn to those targets are set out in Appendix 1 to this report.

5. Loan Interest Payments

5.1 There are two measures of performance used for assessing the Council's borrowing activities. These are the total amount of interest paid compared to estimated figures and the average rate of interest paid on external loans. An analysis of interest payments compared to the revised estimates is given below:

Table 2 – Loan Interest Payments

	Forecast	Actual	Variance
	£'000	£'000	£'000
PWLB	1,946	1,946	0
Mortgage Loans	1,574	1,574	0
Total	3,520	3,520	0

6. Investments

6.1 Cash flow surpluses are placed in investment accounts or in short-term money market deals. The movement in external investments during the year is given below:

Table 3 - Investments

	Temporary Advances £000
Balance at 01/04/22	44,057
New Investments	310,501
Repayments	328,220
Balance at 31/03/23	26,338
Annual Return	**2.00%**

The Annual Return compares favourably to the Sterling Overnight Index Average (SONIA) set by the Bank of England. The average SONIA rate for 2022/23 was 0.90%.

6.2 Overall Investment Income achieved compared to the revised budget is as follows:

Table 4 – Investment Income

Forecast £000	Actual £000
600	871

6.3 The above figures demonstrate that investments are an important element of the Council's budget. Relatively small movements in interest rates can have a significant impact on the income received. The main reasons for the better than expected investment income during 2022/23 was due to the effects of further increase in the Bank of England Base Rate and slippage on the capital programme have meant that cash balances are greater than expected.

6.4 During 2022/23, the base rate started at 0.75% and ended the year at 4.25%.

Implications

Corporate Plan:

The reporting of the Council's Treasury Management and Borrowing Activities ensures compliance with the Council's Financial Regulations and the CIPFA best practice. The Council's effective treasury management activities support delivery of the Corporate Plan objectives.

Legal:

The recommendations contained in the report ensure compliance with Financial Regulations C.30 and C.31. [RLD 28/06/2023]

Finance: [PH 28/06/2023]

Budget Area	Implication
General Fund – Revenue Budget	No direct financial implications arising from this report.
General Fund – Capital Programme	
Housing Revenue Account – Revenue Budget	
Housing Revenue Account – Capital Programme	

Risk:

Risk	Mitigation
None Identified	N/A

Human Resources:
No adverse Human Resources implications identified. [KB 27/06/23]

Environmental/Sustainability
No Environmental/Sustainability implications.

Equalities:
No adverse Equality implications.

Other Implications:
None.

Reason(s) for Urgency
N/A

Reason(s) for Exemption
N/A

Background Papers
Treasury Management Strategy Report
Mid-Year Treasury Management Report

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APPENDIX 1 PRUDENTIAL INDICATORS OUTTURN 2022/23

1. Prudential Indicators of Affordability

a) Ratio of financing costs to net revenue stream split between the Housing Revenue Account and the General Fund

The Council is required to calculate an estimated ratio of its financing costs divided by its net revenue stream for both the General Fund and the Housing Revenue Account.

2022/23	Target %	Actual %
Housing Revenue Account	13.92	10.44
General Fund	21.49	15.32

The variance to target; on the Housing Revenue Account is due to an increase in interest receivable following the base rate increases during 2022/23 and on the General Fund is due to NDR, Government Grants being higher than previously expected and Minimum Revenue Provision being lower than expected.

b) Estimate of the incremental impact of capital investment decisions on the Council Tax and Rent Levels

Authorities are required to estimate the impact on the Council Tax (General Fund) and Rent levels (Housing Revenue Account) of the capital programme including the non-financing costs.

2022/23	**Target £**	**Actual £**
Housing Revenue Account (52 Weeks)	0.00	0.00
General Fund (Band D)	19.88	2.88

The target indicators were approved by Council 3rd March 2022. The main reason for the General Fund being lower than target is due to switch funding for Towns Fund and Future High Street Fund schemes. The money received from DLUHC has to be spent in the year it is received which has resulted £6.6m DLUHC grants being used to fund other projects which would have been funded through prudential borrowing. This borrowing requirement will be carried forward to future years.

c) Net borrowing and the Capital Financing Requirement split between the General Fund and the Housing Revenue Account

In order to ensure that in the medium term borrowing is only undertaken for capital purposes local authorities are required to ensure that net external borrowing does not exceed, except in the short term, the total of their capital financing requirement. In broad terms the capital financing requirement reflects an authority's need to borrow for capital purposes and is a measure of the assets contained on the balance sheet which have as yet not been fully financed, i.e. there is still some debt outstanding.

31st March 2023	**Target £m**	**Actual £m**
Housing Revenue Account	80	80
General Fund	105	86

The main reason for the reduction in the General Fund capital financing requirement is due to cumulative switch funding of £11m (£6.6m 2021/22 and £4.4m 2022/23) DLUHC grants which has reduced the need for prudential borrowing in addition to capital programme slippage.

d) **Estimates of capital expenditure split between the General Fund and the Housing Revenue Account**

2022/23	Target £m	Revised Capital Programme £m	Actual £m
Housing Revenue Account	23.1	20.0	17.3
General Fund	15.2	34.1	15.4

The main reasons for the differences between the Housing Revenue Account (HRA) and the General Fund (GF) are as follows:

i) HRA – Variance to revised capital programme largely due to weather and planning delays to Maun View and Warwick Close housing developments.
ii) GF – Underspends on Kirkby Leisure Centre (delays on demolition and new car park), Towns Fund Projects and Future High Street Fund projects (delays due to procurement issues and contractor availability), Purchase of Vehicles (electric vehicles delays caused by limitations of depot charging infrastructure) and In District Regeneration (lack of suitable properties available for purchase).

e) **Authorised Limit of external debt**

The Council is required to set an authorised limit for its total external debt, gross of investments and includes the need to borrow on a short-term basis to cover for temporary shortfalls in cash flow. The Authorised limit is set at a level which is approximate value of the funded capital programme plus the Capital Financing Requirement.

2022/23	Authorised Limit £m	Actual Borrowing £m
Borrowing	217	91

f) **Operational Boundary**

The operational boundary is based on the most likely or prudent but not worst-case scenario in relation to cash flow. The reason for the difference between the Operational and Actual Borrowing is due to the Authority using internal reserves e.g. the HRA to fund Capital Expenditure rather than borrowing.

2022/23	Operational Boundary £m	Actual Borrowing £m
Borrowing	188	91

2. Prudential Indicators for Prudence

a) **Interest rate exposure**

This indicator gives the following maximum levels of exposure to fixed and variable interest rate payments. Fixed interest loans charge the same amount of interest from the start of the loan until the loan is repaid. The interest payable for variable rate loans may change from the inception date to the maturity date. The target for fixed rate loans is set at the same level as the Authorised Limit whereas the target for variable rate loans is set at an amount which is 40% of the Authorised Limit.

Principal Outstanding 2022/23	**Target £'000**	**Actual £'000**
At Fixed Rates	217,000	72,536
At Variable rates	86,800	18,000

b) **Maturity Structure of fixed rate borrowing**

The Council has numerous fixed rate loans. It is prudent to ensure that these loans do not mature at the same time. Therefore, the Council has set lower and upper limits for the maturity of its fixed rate loans.

Maturity	**Lower Limit £'000**	**Upper Limit £'000**	**Actual 31st March 2023 £'000**
Less than 12 months	0	20,000	4,227
12 months to 24 months	0	20,000	1,227
24 months to 5 years	0	25,000	3,087
5 years to 10 years	0	50,000	11,695
10 year and over	10	100,000	70,300

Principal sums invested for more than 364 days

The below represents the maximum amount the Authority can invest with any institution. This is to reduce the potential exposure to the Authority should any institution become insolvent.

2022/23	**Limit £m**	**Actual £m**
Upper Limit	5	0