

## Annual Treasury Management Report 2022/23

**1. Introduction**

- 1.1. The council's treasury management activity is underpinned by CIPFA's Code of Practice on Treasury Management. Before the start of every year the Code requires local authorities to produce Prudential Indicators and a Treasury Management Strategy Statement detailing the policies and objectives of the council's treasury management activities for the forthcoming year. This outturn report compares actual activity to those policies and objectives.
- 1.2. The council borrows and invests substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of these risks are central to the treasury management strategy.

**2. Economic Background**

- 2.1. **Growth:** 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, the last year has been challenging. The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this was despite a net migration increase of c.500k. However, with many economic participants registered as long-term sick, the UK labour force shrunk by c.500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6%, the Bank of England UK Monetary Committee will be concerned that wage inflation will prove just as challenging as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.
- 2.2. **UK Monetary Policy:** The Bank Rate commenced the year at 0.75% in April. It then moved up in stepped increases of either 0.25% or 0.50%, to try to curb inflationary pressures, to reach 4.25% by the end of the financial year and there is the potential for a further one or two increases in 2023/24.
- 2.3. In February 2022 the Bank of England decided to not only start reversing Quantitative Easing (QE) by no longer reinvesting the proceeds from its maturing gilts in line with its previous guidance and in November 2022 it began selling the bonds it had purchased.
- 2.4. **Inflation:** The UK inflation rate continued to rise and, as at March 2023 the CPI was 10.1%, which was down from 10.4% in February, having peaked at 11.1% in October. Hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices with most commentators expecting the CPI measure of inflation to drop back towards 4% by the end of 2023.

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**3. Borrowing**

- 3.1. The council continues to choose to utilise accessing lower cost short-term loans from other local authorities, should it need to, rather than more expensive longer term debt due to the differential between short and longer-term interest rates. This policy is expected to continue in 2023/24 but should this differential decrease and short term borrowing costs increase, the council will begin securing additional fixed long term debt to fund its borrowing requirements.
- 3.2. In 2022/23 the council did not undertake any new borrowing. The weighted average interest rate paid on council borrowing was 3.95% (4.00% in 2021/22) reflecting the higher cost of older long term borrowing.
- 3.3. It is council strategy to maintain borrowing and investments below their underlying levels by using “internal borrowing”, utilising usable reserves. This maintains borrowing and investment balances to a minimum level, reducing interest cost and counterparty exposure risk.
- 3.4. The premium charged by the PWLB for the early repayment of PWLB debt remained too expensive for existing loans in the council’s portfolio to be repaid and rescheduled. No rescheduling activity was undertaken in 2022/23, this option will continue to be constantly considered.
- 3.5. Borrowing activity during the year is summarised below:

<b>Borrowing Activity in 2022/23</b>	<b>01/04/22 Balance £m</b>	<b>New Borrowing £m</b>	<b>Debt Maturing £m</b>	<b>31/03/23 Balance £m</b>
Short-term borrowing	0.0	0.0	0.0	0.0
Long-term borrowing	129.4	0.0	(6.8)	122.6
<b>TOTAL BORROWING</b>	<b>129.4</b>	<b>0.0</b>	<b>(6.8)</b>	<b>122.6</b>
Other long-term liabilities*	44.5	0.4	(4.9)	40.0
<b>TOTAL EXTERNAL DEBT</b>	<b>173.9</b>	<b>0.4</b>	<b>(11.7)</b>	<b>162.6</b>
<i>*Other long term liabilities represent existing commitments under PFI arrangements included in the medium term financial strategy</i>				

- 3.6. Total borrowing decreased by £6.8m representing repayments made during the year.
- 3.7. The council’s underlying need to borrow is measured by the Capital Financing Requirement (CFR). As at 31/03/2023 this totalled £304.4m. The difference of £141.8m between the CFR and total external debt shown in the table above represents internal borrowing from usable reserves, working capital balances and the outstanding loan balance with Mercia waste of £31.3m.

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3.8. The council's capital financing costs in 2023 were as follows;

<b>Capital financing costs for 2022/23:</b>	<b>Budget</b>	<b>Outturn</b>	<b>Over / (under) spend</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Minimum Revenue Provision</b> (provision for repayment of loan principal)	<b>9.7</b>	<b>9.2</b>	<b>(0.5)</b>
<b>Interest payable on all loans</b>	<b>5.2</b>	<b>5.0</b>	<b>(0.2)</b>
<b>TOTAL</b>	<b>14.9</b>	<b>14.2</b>	<b>(0.7)</b>

3.9. The underspend has arisen from a slippage in the capital investment budgeted spend in 2022/23.

#### 4. Investments

4.1. The council invests significant funds, representing income received in advance of expenditure plus balances and reserves. During 2022/23 the council's investment balances averaged at £91m and ranged from £54m in March 2023 to £107m in August 2022.

4.2. Security of capital remained the council's primary objective. Investment income remains slow to react to the changes in the interest rate environment.

4.3. Investments held at the start and end of the year were as follows:

<b>Investments</b>	<b>31/03/22 Balance £m</b>	<b>Investments Made £m</b>	<b>Maturities/ Withdrawals £m</b>	<b>31/03/23 Balance £m</b>
Instant Access Accounts	36.69	331.12	(349.71)	18.10
Notice Accounts	13.00	-	(3.00)	10.00
Fixed Term Deposits	30.00	90.50	(93.00)	27.50
<b>Total</b>	<b>79.69</b>	<b>421.62</b>	<b>(445.71)</b>	<b>55.60</b>
<b>Reduction in investments</b>				<b>(24.09)</b>

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4.4. There are a growing number of financial institutions promoting environmental, social and governance (ESG) issues. The council invested in the following ESG 'green' deposits during 2022/23:

Start Date	Counterparty	Investments Made £m	Interest Rate %	Term
	Barclays Green Deposit	5.0	0.80-4.30	95-day notice Account
04/10/2021	Standard Chartered Sustainable Deposit	5.0	0.19	182 days
04/04/2022	Standard Chartered Sustainable Deposit	5.0	1.46	183 days
04/10/2022	Standard Chartered Sustainable Deposit	5.0	4.23	182 days

4.5. Interest received during the year was as follows:

Month	Average amount invested		Average rate of interest earned		Interest earned £000	Budget £000	(Surplus) /deficit £000
	Actual £m	Budget £m	Actual %	Budget %			
Apr-22	86.9	40	0.64	0.01	45	-	(45)
May-22	89.9	40	0.82	0.01	62	-	(62)
Jun-22	90.3	40	0.97	0.01	72	-	(72)
Jul-22	101.6	40	1.12	0.01	97	-	(97)
Aug-22	99.3	40	1.46	0.01	123	-	(123)
Sep-22	92.7	40	1.70	0.01	129	-	(129)
Oct-22	96.7	40	2.16	0.01	177	-	(177)
Nov-22	98.3	40	2.77	0.01	224	-	(224)
Dec-22	88.1	40	3.05	0.01	217	-	(217)
Jan-23	94.1	40	3.31	0.01	264	-	(264)
Feb-23	88.2	40	3.71	0.01	251	-	(251)
Mar-23	63.0	40	3.94	0.01	211	-	(211)
<b>Outturn</b>					<b>1,872</b>	<b>-</b>	<b>(1,872)</b>

4.6. The interest received in the year was higher than the budget due to uncertainty post Covid-19. Interest rates dropped in response to the Covid-19 pandemic and then have risen following the Bank of England rate increases.

4.7. The average interest rate achieved during 2022/23 was 2.11%, higher than budgeted.

4.8. In addition to interest earned on balances interest has been accrued in relation to the energy from waste plant loan to Mercia Waste. This totalled £2.2m, the net loan position is set aside to fund increased waste disposal costs in future years.

**5. Compliance with Prudential Indicators**

5.1. The council complied with its Prudential Indicators, Treasury Management Policy Statement and Treasury Management Practices for 2022/23 as detailed in Annex 1. A prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield.

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## Annex 1

Performance Indicators**1. Treasury Management Indicators**

The council measures and manages its exposures to treasury management risks using the following indicators.

**1.1 Maturity Structure of Fixed Rate Borrowing**

This indicator is to limit large concentrations of fixed rate debt needing to be replaced at times of uncertainty over interest rates.

<b>Maturity Structure of Fixed Rate Borrowing</b>	<b>Lower Limit %</b>	<b>Upper Limit %</b>	<b>Actual Fixed Rate Borrowing 31/03/23 £m</b>	<b>% Fixed Rate Borrowing 31/03/23</b>
Under 12 months	0%	10%	<b>3.13</b>	<b>3%</b>
12 months and within 24 months	0%	10%	<b>6.94</b>	<b>6%</b>
24 months and within 5 years	0%	25%	<b>17.77</b>	<b>14%</b>
5 years and within 10 years	0%	35%	<b>21.44</b>	<b>17%</b>
10 years and above	0%	80%	<b>73.29</b>	<b>60%</b>
<b>Total</b>			<b>122.57</b>	<b>100%</b>

Two LOBO (“Lenders Option then Borrowers Option”) bank loans of £6m each are repayable in 2054 however if the lenders seek to increase the interest rate charged, currently 4.50%, the council has the opportunity to repay the loans.

**1.2 Upper Limit for Total Principal Sums Invested Over 364 Days**

The purpose of this limit is to contain exposure to the possibility of financial loss that may arise as a result of the council having to seek early repayment of the sums invested.

<b>Upper Limit for Total Principal Sums Invested Over 364 Days</b>	<b>2022/23 Approved £m</b>	<b>2022/23 Actual £m</b>	<b>2023/24 Estimate £m</b>	<b>2024/25 Estimate £m</b>
<b>Total</b>	<b>5</b>	<b>0</b>	<b>5</b>	<b>5</b>

During 2022/23 no long-term investments were made for a period exceeding 364 days.

**2. Prudential Indicators****2.1 Estimates of Capital Expenditure**

This indicator is set to ensure that the level of proposed capital expenditure remains within sustainable limits and, in particular, to consider the impact on council tax.

Capital expenditure has been and is expected to be financed or funded as follows:

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Capital Financing	2022/23		2023/24 Estimate £000	2024/25 Estimate £000	2025/26 Estimate £000
	Estimate £000	Actual £000			
Capital grants	43,590	31,609	66,573	57,400	16,026
Capital receipts	2,655	4,571	13,557	15,362	2,932
Prudential borrowing	20,751	9,980	26,729	24,998	28,453
<b>Total</b>	<b>66,996</b>	<b>46,160</b>	<b>106,859</b>	<b>97,760</b>	<b>47,411</b>

Generally prudential borrowing finance is provided where the return on the investment exceeds the debt financing cost.

### 3. Capital Financing Requirement (CFR)

Estimates of the council's cumulative maximum external borrowing requirement for 2022/23 to 2024/25 are shown in the table below:

Capital Financing Requirement	2022/23 Estimate Approved £000	2022/23 Actual £000	2023/24 Estimate £000	2024/25 Estimate £000
<b>Total CFR</b>	<b>366,552</b>	<b>304,444</b>	<b>345,299</b>	<b>356,623</b>

Total debt is expected to remain at or below the CFR during the forecast period.

### 4. Authorised Limit and Operational Boundary for External Debt

The Local Government Act 2003 requires the council to set an Affordable Borrowing Limit or Authorised Limit. This is a statutory limit which should not be breached.

The Operational Boundary is based on the same estimates as the Authorised Limit but reflects the most likely, prudent but not worst-case scenario without the additional headroom included within the Authorised Limit.

	2022/23 Approved Operational Boundary £m	2022/23 Approved Authorised Limit £m	Actual External Debt as at 31/03/23 £m
Borrowing	340.0	350.0	122.6
Other Long-term Liabilities	60.0	70.0	40.0
<b>Total</b>	<b>400.0</b>	<b>420.0</b>	<b>162.6</b>

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**5. Ratio of Financing Costs to Net Revenue Stream**

This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

<b>Ratio of Financing Costs to Net Revenue Stream</b>	<b>2022/23 Approved %</b>	<b>2022/23 Actual %</b>
Net Revenue Stream	175,908	181,467
Financing Costs	14,868	14,104
<b>Percentage</b>	<b>8.5%</b>	<b>7.8%</b>

**6. Adoption of the CIPFA Treasury Management Code**

This indicator demonstrates that the council has adopted the principles of best practice.

The council has incorporated the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes 2021* into its treasury policies, procedures and practices.