



Policy, Finance and Development Committee	Tuesday, 27 June 2023	Matter for Information
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Report Title: **Treasury Management Annual Report 2022/23**

Report Author(s): **Bev Bull (Head of Finance / Deputy S151 Officer)**

Purpose of Report:	This report details the performance and activities of the authority's treasury management function for the financial year 2022/23.
Report Summary:	Treasury management is defined as the management of the organisation's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks.
Recommendation(s):	That the Committee note the content of the report and appendices.
Senior Leadership, Head of Service, Manager, Officer and Other Contact(s):	<p>Bev Bull (Head of Finance / Deputy S151 Officer) (0116) 257 2649 bev.bull@oadby-wigston.gov.uk</p> <p>Rashpal Sohal (Finance Manager) (0116) 257 2705 rashpal.sohal@oadby-wigston.gov.uk</p> <p>Simon Ball (Senior Business Partner) (0116) 257 2624 simon.ball@oadby-wigston.gov.uk</p>
Strategic Objectives:	Our Council (SO1)
Vision and Values:	"Our Borough - The Place To Be" (Vision) Proud of Everything We Do (V2) Collaborative and Creative (V3) Resourceful & Resilient (V4)
Report Implications: -	
Legal:	There are no implications arising from this report.
Financial:	The implications are as set out in this report.
Corporate Risk Management:	Decreasing Financial Resources / Increasing Financial Pressures (CR1) Reputation Damage (CR4) Regulatory Governance (CR6)
Equalities and Equalities Assessment (EA):	There are no implications arising from this report. EA not applicable
Human Rights:	There are no implications arising from this report.
Health and Safety:	There are no implications arising from this report.

Statutory Officers' Comments: -	
Head of Paid Service:	The report is satisfactory.
Chief Finance Officer:	The report is satisfactory.
Monitoring Officer:	The report is satisfactory.
Consultees:	None.
Background Papers:	None
Appendices:	1. Schedule of PWLB Loans (2022/23) 2. List of Investments (2022/23) 3. Investment Strategy (2022/23)

1. Introduction

- 1.1 The Treasury Management Strategy and Statement is approved by Council prior to the commencement of the financial year, and subsequently, the Treasury Management Annual Report provides Members with a summary of actual activity during the year 2022/23. The report is required to comply with both the "Code of Practice on Treasury Management in Local Government" and the Council's own Treasury Management Policy Statement.
- 1.2 The Code requires the Section 151 Officer to ensure that the treasury management function operates in accordance with treasury management practices adopted by Council. There are no issues of non-compliance with these practices that need to be brought to Member's attention.
- 1.3 Under the Prudential Code for Capital Finance, the Council is required to prepare a number of prudential indicators against which treasury management performance is to be measured.
- 1.4 The details of all borrowing and investment transactions for 2022/23, together with the performance of the treasury management function against prudential indicators are given below.

2. Borrowing

- 2.1 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required. During the year the Council has continued to manage its borrowing needs through short-term borrowing.
- 2.2 The borrowing position as at 31st March 2023 and the year-on-year change is shown in Table 1 below:

Table 1 – Borrowing Summary 2022/23

	31/03/2022 Balance £m	2022/23 Movement £m	31/03/2023 Balance £m
Long-term borrowing	19.155	-1.092	18.063
Short-term borrowing	18.506	-2.500	16.006
Total borrowing	37.661	3.592	34.069

A detailed breakdown of all borrowing is provided at **Appendix 1:**

- 2.3 **Long Term** - The Authority can borrow on a long-term basis from the Public Works Loans Board (PWLB). At the beginning of the year the value of the outstanding loans was £19.155m, comprising £14.089m relating to the HRA, and £5.066m relating to the general fund. £86k of principle was repaid in year, with £1.006m of long-term borrowing reclassified to short term borrowing, as the time to maturity fell under 365 days, and no additional long-term borrowing was undertaken, leaving the balance at £18.063m.
- 2.4 **Short Term** (Less than 365 days in duration) - At the beginning of the year the value of the outstanding short term loans was £18.506m, comprising of £1.006m PWLB loans reclassified to short-term and £17.5m of loans with other counterparties, during the year these were all repaid, and new short term borrowing of £15m has been undertaken and a further £1.006m of long term borrowing has been reclassified to short-term, as the time until maturity now falls within 365 days, giving the total short-term borrowing balance at £16.006m.

Cost of Borrowing

- 2.5 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.
- 2.6 The Interest paid on all loans during 22/23 is shown in Table 2 below:

Table 2 – Interest paid on loans during 2022/23

Loan £000's	Loan Type	Maturity Date	Interest Rate	Interest £000's
500	Long Term	29/03/2052	4.10	21
4,566	Long Term	30/06/2055	2.66	121
14,089	Long Term	Various	2.98*	446
1,006	Short Term	28/03/2024	2.70	27
3,000	Short Term	27/02/2023	0.38	11
4,500	Short Term	27/02/2023	0.40	22
5,000	Short Term	03/08/2022	0.28	7
5,000	Short Term	31/10/2022	0.85	27
2,000	Short Term	09/09/2023	1.5	25
8,000	Short Term	24/01/2024	4.10	40
5,000	Short Term	26/02/2024	4.20	19
			TOTAL	766

* Average Interest rate for loans

3. Investments

3.1 During 2022/23, the Council was in a position where it often had temporary cash surpluses to invest. When considering investments, the Council must consider the following factors;

- Security – the Authority has a counterparty list, based on credit ratings, within its Investment Strategy that is approved prior to the commencement of the financial year. The current list and basis of approval is attached at Appendix 3;
- Liquidity – because of the fluctuation of cash flows, there is always a need to have a mix of investments that are realisable when required;
- Yield – probably the least important consideration as often higher yields mean greater risks.

Given the current economic climate, and the attendant volatility and uncertainty in the financial markets, security must be the most important factor of the three listed above.

3.2 For 2022/23 surplus cash was invested in the following ways.

Special Interest-Bearing Account – This account is held with National Westminster Bank plc. It can be used for deposits up to £5 million and presently pays interest at 1.35%.

Money Market Deposits – Used for larger amounts, up to £1.5 million. The list of institutions approved for investment was agreed at Committee on 1 February 2022 and is included again for reference in **Appendix 3**. The investments fall into two categories;

- Money on Call – These investments run for a minimum of 7 days after which they can be recalled at any time. Interest rates are variable and can fluctuate during the life of the investment;
- Fixed Deposits – Investments which mature at a pre-arranged date. The interest rate is fixed for the life of the investment.

The total interest received for the year to 31 March 2023 on temporary investments amounted to £92,168 (2021/22 £7,512). A summary of the total amount invested in 2022/23 is given at **Appendix 2**.

4. Prudential Indicators

4.1 The Local Government Act 2003 requires Councils to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators which provide the basis for management and monitoring of borrowing and investments. These indicators were agreed by Council on 24 February 2022.

4.2 **The Capital Financing Requirement (CFR)** – This represents the Council's underlying need to borrow for capital purposes, based on the cumulative value of

capital expenditure not fully paid for. The CFR will change year on year in accordance with the value of capital spending.

- 4.3 The key control over treasury activities is to ensure that over the medium term, net borrowing will only be for capital purposes. The Authority must ensure that net external borrowing does not, except for short periods, exceed the total of the CFR. A comparison of the estimate against the actuals is shown in Table 3 below.

Table 3 – Borrowing and CFR 2022/23

	2022/23 Original Estimate £000's	2022/23 Revised Estimate £000's	2022/23 Actuals £000's
Gross Borrowing	38,069	34,069	34,069
Investments	0	0	0
Net Borrowing 31st March	38,069	34,069	34,069
Total CFR 31st March	38,967	40,145	39,720

The Section 151 Officer reports that the Council complied with the requirement to keep borrowing below the relevant CFR in 2022/23 and no difficulties are foreseen for the current or future years.

- 4.4 **Borrowing Levels** – The following two indicators control the overall level of borrowing;

- **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003;
- **The Operational Boundary** – This indicator is based on the probable external debt during the year. It is not a limit and actual borrowing could vary around the boundary for short times during the year. It should act as a barometer to ensure the authorised limit is not breached;
- **The actual borrowing compared to the Authorised and Operational limits agreed by Council are shown in Table 4.**

Table 4 – Authorised Limit and Operational Boundary 2022/23

	2022/23 Original Limit £000's	2022/23 Revised Limit £000's	2022/23 Actual (Max) £000's
Authorised Limit	48,000	48,000	34,069
Operational Boundary	43,000	43,000	34,069

- 4.5 This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue

account subsidy, Council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time. The indicator is shown in Table 5:

Table 5 – Ratio of Financing Costs to Net Revenue Stream 2022/23

	2022/23 Original Estimate %	2022/23 Revised Estimate %	2022/23 Actual %
General Fund	11.3	11.3	11.8
HRA	10.1	10.1	9.9

- The above indicator shows that within the General Fund, financing costs are equivalent to 11.8% of the net revenue income. The actual ratio is above the estimated position due to the net revenue and financing costs being greater than estimated.
- In the case of the HRA the net interest payable is equivalent to 9.9% of the net revenue income. This was almost in line with estimate as the HRA finance is long term, and the interest rates are fixed.

4.6 Limits on Activity – The following indicators constrain the activity of the treasury function to within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council’s overall financial position.

- **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum limit for variable interest rates;
- **Maturity Structures of Borrowing** – These gross limits are set to reduce the Council’s exposure to large, fixed rate sums falling due for refinancing;
- **Total Principal Funds Invested for longer than a year** – This limit is set to reduce the need for early sale of investments and is based on the availability of investments after each year-end. The Council has no sums invested for longer than a year.

(Continued overleaf)

Table 6 – Interest Rate Exposure and Maturity Structure of Borrowing 2022/23

	2022/23 Original Indicators		2022/23 Revised Indicators		2022/23 Actual Maturity Structure	
	%		%		%	
Fixed Interest Rates Limit	100		100		100	
Variable Interest Rates Limit	100		25		0	
Maturity Structure of Borrowing	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 Months	0	50	0	50	0	47
12 Months to 2 Years	0	50	0	50	0	3
2 Years to 5 Years	0	50	0	50	0	9
5 Years to 10 Years	0	100	0	100	0	15
10 Years & Above	0	100	0	100	0	26

The Prudential Code requires indicators to be set for the maturity structure of fixed borrowings only.