Audit, Governance & Standards Committee	24 July 2023

Treasury Management Annual Review 2022/23

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Adrian Lovegrove – Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

The Chartered Institute of Public Finance and Accountancy's Treasury Management Code requires that authorities report on the performance of the treasury management function at least twice a year (at mid-year and year-end).

Council has delegated the role of considering these reports to the Audit, Governance and Standards Committee. This report sets out the activities of the Treasury Management function for 2022/23 financial year.

Purpose of Report

This report requires noting from the Committee.

This report makes the following recommendations to this Committee:

1. That the review of the financial year 2022/23 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted.
2. That no amendments to the current treasury management procedures are necessary as a result of the review of activities in 2022/23.

Timetable	
Meeting	***Date***
Audit, Governance & Standards Committee	24 July 2023

Treasury Management Annual Review 2022/23

1. CROSS-CUTTING ISSUES AND IMPLICATIONS

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management Function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the strategic plan objectives.	Head of Finance
Cross Cutting Objectives	The report recommendations support the achievements of all the cross cutting objectives in the way stated above.	Head of Finance
Risk Management	Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2022/23 report. This report is purely for information purposes and has no risk management implications.	Head of Finance
Financial	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer & Finance Team
Staffing	None.	Head of Finance
Legal	Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management. The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.	Interim Team Leader (Contentious and Corporate Governance)
Privacy and Data Protection	None.	Policy and Information Team
Equalities	The report is for noting and contains no recommendations that would propose a change in service, therefore no equalities impact assessment will be required.	Equalities & Communities Officer

Public Health	None.	Public Health Officer
Crime and Disorder	None.	Head of Finance
Procurement	None.	Head of Finance & Section 151 Officer
Biodiversity and Climate Change	There are no implications on biodiversity and climate change.	Biodiversity and Climate Change Officer

2. INTRODUCTION AND BACKGROUND

2.1 This 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).

2.1.1 The Treasury Management Strategy Statement (TMSS) for 2022/23 states the reporting requirements for the following reports:

- an annual treasury strategy in advance of the year (Full Council 23rd February 2022)
- a mid-year treasury update report (Audit, Governance & Standards Committee 16th January 2023)
- an annual review following the end of the year describing the activity compared to the strategy (Audit Governance & Standards Committee - this report).

In addition, the Council has received quarterly treasury management update reports on the following dates 14/09/2022, 16/11/2022, 06/02/2023 and 14/06/2023, which were received by the Corporate Services Policy Advisory Committee.

2.1.2 This report sets out the activities of the treasury management function for the 2022/23 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities. It also sets this in the context of the economic environment over the past 12 months.

2.1.3 The Authority has invested 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 risk are therefore central to the Authority's treasury management strategy.

2.1.4 The Authority's Treasury Management Strategy Statement for 2022/23 was approved by full Council on 23rd February 2022. The key elements of the Strategy are:

- Increase counterparty investment limits with highly rated institutions due to additional funding of COVID-19 grants received from Central Government in 2022/23;

- To utilise cash balances, as far as possible, rather than loan debt to finance the capital programme in the short term, due to the low investment returns and high counterparty risk in the current economic climate; and

- Further diversify its portfolio, as far as is operationally feasible, ensuring that a combination of secured and unsecured investments is considered. Greater use of local authority investments will be used where the borrowers offer a high level of security.

2.2 Economic Overview

2.2.1 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the Consumer Price Index (CPI) measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

2.2.2 The UK economy has now opened up and nearly back to business-as-usual, the Gross Domestic Product (GDP) numbers have been robust (9% year on year Q1 2022) and sufficient for the MPC to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% in March 2022. CPI was 9.1% in May 2022 and is looking to increase further during 2022.

2.2.3 Public Works Loans Board (PWLB) rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession. From 1st April 2022, employees will pay 1.25% more in National Insurance tax. Consequently, inflation will be a bigger drag on real incomes in 2022 than in any year since records began in 1955.

2.2.4 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

2.3 Investment Activity

2.3.1 The CIPFA Code and Guidance on Local Government Investments in England gives priority to security and liquidity and the Authority's aim is to achieve a yield commensurate with these principles. The Council has adhered to these principles during 2022/23.

2.3.2 The Authority has held invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2022/23 the Authority's investment balances have ranged between £5.5m and £47.8m. The average investment balance for the year was £30.19m which is lower than the 2021/22 average balance of £44.5m. This shows the Council are using its reserves in 2022/23 as capital expenditure starts to increase. The Council held investments totalling £8.54m as at 31st March 2023. This final investment balance is less than the previous year due to the influx of Government grant funding, which has since been repaid. A full list of the investments can be found within **Appendix A**.

2.3.3 Investment income for the year totalled £590.9k. Rates had improved throughout the year as the Bank of England Base Rate has hiked up throughout the year. All investments have been kept short term (less than one year) for liquidity purposes with a maximum duration of 6 months. The average rate of investments during the year was 2.21%.

2.3.4 The Council has invested its funds within the parameters set within the Treasury Management Strategy for 2022/23.

2.4 Borrowing Activity

2.4.1 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as this reduces cost of carry and minimises counterparty risk on placing investments.

2.4.2 The Council started the year with £9m of short-term loan debt funded by other local authorities and long term PWLB borrowing. £18.5m of new loans were required for liquidity and maturity refinancing throughout the year. The total amount of loan debt as at 31st March 2023 was £10m, which a full list of can also be found in **Appendix A**.

2.4.3 Due to the economic climate of rising interest rates and the need for future borrowing to fund the existing 5 year capital programme, the Council has entered into an agreement to forward borrow of £80m with Aviva Life and Pensions UK Limited. The funds will be available within 2023/24 (£40m), 2024/25 (£20m) and 2025/26 (£20m). The rates for these were secured at 2.89% over a 50 year term. 50 year rates with PWLB rates are currently at 3.25%. A list of these can also be found in Appendix A under "Committed Borrowing".

2.4.4 The Council has borrowed funds within the parameters set within the Treasury Management Strategy for 2022/23.

2.5 <u>Prudential and Treasury Indicators</u>

2.5.1 The Local Government Act 2003 requires the Authority to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Authority has fulfilled these objectives, the Prudential Code sets out the indicators that must be set and monitored each year.

2.5.2 The Council has operated within its Prudential and Treasury Indicators set out in the Treasury Management Strategy 2022/23 and in compliance with the Council's Treasury Management Practices. The Prudential and Treasury Indicators can be found in **Appendix B**.

2.6 <u>Compliance Report</u>

2.6.1 The Director of Finance & Business Improvement can confirm that all treasury management activities undertaken during 2022/23 complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

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3. AVAILABLE OPTIONS

3.1 The Audit, Governance and Standards Committee agrees that that the review of the financial year 2022/23 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted and that no amendments to the strategy are required in consequence.

3.2 The Audit, Governance and Standards Committee could propose changes to the current procedures as a result of the review of activities in 2022/23.

4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

4.1 The Audit, Governance and Standards Committee agrees that that the review of the financial year 2022/23 in accordance with CIPFA's Code of Practice on Treasury Management along with the prudential and treasury indicators is noted and no amendments to the strategy are required as there is no justification to make any changes.

5. RISK

5.1 Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2020/21 report. This report is purely for information purposes and has no risk management implications.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

6.1 None.

7. REPORT APPENDICES

The following documents are to be published with this report and form part of the report:

- Appendix A: List of Investments and Borrowing as at 31st March 2023.
- Appendix B: Prudential and Treasury Indicators.

8. BACKGROUND PAPERS

8.1 None.