Report of the Portfolio Holder for Resources and Personnel Policy

TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS ANNUAL REPORT FOR THE YEAR ENDED 31 MARCH 2023

1. Purpose of report

To inform Members of the Treasury Management activity and the actual Prudential Indicators for 2022/23.

2. Recommendation

Cabinet is asked to NOTE the Treasury Management and Prudential Indicators Annual Report for the year ended 31 March 2023.

3. Detail

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both Codes through regulations issued under the Local Government Act 2003.

During 2022/23 the minimum reporting requirements were that an annual Treasury Management strategy be approved in advance of the year, a mid-year report and finally an annual report be produced following the year describing the activity compared to the strategy. This report fulfils this requirement.

The CIPFA Code of Practice on Treasury Management requires the Deputy Chief Executive to operate the Treasury Management function in accordance with the Treasury Management Strategy approved by the former Finance and Resources Committee on 10 February 2022 and Council on 2 March 2022. Details of all borrowing and investment transactions for 2022/23 together with the balances at 31 March 2023 and Treasury Management limits on activity are also provided in appendix 1. All Treasury Management activities undertaken during the year complied fully with the CIPFA Code of Practice on Treasury Management and the approved Treasury Management strategy.

Under the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council is required to prepare a number of Prudential Indicators against which Treasury Management performance should be measured. Performance against the Prudential Indicators is given in appendix 2.

The CIPFA Prudential Code for Capital Financing in Local Authorities was revised in December 2021 and introduced a requirement for the production of a Capital Strategy. This is considered alongside the Treasury Management Strategy Statement and the Investments Strategy by this Committee as part of the Budget Proposals and Associated Strategies report each year before being presented to full Council for approval in March.

4. Financial Implications

The comments from the Head of Finance Services were as follows:

This report meets the requirements of the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. All Treasury Management activities undertaken during the year complied fully with the CIPFA Code of Practice on Treasury Management and the approved Treasury Management Strategy. Further comments are incorporated in the narrative in the executive summary and appendices.

5. Legal Implications

The comments from the Head of Legal Services and Deputy Monitoring Officer were as follows:

Treasury Management activities have to conform to the Local Government Act 2003, the Local Authorities (Capital; Finance and Accounting) (England) Regulations 2003 (SI 2003/3146), which specifies that the Council is required to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice and also the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414), which clarifies the requirements of the Minimum Revenue Provision guidance. This report demonstrates compliance with the legislative framework.

6. Human Resources Implications

There were no comments from the Human Resources Manager.

7. Union Comments

There were no comments from UNISON.

8. Data Protection Compliance Implications

There are no Data Protection issues in relation to this report.

9. Equality Impact Assessment

As there is no change to policy an equality impact assessment is not required.

10. Background Papers

Nil

APPENDIX 1

TREASURY MANAGEMENT ACTIVITY 2022/23

1. Borrowing

a) Debt Outstanding and Transactions during the Year

The amount of loan debt outstanding as at 31 March 2023, together with comparative figures for 31 March 2022, is summarised in the table below:

	Amount Outstanding at 31-Mar-22 £	Amount Outstanding at 31-Mar-23 £
Short Term Loans	10,058,236	7,843,866
Long Term Loans:		
Public Works Loan Board	82,643,348	77,230,304
Local Authorities	0	0
Barclays Bank	3,000,000	3,000,000
TOTAL	**95,701,584**	**88,074,170**

This level of borrowing can be considered in the context of the assets held by the Council. The last valuation used for the Balance Sheet on 31 March 2023 showed that the Council held fixed assets with a total value of £263.3m. This included General Fund assets at £39.3m and Housing Revenue Account (HRA) assets at £224.0m. This compares favourably with the debt portfolio totalling £88.1m as at 31 March 2023.

The Local Government Act 2003 requires local authorities to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out its capital budgeting and treasury management activities. The objectives of the Prudential Code are to ensure that local authority ***capital investment plans are affordable, prudent and sustainable***. Fundamental to this is the calculation of prudential indicators, which provide the basis for managing and monitoring capital expenditure, borrowing and investments. These indicators are considered further below at appendix 2.

b) Short Term Loans

The movement in short term loans from other local authorities during the year is set out in the table below:

Lender	Balance at 31-Mar-22 £’000	Start Date	End Date	Rate %	Balance at 31-Mar-23 £’000
Vale of Glamorgan Council	2,000	24-Mar-22	22-Dec-22	0.95	-
Bedford Borough Council	1,000	28-Mar-22	28-Jun-22	0.75	-

Lender	Balance at 31-Mar-22 £'000	Start Date	End Date	Rate %	Balance at 31-Mar-23 £'000
Nottingham City Council	2,000	28-Mar-22	28-Sep-22	0.85	-
TOTAL	**5,000**				**0**

Short term loans outstanding at 31 March 2023 included £429,559 invested with the Council by the Bramcote Crematorium Joint Committee. The equivalent figure was £544,078 as at 31 March 2022.

Short term loans outstanding at 31 March 2023 also include nominal PWLB annuities totalling £14,306. The equivalent figure at 31 March 2022 was £12,985.

c) Long Term Loans

The majority of the loans from the PWLB is comprised of the £61.446m borrowed on 28 March 2012 as part of the reform of council housing finance.

New long-term loan received from the PWLB in 2022/23 was comprised of £2.0m borrowed on 20 March 2023.

There is a movement of £7.4m in the long term PWLB loans which reflects the re-classification of long-term loans to short term at 31 March 2023 as they will be repaid within the next 12 months.

The Council also has a loan of £3.0m at 4.19% with Barclays Bank that is due to mature on 4 February 2073.

d) Borrowing Strategy 2022/23

Overall, debt was kept under review in order to match the level of borrowing with the financing requirement for assets, based on analysis of the Council's balance sheet with the aim of maintaining the Council's borrowing at the most efficient level in line with the Prudential framework for capital finance.

The approved budget for 2022/23 indicated that further borrowing of £4.436 million would be required to help finance the 2022/23 capital programme. A total of £2.0 million of additional borrowing was actioned with the potential need for additional funds re-profiled in line with a revised capital programme in the medium term.

e) Debt Profile

The Council's debt had an average of 8.41 years to maturity at 31 March 2023, compared to 8.00 years on 31 March 2022. The average interest rate payable in the year was 3.22% (2021/22 3.07%).

The one-off preferential rates offered by the PWLB for the £66.446m additional loans taken out in March 2012 continue to have a substantial impact upon both the average interest rate payable and the debt profile.

f) Debt Restructuring

The Deputy Chief Executive and Section 151 Officer, in association with the Council's Treasury Management advisors, carefully scrutinises the Council's loan portfolio to identify potential opportunities to achieve a reduction in risks and/or savings in interest costs by prematurely repaying loans and refinancing them on similar or different terms.

No suitable debt restructuring opportunities were identified in 2022/23 as the cost associated with premiums payable on the premature repayment of loans, ranging from 5% to 97% of the loan principal amount, could not be offset by lower refinancing rates.

2. Investments

a) Investment Policy

The Council's investment policy is governed by guidance from Central Government, which was implemented in the Investment Strategy approved at the Finance and Resources Committee meeting on 10 February 2022 and then by Council on 2 March 2022. This gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles. The investment activity during 2022/23 conformed to the approved strategy with security of capital being the Council's main investment objective.

Counterparty credit quality was assessed and monitored with reference to credit ratings and other available information. The minimum long-term counterparty credit rating determined for the 2022/23 investment strategy was the Long Term A- (or equivalent) rating from the Fitch, Moody's and Standard and Poor credit rating agencies.

In keeping with Central Government guidance, the Council sought to maintain a sufficient level of liquidity through the use of money market funds (MMF) and overnight deposit and call accounts. The Council had no liquidity difficulties in 2022/23.

b) Interest Received

The total interest receivable for the year amounted to £655,042 (compared to £221,882 in 2021/22). This includes the following long-term investments of:

- Interest of £80,307 from a £2 million investment in the CCLA Local Authorities Property Fund (LAPF) (£73,053 2021/22)
- Interest of £58,488 from a £2 million investment in the CCLA Diversified Income Fund (£50,716 2021/22)

- Interest of £77,359 from a £2 million investment in the Ninety-One Diversified Income Fund (£72,193 2021/22).

The table in 3d) includes details of the changes in the average life of investments during 2022/23.

The average interest rate received on investments in 2022/23 was 2.33% (1.26% in 2021/22). The United Kingdom bank rate increased a number of times during the year 2022/23, ranging from 1.00% in May 2022 to 4.25% in March 2023, (remained at 0.75% during 2021/22) which was reflected in short-term money market rates with a corresponding impact on investment income. The rates of return on investments also continues to reflect the priorities of security and liquidity before yield.

c) Investments Placed

A summary of all investments placed in 2022/23 is set out below.

	Average Credit score	Balance at 01-Apr-22 £000s	Investment Made £000s	Investment Repaid £000s	Balance at 31-Mar-23 £000s	Increase/ (Decrease)
UK Banks and Building Societies						
Santander UK	A+	-	28,080	(28,080)	-	-
Bank of Scotland	A+	-	3,430	(3,430)	-	-
Local Authorities	A+	-	-	-	-	-
Money Market Funds						
Aberdeen	AAA	5,000	2,660	(7,660)	-	(5,000)
Legal & General (LGIM)	AAA	-	33,606	(33,606)	-	-
Federated	AAA	1,730	17,580	(19,310)	-	(1,730)
Public Sector Deposit Fund	AAA	5,000	-	(410)	4,590	(410)
Other Funds						
Royal London Enhanced Cash Plus Fund	AA	2,000	-	-	2,000	-
Ninety One Diversified Income Fund	AA	2,000	-	-	2,000	-
CCLA Diversified Income Fund	AA	2,000	-	-	2,000	-
CCLA Property Fund	AA	2,000	-	-	2,000	-
Total		**19,730**	**85,356**	**(92,496)**	**12,590**	**(7,140)**

Investments with counterparties such as the Money Market Funds are set up as individual accounts where funds can be placed short-term (often overnight) and monies withdrawn as and when required. This increases the volume and value of investments made with these institutions during the year.

Money Market Fund credit ratings are indicative only due to the disparate investment strategies utilised by the funds.

d) Credit Score Analysis

Counterparty credit quality has been maintained in accordance with the approved Treasury Management Strategy. No investments were made with institutions where the credit rating exceeded a score of 7. All deposits were made with institutions achieving an average score of 5 or better.

Long-Term Credit Rating	Score
AAA	1
AA+	2
AA	3
AA-	4
A+	5
A	6
A-	7
BBB+	8
BBB	9
BBB-	10

3. Treasury Management Limits on Activity

There are four Treasury Management Indicators that were previously Prudential Indicators. The Indicators are:

- Upper limits on fixed rate exposure – This indicator identifies a maximum limit for fixed interest rates based upon the debt position net of investments.
- Upper limits on variable rate exposure – Similar to the previous indicator this covers a maximum limit on variable interest rates.
- Maturity structures 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.
- Total principal funds invested for periods longer than one year – These limits aim to reduce the risk of long-term investments needing to be realised before their natural maturity dates due to cash flow requirements, which could result in the investment being realised when market conditions are unfavourable.

The purpose of these Indicators is to contain the activity of the Treasury function within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

	2022/23 Planned Upper		2022/23 Actual 31-Mar-23	
Limits on fixed interest rates	100%		92%	
Limits on variable interest rates	40%		8%	
Maturity Profile of Borrowings	Lower	Upper	Lower	Upper
Under 12 months	0%	50%	0%	8%
12 months to 2 years	0%	50%	0%	9%
2 years to 5 years	0%	50%	0%	30%
5 years to 10 years	0%	75%	0%	41%
10 years to 20 years	0%	100%	0%	2%
20 years to 30 years	0%	100%	0%	6%
30 years to 40 years	0%	100%	0%	0%
40 years to 50 years	0%	100%	0%	3%
50 years and above	0%	100%	0%	0%

The CIPFA Prudential Code for Capital Finance in Local Authorities requires Indicators to be set for the maturity structure of fixed borrowing only. The above limits applied equally to total borrowing (fixed and variable borrowing).

As suggested in the CIPFA Code of Practice on Treasury Management, all investments (whether fixed or variable rate) with a period of less than twelve months to maturity are regarded as variable rather than fixed rate investments as they are potentially subject to movements in interest rates when they mature. Likewise, any fixed rate borrowing that is due to mature within twelve months is regarded as being at a variable rate as the rate to be paid on any replacement loan could differ from the rate currently being paid.

With regard to the total principal funds invested, the investment strategy 2022/23 proposed that investments would only be made with those institutions on the counterparty list that were viewed as presenting the least risk.

At 31 March 2023 the Council’s investments with a duration more than one-year totalled £8 million. This consisted of £2 million invested in the Royal London Enhanced Cash Plus Fund; £2 million in the CCLA Local Authorities Property Fund (LAPF); £2 million in the CCLA Diversified Income Fund; and £2 million in the Ninety-One Diversified Income Fund.

4. Regulatory Framework, Risk and Performance

The Council has complied with all of the relevant statutory and regulatory requirements which require the Council to identify and, where possible, quantify the levels of risk associated with its Treasury Management activities. In particular, the Council's adoption of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities means that its capital expenditure is prudent, affordable and sustainable and that its Treasury Management practices demonstrate a low risk approach.

5. Money Market Brokers

The Treasury Management Strategy Statement 2022/23 to 2024/25 approved by Finance and Resources Committee on 10 February 2022 and by Council on 02 March 2022 included details of the external money market brokers to be used by Treasury Management.

- Tradition (UK) Limited of Beaufort House, 15 St Botolph Street, London EC3A 7QX
- Sterling International Brokers of 1 Churchill Place, Canary Wharf, London. E14 5RD
- Martins Brokers (UK) Limited of 20th Floor, 1 Churchill Place, Canary Wharf, London E14 5RD
- King and Shaxson Limited of 6th Floor, 120 Cannon Street, London. EC4N 6AS
- Imperial Treasury Services of 25 St Andrew Street, Hertford. SG14 1HZ

APPENDIX 2

PRUDENTIAL INDICATORS 2022/23

1. Introduction

The Local Government Act 2003 requires local authorities to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities when carrying out their capital budgeting and Treasury Management activities. Fundamental to this is the calculation of a number of Prudential Indicators, which provide the basis for the Management and monitoring of capital expenditure, borrowing and investments. The Indicators are based on the Council's planned and actual capital spending.

2. Capital Expenditure and Financing 2022/23

The Council undertakes capital expenditure on assets which have a long term value. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) which has no resulting impact upon the Council's borrowing need; or

- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

Actual capital expenditure forms one of the required Prudential Indicators. The table below shows the actual capital expenditure and how this was financed.

	2021/22 Actual £000s	2022/23 Actual £000s
General Fund	5,411	5,208
HRA	8,767	8,687
Total Capital Expenditure	**14,178**	**13,895**
Financed by:		
Capital Receipts	1,200	829
Capital Grants	959	2,527
Revenue	2,087	1,786
Unfinanced Capital Expenditure	**9,932**	**8,753**

Further details of capital expenditure are included in the Statement of Accounts Update and Outturn Position 2022/23 report elsewhere on this agenda.

3. The Council's Overall Borrowing Need

The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position and represents net capital expenditure in 2022/23 and prior years that has not yet been paid for by revenue or other resources.

Part of the Council's Treasury Management activity seeks to address this borrowing need, either through borrowing from external bodies or utilising temporary cash resources within the Council.

Whilst additional borrowing can be undertaken or existing loans repaid at any time within the confines of the Treasury Management strategy, the Council is required by statute to make an annual revenue charge to reduce the CFR. This charge is effectively a repayment of the General Fund borrowing need and is known as the minimum revenue provision (MRP).

The total CFR can also be reduced by the application of additional capital resources (such as unapplied capital receipts); or charging more than the MRP statutory revenue charge each year through a voluntary revenue provision (VRP)

The Council's 2022/23 MRP Policy (as required by Central Government guidance) was approved at the Finance and Resources Committee meeting on 11 February 2021. For expenditure incurred before 1 April 2008, the General Fund MRP was based upon 4% of the CFR at that date utilising a reducing balance approach. For all unsupported borrowing incurred from 1 April 2008, the MRP was based upon the estimated life of the assets that the borrowing was intended to finance using an annuity based, as opposed to equal instalment, approach to more accurately reflect the time value of money.

There is no statutory requirement to charge MRP to the HRA. However, an authority can charge VRP to the HRA should it wish to do so. The Council meeting on 11 February 2021 determined that no VRP was to be charged to the HRA in 2022/23.

The Council's CFR for 2022/23 represents a key Prudential indicator and is shown below.

Capital Financing Requirement (CFR)	General Fund £'000	HRA £'000	Total £'000
Opening Balance at 1 April 2022	**27,894**	**82,688**	**110,582**
Add: Unfinanced Capital Expenditure 2022/23	2,668	1,322	3,990
Less: MRP/VRP in 2022/23	(1,146)	0	(1,146)
Closing Balance at 31 March 2023	**29,416**	**84,010**	**113,426**

4. Treasury Position as at 31 March 2023

Whilst the Council's gauge of its underlying need to borrow is the CFR, the Section 151 Officer can manage the Council's actual borrowing position by either:

- Borrowing to the CFR; or
- Choosing to utilise some temporary internal cash flow funds in lieu of borrowing (under borrowing); or
- Borrowing for future increases in the CFR (borrowing in advance of need)

The figures in this report are based upon the principal amounts borrowed and invested and so may differ from those in the final accounts by items such as accrued interest.

The Section 151 Officer managed the debt position in 2022/23 by, on occasions, choosing to utilise some temporary internal cash flow funds in lieu of additional borrowing.

The borrowing position at 31 March 2023 compared with the previous year was:

Actual Borrowing Position	Principal 31-Mar-22 £000s	Av. Rate	Principal 31-Mar-23 £000s	Av. Rate
Fixed Interest Rate Debt	95,158	3.31%	87,645	3.10%
Variable Interest Rate Debt	0	-	0	-
Total Debt	**95,158**	**3.31%**	**87,645**	**3.10%**
Capital Financing Requirement				
CFR – General Fund	27,894		29,416	
CFR – HRA	82,688		84,010	
Total Capital Financing Requirement	**110,582**		**113,426**	
Over/(Under) Borrowing	**(15,424)**		**(25,781)**	

5. Prudential Indicators and Compliance Issues

Some of the Prudential Indicators provide either an overview or specific limits on Treasury Management activity. These are as follows:

i) Gross Borrowing and the Capital Financing Requirement (CFR)

In order to ensure that over the medium term gross borrowing will only be for a capital purpose, the Council needs to ensure that its gross borrowing does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional increases to the CFR for the current and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes. The table below highlights the Council's gross borrowing position against the CFR.

	31-Mar-22 Actual £'000	31-Mar-23 Actual £'000
Gross Borrowing		
- PWLB and Market	95,158	87,645
- Bramcote Crematorium	940	430
Gross Borrowing Position	**96,098**	**88,075**
Capital Financing Requirement (CFR)		
CFR – General Fund	27,894	29,416
CFR – HRA	82,688	84,010
Total CFR	**110,582**	**113,426**

The Deputy Chief Executive and Section 151 Officer can report that gross borrowing was below the CFR at 31 March 2023 as it was at 31 March 2022. There was a net reduction of just £2.5m in PWLB loans due to a maturity repayment of £2.4m and annuity repayments of £0.013m. These were offset by a new loan of £2m in March 2023 taken to replace internal borrowing. There was decrease of £5 million in market loans during 2022 as all current market loans matured and were repaid. The additional borrowing undertaken in 2022/23 was intended to bring greater alignment between the overall borrowing level and the Council's underlying need to borrow as measured by the CFR, replacing previous internal borrowing. The decrease in borrowing from Bramcote Crematorium over 2022/23 reflects the reduction in available surplus when compared with the previous year.

The CFR increase shown here is analysed in section 3 above.

As stated above, gross borrowing at 31 March 2023 was below the CFR and it is anticipated that gross borrowing will continue to be below the CFR over the current and following two financial years. Any borrowing decisions will take account of the effect upon the total CFR.

ii) <u>Authorised Limit and Operational Boundary for External Debt</u>

The authorised limit is a statutory limit determined under section 3(1) of the Local Government Act 2003 and represents the limit beyond which borrowing is prohibited. It reflects the level of borrowing which could be afforded in the short term to maximise Treasury Management opportunities and cover temporary cash flow shortfalls, but is unlikely to be sustainable over the longer term. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

The operational boundary is based on the probable external debt during the course of the year. The operational boundary is not a limit and actual borrowing can vary around the levels shown for short times. The operational boundary should act as an indicator to ensure the authorised limit is not breached and is a key Management tool for in year monitoring of Treasury Management activities by the Section 151 Officer.

Actual external debt is gross borrowing plus other long-term liabilities. As mentioned previously, gross borrowing includes sums invested with the Council by Bramcote Crematorium. Other long-term liabilities are liabilities outstanding (other than borrowing) in relation to the financing of capital expenditure. They relate to, for example, private finance initiative (PFI) credits or finance leases. The Council did not have such long-term liabilities at 31 March 2023 or at any stage during 2022/23.

	Operational Boundary 31-Mar-23 £000	Authorised Limit 31-Mar-23 £000	Actual External Debt 31-Mar-23 £000
Borrowing	111,100	138,900	87,645
Other Long-Term Liabilities	0	0	0
Total	111,100	138,900	**87,645**

The Deputy Chief Executive and Section 151 Officer reports that there were no breaches of the authorised limit during 2022/23. The maximum level of borrowing during 2022/23 was £97.1m.

iii) Total Principal Sums Invested for More than One Year

This limit is intended to contain exposure to the possibility of any loss that may arise as a result of the Council having to seek early repayment of any investments made. If an investment has to be re-paid before its natural maturity date due to cash flow requirements then, if market conditions are unfavourable, there could be an adverse impact upon the Council.

The Council's policy for 2022/23 as set out in the annual investment strategy was to retain the flexibility to invest a proportion of its available balances for a period in excess of one year should credit conditions continue to show signs of stabilisation or improvement. An estimated amount of £8 million was identified in the strategy as being available for longer term investment. Details of sums invested over more than 1 year are identified in section 4 of appendix 1.

iv) The Ratio of Financing Costs to Net Revenue Stream

This indicator as shown in the table below compares net financing costs (borrowing costs less investment income) to net revenue income from business rates, 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.

	2021/22 Actual	2022/23 Actual
General Fund	13.4%	14.0%
HRA	14.8%	14.5%

General Fund performance reflects the cost of borrowing being broadly similar between 2021/22 and 2022/23.

6. Prudential Code for Capital Finance in Local Authorities

Since the latest publication in December 2021, The Prudential Code for Capital Finance in Local Authorities has been subject to various reviews and consultations mainly in respect of borrowing for investment and yield. We are awaiting an updated code and the financial implications of the revised Code as applicable to the Council will be reported to Members once the Code has been made available.