Report of:	Meeting	Date
Councillor Lesley McKay, Resources Portfolio Holder and Clare James, Corporate Director Resources and S.151 Officer	Council	6 July 2023

Treasury management activity 2022/23

1. Purpose of report

1.1 To report on the overall position and activities in respect of Treasury Management for the 2022/23 financial year.

2. Outcomes

2.1 An informed Council who have an understanding of Treasury Management activity, in line with the approved Treasury Management Policy and Strategy Statements and Treasury Management Practices.

3. Recommendation

3.1 That the Annual report on Treasury Management Activity for the 2022/23 financial year be approved.

4. Background

4.1 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 Chartered Institute of Public Finance and Accounting (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.2 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:

- An annual treasury strategy in advance of the year (considered by Cabinet (23/03/2022) and recommended to Council; approved by Council (14/04/2022)).

- A mid-year (minimum) treasury update report (reviewed and noted by Council (27/10/2022)).
- An annual review following the end of the year describing the activity compared to the strategy (this report).

4.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report, is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members. On 15 May 2023 all council officers involved in treasury management activity were provided with Treasury Management training from Link Asset Services. Other sessions were also provided during the year which were attended by various Finance staff. Training will be rolled out to members during 2023/24.

5. Key issues and proposals

5.1 The Council's Capital Expenditure and Financing

5.1.1 The council undertakes capital expenditure on long-term assets. 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 resultant impact on 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.

5.1.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Description	2021/22 Actual (£000)	2022/23 Budget (£000)	2022/23 Actual (£000)
Capital expenditure	4,537	17,344	13,357
Financed in year	4,537	17,344	13,357
Unfinanced capital expenditure	0	0	0

*Please note the outturn position in both years is still an estimate prior to the sign off of the accounts by the Council's external auditors, Deloitte LLP.

5.2 Overall Treasury Position as at 31 March 2023

5.2.1 The council's treasury position, at the beginning and end of the 2022/23 financial year, was as follows:

	31/03/22 Principal (£000)	Rate/ Return (%)	Avg Life (Yrs)	31/03/23 Principal (£000)	Rate/ Return (%)	Avg Life (Yrs)
Total Debt	1,563	4.43	25	15	0	0
Total Investments	(51,784)	0.16	0	(46,001)	1.83	0
Net debt / (investment)	**(50,221)**	**-**	**-**	**(45,986)**	**-**	**-**
Total Debt	1,563	4.43	25	15	0	0
Capital Financing Requirement (CFR)	(11,068)	-	-	(10,973)	-	-
Over / (under) borrowing	**(9,505)**	**-**	**-**	**(10,958)**	**-**	**-**

5.3 The Treasury Management Strategy for 2022/23

Economic updates based on information provided by Link:

5.3.1 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for. Starting in April at 0.75%, the Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

5.3.2 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a more detailed working knowledge of cash flow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an ongoing feature of the investment landscape.

5.3.3 With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used. Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress. Nonetheless, while the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.4 The Borrowing Requirement and Debt

5.4.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. The table below compares the estimated CFR to the debt which exists at 31 March. This gives an indication of the borrowing required. It also shows the estimated resources available for investment. An option is to use these balances to finance the expenditure rather than investing, often referred to as internal borrowing, so the table gives an indication of the minimum borrowing requirement through this method.

	31/03/22 Actual (£000)	**31/03/23 Budget (£000)**	**31/03/23 Actual (£000)**
CFR	11,068	10,973	10,973
Less external borrowing	1,552	1,552	-
Borrowing requirement	**9,516**	**9,421**	**10,973**
Reserves and Balances	35,320	30,453	33,394
Borrowing / (investment) need	**(25,804)**	**(21,032)**	**(22,421)**

*Please note the outturn position in both years is still an estimate prior to the sign off of the accounts by the Council's external auditors, Deloitte LLP.

5.5 Borrowing Rates and Borrowing Outturn in 2022/23

5.5.1 During 2022/23, the council maintained an under-borrowed position. This meant that the capital borrowing need, the CFR, 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 investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

5.5.2 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 owing 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.

5.5.3 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.

5.5.4 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%. As at 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield. There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target. As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

5.5.5 The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

5.5.6 No new borrowing was undertaken during the 2022/23 year. Capital schemes budgeted for in 2022/23 were funded by grants and contributions, capital receipts and council reserves. The council has previously undertaken external borrowing with the Public Works Loan Board. The maturity structure of the debt is shown in the table below. However, the council repaid all outstanding loans in October 2022, becoming debt free. The timing of this during the 'Truss' government resulted in a discount being received on the outstanding balance of £1,552,000 totalling £70,864 as a result of interest rates rises.

	31/03/22 Actual (£000)	**31/03/23 Actual (£000)**
Under 12 months	-	-
12 months and over and within 20 years	552	-
20 years and over and within 30 years	-	-
30 years and over and within 50 years	1,000	-

5.5.7 Interest payments in respect of long-term borrowing for the 2022/23 financial year totalled £37,062, which was in line with the full year budget of £37,060. The actual interest payments, including miscellaneous payments for the year to 31 March is £37,083 compared to the full year budget of £37,060.

5.5.8 The council incurs charges at 4% over the current base rate for net overdrawn balances with no annual arrangement fee. The council's net bank account position was not overdrawn during the financial year 2022/23.

5.6 Investments

5.6.1 **Investment Policy** – the council's investment policy is governed by the Department of Levelling Up, Housing and Communities (DLUHC) investment guidance, which has been implemented in the annual investment strategy approved by the Council on 14 April 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, (Standard and Poor's (S&P), Moody's and Fitch Ratings), supplemented by additional market data, (such as ratings outlooks, credit default swaps, bank share prices etc.).

5.6.2 The investment activity during the year conformed to the approved strategy, and the council had no liquidity difficulties.

5.6.3 Investments held by the council – internally managed funds earned an average of 1.83%. There is no one comparable performance indicator. The average 7 day SONIA (Sterling Overnight Interbank Average) rate was 2.23% but if a more suitable benchmark is provided by Link then this has been used instead. The equated investments are analysed in the table below:

	Equated Investment Principal (£)	Interest Due (£)	Rate of Return (%)	Bench-mark Return (%)
Santander 35 Day Corp Notice	8,000,001	141,799	1.77%	2.12%
Qatar 3 month	4,093,151	122,498	2.99%	2.72%
Qatar 6 month	3,556,165	89,822	2.53%	3.11%
Handelsbanken I.A Account	3,789,042	28,322	0.75%	2.23%
Bank of Scotland (Call Acc)	3,883,974	9,679	0.25%	2.23%
Nat West - Liquid Select	4,995,743	19,378	0.39%	2.23%
LGIM	8,052,054	180,896	2.25%	2.19%
Insight	7,810,959	161,567	2.07%	2.19%
Deutsche	6,661,918	138,861	2.08%	2.19%
Prime Rate	8,054,246	185,337	2.30%	2.19%
Total	**58,897,253**	**1,078,159**	**1.83%**	

5.6.4 Interest receivable from investments for the 2022/23 financial year totals £1,078,159 compared to the full year budget of £870,000. Interest overall including miscellaneous items, received in the year totalled £1,149,015 compared to a budgeted figure of £940,860. The improved interest position was a result of the Bank of England raising interest rates throughout the year.

5.6.5 There have been no occasions of funds over £100,000 remaining in the council's overnight general account since February 2018 when the NatWest roll up facility and control account was activated.

5.6.6 There have been no occasions during the year were the council breached its counterparty investment limits, which are in place to manage interest rate exposure risk.

5.7 Other Issues / Updates

5.7.1 Following the consultation undertaken by DLUHC on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31 March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency. There is currently no impact on Wyre.

5.7.2 The implementation of IFRS16, bringing currently off balance sheet leased assets onto the balance sheet, has been delayed until 1 April 2024. This is expected to have limited impact on Wyre's accounts.

5.7.3 This report has been prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code. Both of these Codes were updated late in December 2021 and although they took effect immediately, the new guidance allowed for a period of transition towards achieving full compliance. The council's Treasury Management Strategy, Policies and Practices were updated in March to comply with the updated code and we continue to work with our treasury management consultants to keep abreast of any changes.

Financial and legal implications	
Finance	Considered in detail in the report above.
Legal	The approval of the recommendation will ensure that the statutory requirements have been complied with.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	**✓ / x**
community safety	**x**
equality and diversity	**x**
sustainability	**x**
health and safety	**x**

risks/implications	**✓ / x**
asset management	**x**
climate change	**x**
ICT	**x**
data protection	**x**

Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

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List of background papers:		
name of document	date	where available for inspection
None		

List of appendices

Appendix 1 – Prudential and Treasury Indicators

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1. Prudential Indicators	**2021/22 Actual (£000)**	**2022/23 Estimate (£000)**	**2022/23 Actual (£000)**	**2023/24 Estimate (£000)**
Capital Expenditure	4,537	17,344	13,357	10,095
Ratio of financing costs to net revenue stream	0.50%	0.50%	0.50%	0.50%
Gross Borrowing requirement General Fund	1,563	1,602	15	50
Gross debt	1,563	1,602	15	50
CFR	11,068	10,973	10,973	10,878
Annual change in CFR	-95	-95	-95	-95
2. Treasury Management Indicators	**2021/22 Actual (£000)**	**2022/23 Estimate (£000)**	**2022/23 Actual (£000)**	**2023/24 Estimate (£000)**
Authorised Limit for external debt borrowing	20,000	20,000	20,000	20,000
Other long term liabilities	100	100	100	100
Total	**20,100**	**20,100**	**20,100**	**20,100**
Operational Boundary for external debt borrowing	13,452	13,452	13,452	13,452
Other long term liabilities	11	50	11	50
Total	**13,463**	**13,502**	**13,463**	**13,502**
Actual external debt	1,563	1,602	15	50

Maturity structure of fixed rate borrowing during 2021/22	**upper limit**	**lower limit**
Under 12 month	100%	0%
12 months and within 24 months	45%	0%
24 months and within 5 year	75%	0%
5 years and within 10 years	75%	0%
10 years and above	100%	0%

These gross limits are set to avoid large concentrations of fixed rate debt that has the same maturity structure and would therefore need to be replaced at the same time.