**For publication**

# Treasury Management Annual Report 2022/23 and Monitoring Report 2023/24

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| **Meeting:** | Council |
| **Date:** | 18th October 2023 |
| **Cabinet portfolio:** | Deputy Leader |
| **Directorate:** | Finance |

## 1.0 Purpose of report

1.1 To consider the Annual Treasury Management Report for 2022/23.

1.2 To consider the Treasury Management activities for the first five months of 2023/24.

1.3 To approve the Revised Minimum Revenue Provision Statement in respect of the financial year 2023/24.

## 2.0 Recommendations

2.1 The outturn Prudential Indicators for 2022/23 be approved.

2.2 The treasury management stewardship report for 2022/23 be approved.

2.3 The treasury management position for the first five months of 2023/24 be noted.

2.4 The Revised Minimum Revenue Provision Statement in respect of the financial year 2023/24 be approved.

## 3.0 Reasons for recommendations

3.1 To keep Members informed about the council's treasury management activities and to comply with the CIPFA Code of Practice for Treasury Management in the Public Services.

## 4.0 Report Details

This report was considered by the Standards and Audit committee at its meeting on the 13 September, 2023 where it was resolved that the report and its recommendations be supported and referred to Council for approval.

## Background

4.1 The Council's Treasury Management Strategy requires the full Council to receive three treasury reports each financial year; the Strategy report before the start of each financial year, an annual report for the previous financial year and a mid-year review for the current year.

4.2 The Annual Report for 2022/23 is attached at Appendix A. The 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.

4.3 Following the Icelandic banks collapse in 2008 the regulatory framework places a much greater emphasis on the review and scrutiny by Members of treasury management activities. The attached report provides details of the treasury management activities in 2022/23 and confirms compliance with the Council's approved policies.

## Summary of the Annual Report

4.4 During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

| Actual prudential and treasury indicators | 2021/22 Actual £'000 | 2022/23 Revised £'000 | **2022/23 Actual £'000** |
|---|---|---|---|
| Actual capital expenditure | 58,185 | 36,800 | **30,284** |
| Capital Financing Requirement: | | | |
| - General Fund | 56,560 | 59,900 | **57,170** |
| - HRA | 124,579 | 122,700 | **125,711** |
| Total | 181,139 | 182,600 | **182,881** |
| External debt | 143,489 | 145,700 | **135,442** |
| Investments | 27,167 | 10,000 | **15,127** |
| Net borrowing | 116,322 | 135,700 | **120,315** |

4.5 Other prudential and treasury indicators are to be found in Appendix A. The Service Director - Finance also confirms that borrowing over the medium term is only undertaken for a capital purpose and the statutory borrowing limit (the authorised limit) was not breached in 2022/23.

4.6 The Bank of England base rate at the start of the 2022/23 financial year stood at 0.75%. In order to control rapidly rising inflation rates the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25% at the end of the 2022/23 financial year.

4.7 **Investments** – Interest income received for the year was £649,000 against a budgeted amount of £79,000. The increase was as a direct result of the interest rate rises throughout the year which were not anticipated at the time of setting the 2022/23 budget. During the 2022/23 financial year the Council continued with its policy of prioritising its investments with Money Market Funds and the Debt Management Office in order to achieve greater security. Further information can be found in Appendix A.

4.8 The in-house team managed average balances of £24m earning an average rate of return of 2.9%.

4.9 **Borrowing** – The Council's capital financing requirement (CFR) increased during the year as a result of both the General Fund and HRA capital programmes. The Council was able to utilise internal borrowing during the year and as a result no new long-term external borrowing was undertaken during 2022/23. In addition, £2m of long term loan repayments were made. £10m of short-term borrowing was repaid and re-financed during the financial year.

4.10 **Treasury Management Advisors –** Arlingclose continued to provide treasury management advice to the Council throughout 2022/23. Treasury recommendations were incorporated into the 2022/23 Treasury Management Strategy Statement that was approved by Council in February 2022.

<u>Mid-year Review 2023/24</u>

4.11 **Annual Investment Strategy** - Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.12 The Bank of England's Monetary Policy Committee reaccelerated monetary policy tightening over the period with a 0.25% rise in May to a 0.5% rise in June, taking Bank Rate to 5.0%. Arlingclose, the authority's treasury adviser, revised its interest rate forecast to forecast a further 0.5% of monetary tightening to take Bank Rate to 5.5%. The risks, however, are that rates could be higher.

4.13 Given the risk of short-term unsecured bank investments, the Council continues to invest with the Debt Management Office to achieve greater security.

4.14 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the five months ended 31st August 2023.

4.15 **Investments** - In the first quarter of the year the interest rates achieved were higher than those assumed when setting the budget (4.74% against 4.25%), which has resulted in internal investment returns being £68,000 better than forecast for the first quarter of the year.

4.16 **Borrowing activities in the period** – Short-term borrowing of £10m has been repaid and re-financed during the first quarter of 2022/23. Interest rates on short term borrowing were higher than those assumed when setting the budget (4.55% against 4.00%) which will result in interest costs being £55,000 more than forecast. The Council's average interest rate on its' total borrowings stands at 3.65%.

4.17 **Compliance with Treasury & Prudential Limits** - All treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices have been maintained.

The main Prudential Indicators relating to borrowing are:

- Authorised Borrowing Limit – the limit for the year was set at £181.9m, the limit has not been breached.
- Operational Boundary – this was set at £165.3m for the year, again the limit has not been breached.

Revised Minimum Revenue Provision Statement 2023/24

4.18 Where the Council finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP). The statutory requirement to make MRP contributions does not apply to the Housing Revenue Account, however the Council may, if it chooses, make a Voluntary Revenue Provision (VRP). Historically the Council has chosen to make a VRP contribution of 1.5% of the outstanding Housing Revenue Account Capital Financing Requirement in respect of housing assets and this was reflected in the 2023/24 Minimum Revenue Provision Statement that was approved by Council in February 2023.

4.19 During the 2022/23 financial year a number of pressures emerged in relation to the Housing Revenue Account, particularly regarding unprecedented and unpredicted inflationary pressures around energy, fuel, contracts, building materials, interest rates (including the cost of borrowing), and pay budgets. These pressures are expected to continue into 2023/24 and beyond.

4.20 In order to allow greater flexibility to ensure that the HRA balance is maintained at an appropriate level to avoid the risk of a negative balance in the event of an exceptional cost arising, it is proposed that the Minimum Revenue Provision Statement 2023/24 is revised to remove the requirement for the HRA to make the 1.5% VRP (Appendix B).

4.21 This revision is anticipated to be a temporary measure and will be reviewed as part of the Medium Term Financial Plan and the Treasury Management Strategy for 2024/25. The revision has no impact on the General Fund.

## 5 Alternative options

5.1 It is a legislative requirement that the Council receives an annual report covering its treasury activities for the financial year. There are no alternative options to consider.

## 6 Implications for consideration – Council Plan

6.1 These arrangements enable the priorities set out in the Council Plan to be achieved.

## 7 Implications for consideration – Financial and value for money

7.1 The report in its entirety deals with financial and value for money implications.

## 8 Implications for consideration – Legal

8.1 The 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. There are no other legal implications.

## 9 Implications for consideration – Human resources

9.1 There are no human resource considerations arising from this report.

## 10 Implications for consideration – Risk management

10.1 There are a number of risks inherent within any treasury management strategy, the most significant risks at the moment include:

- Reporting is not compliant with statutory guidelines.
- Investment and borrowing activity is outside the approved TM framework.
- Long term borrowing is taken at rates that are not advantageous.
- Investment of principal sums with insecure counterparties.
- Investment returns are volatile and may not meet budgeted amounts.

- Borrowing is not affordable.

## 11 Implications for consideration – community wellbeing

11.1 Although there are no direct community wellbeing implications to consider in this report, the ability for the Council to appropriately manage its day to day finances and to be able to achieve a balanced budget position is critical to the continued delivery of the full range of council services that are targeted at supporting community wellbeing across the borough.

## 12 Implications for consideration – Economy and skills

**12.1** Although there are no direct economy and skills implications to consider in this report, the ability for the Council to appropriately manage its day to day finances and to be able to achieve a balanced budget position is critical to the continued delivery of the full range of council services that are targeted at supporting the economy and skills agenda across the borough.

## 13 Implications for consideration – Climate Change

**13.1** Individual climate change and environmental impact assessments are not required for the budget process. These are included as part of the decision-making processes for specific spending options.

## 14 Implications for consideration – Equality and diversity

14.1 There are no and diversity impact implications arising from this report.

**Decision information**

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| **Key decision number** | |
| **Wards affected** | |

**Document information**

| **Report author** | **Contact number/email** |
|---|---|
| Karen Ludditt | 01246 936276<br>Karen.ludditt@chesterfield.gov.uk |
| **Background documents**<br>These are unpublished works which have been relied on to a material extent when the report was prepared. | |
| *This must be made available to the public for up to 4 years.* | |
| **Appendices to the report** | |
| Appendix A | Annual Treasury Management Report 2022/23 |

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| Appendix B | Revised Minimum Revenue Provision Statement 2023/24 |