Treasury Management Outturn Report 2022/23

Introduction

The Council has adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Council to approve a treasury management annual report after the end of each financial year.

The Council's treasury management strategy for 2022/23 was approved on 16th February 2022. The Authority has invested and borrowed 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 remains central to the Authority's treasury management strategy.

Treasury risk management at the Authority is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report.

The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 16th February 2022.

External Context

Economic background: The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, 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%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

Credit review: Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

Local Context

On 31st March 2023, the Authority had net borrowing of £120.3m arising from its revenue and capital income and expenditure, an increase on 2022 of £4.0m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors and the year-on-year change are summarised in table 1 below.

Table 1: Balance Sheet Summary

	31.3.22 Actual £000	2022/23 Movement £000	31.3.23 Actual £000
General Fund CFR	56,560	610	57,170
HRA CFR	124,579	1,132	125,711
Total	**181,139**	**1,742**	**182,881**
Less: Usable reserves	(48,535)	4,000	(44,535)
Less: Working capital	(16,282)	(1,749)	(18,031)
Net borrowing	**116,322**	**3,993**	**120,315**

Net borrowing has increased due to a rise in the CFR as a result of expenditure on the capital programme to be met from borrowing (£1.7m) and a reduction in the level of reserves held (£4.0m), partly offset by an increase in working capital (£1.7m).

The Authority's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as at 31st March 2023 and the year-on-year change is shown in table 2 below.

Table 2: Treasury Management Summary

	31.3.22 Balance £000	2022/23 Movement £000	31.3.23 Balance £000	31.3.23 Rate %
Long-term borrowing	128,489	(3,047)	125,442	3.74%
Short-term borrowing	15,000	(5,000)	10,000	2.72%
Total borrowing	**143,489**	**(8,047)**	**135,442**	
Long-term investments	0	0	0	
Short-term investments	12,400	(12,400)	0	0%
Cash and cash equivalents	14,767	360	15,127	4.03%
Total investments	**27,167**	**(12,040)**	**15,127**	
Net borrowing	**116,322**	**3,993**	**120,315**	

Borrowing Strategy and Activity

As outlined in the treasury strategy, the Authority'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, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective.

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%.

A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and is expected to be available from June 2023, initially for a period of one year.

At 31st March 2023, the Authority held £135m of loans, a decrease of £8m on the previous year, as part of its strategy for funding previous years' capital programmes. The year-end borrowing position and the year-on-year change in show in table 3 below.

Table 3: Borrowing Position

	31.3.22 Balance £000	**2022/23 Movement £000**	**31.3.23 Balance £000**	**31.3.23 Rate %**	**31.3.23 Average maturity years**
Public Works Loan Board	128,489	(3,047)	125,442	3.59	27 years
Short-term borrowing	15,000	(5,000)	10,000	2.72	<1 year
Total borrowing	**143,489**	**(8,047)**	**135,442**		

The Authority has an increasing CFR due to the 2022/23 capital programme spending and an estimated borrowing requirement as determined by the Liability Benchmark which also takes into account usable reserves and working capital.

Investment Activity

CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2021/22, the Authority's investment balance ranged between £12m and £42m million due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 4 below.

Table 4: Investment Position

	31.3.22 Balance £000	2022/23 Movement £000	31.3.23 Balance £000	31.3.23 Rate %	31.3.23 Average maturity years
Government (incl. local authorities)	12,400	(12,400)	0	0	
Money Market Funds	14,767	360	15,127	4.03	<1 year
Total investments	**27,167**	**(12,040)**	**15,127**		

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 investments before seeking the highest 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.

In furtherance of these objectives, the Authority continued to increase deposits into more secure asset classes during 2022/23. As a result, investment risk was lowered.

Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6-12 month maturities.

By end March 2023, the rates on DMADF deposits ranged between 4.05% and 4.15%. The return on the Council's Money Market Funds ranged between 3.8% and 3.9% for the same period.

Other Non-Treasury Holdings and Activity

The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also broadens the definition of investments to include all such assets held partially or wholly for financial return.

The Authority holds £37m of directly owned investment property and land. The Authority also holds service loans of £357,500 to Staveley Town Council, £421,000 to Chesterfield Football Club Community Trust and £270,000 to Baylight Properties in respect of Peak Resort.

Performance Report

The Authority measures the financial performance of its treasury management activities in terms of its impact on the General Fund and Housing Revenue Account revenue budgets, as shown in table 5 below.

Table 5: Performance

	Actual £000	Budget £000	Over/ under
Total investment income	(649)	(79)	(570)
Total debt expense	4,719	4,764	(45)
GRAND TOTAL	4,070	4,685	(615)

Compliance Report

The Service Director - Finance is pleased to report 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. Compliance with specific investment limits is demonstrated in table 6 below.

Table 6: Investment Limits

	2022/23 Maximum	31.3.23 Actual	2022/23 Limit	Complied
Any single organisation (excluding Central Government)	**£0m**	**£0**	**£5m**	✓
Any group of funds under the same management	**£0m**	**£0**	**£7.5m**	✓
Enhanced Money Market Funds	**£12m**	**£8.8m**	**£12m**	✓

Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2022/23 Maximum £000	31.3.23 Actual £000	2022/23 Operational Boundary £000	2022/23 Authorised Limit £000	Complied
Borrowing	**£143,489**	**£135,442**	**£164,300**	**£180,700**	✓

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was below the operational boundary for the whole of 2022/23.

Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

Interest Rate Exposures: This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interest rates were:

Interest rate risk indicator	31.3.23 Actual	2022/23 Limit	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates	£118,000	£300,000	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	£118,000	£300,000	✓

Maturity Structure of Borrowing: This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31.3.23 Actual	Upper Limit	Lower Limit	Complied
Under 12 months	11%	25%	0%	✓
12 months and within 24 months	2%	25%	0%	✓
24 months and within 5 years	6%	30%	0%	✓
5 years and within 10 years	12%	40%	0%	✓
10 years and within 25 years	49%	70%	20%	✓
25 years and above	20%	75%	15%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

Principal Sums Invested for Periods Longer than 364 days: These limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment, and are based on the availability of funds after each year-end.

	2022/23	2023/24	2024/25
Actual principal invested > 364 days	£0	£0	£0
Limit on principal invested > 364 days	£10m	£10m	£10m
Complied	✓	✓	✓

Other

IFRS 16: The implementation of the new IFRS 16 Leases accounting standard was due to come into for force for local authorities from 1st April 2022. Following a consultation CIFPA/LASAAC announced an optional two year delay to the implementation of this standard a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. Authorities can now choose to adopt the new standard on 1st April 2022, 1st April 2023 or 1st April 2024. The Authority intends to adopt the new standard on 1st April 2024.