

**Briefing to:
The Audit Committee**

Date: 1 November 2022

**Subject:
Treasury Management Half Year Review
2022/23**

For Discussion/ Information

Report of:
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Portfolio holder:
Councillor Abdul Jabbar MBE, Deputy
Leader and Cabinet Member for Finance
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Summary of the issue:

This paper has been prepared to advise Members of the Audit Committee as to the key issues within the 2022/23 Treasury Management Half Year Review. The paper therefore sets out below 8 matters that Audit Committee Members may wish to focus on.

Key Items to Consider:

1) Compliance with Statutory and CIPFA requirements

The presentation of the Treasury Management Half Year Review 2022/23 to Audit Committee (this meeting) to enable scrutiny prior to consideration by Cabinet (14 November 2022) and full Council 14 December 2022) and the ensures that the Council complies with its statutory requirements.

2) Change in the Authorised Limit and Operational Boundary

The Authorised Limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003 and represents a control on the maximum level of borrowing. The operational boundary is the expected borrowing position of the Council during the year and reflects the maximum anticipated level of external debt.

There is a requirement to reduce both the Authorised Limit and the Operational Boundary, predominantly to address the reprofiling within the capital programme as illustrated in the table below:

Prudential Indicator 2022/23	Original £'000	Recommended £'000
Authorised Limit	548,000	495,500
Operational Boundary	523,000	475,500

3) **The Council's Capital Expenditure and Financing During the first half of 2022/23**

The level of capital expenditure forms one of the required prudential indicators. The 2022/23 projected outturn, based on actual expenditure to month 6 is £68.318m, a reduction of £31.930m compared to the original estimated expenditure of £100.248m. The expenditure on these projects and their associated financing packages will be reprofiled into 2023/24 and future years.

The major sources of capital financing of the revised position are:

- Capital Grants (£38.605m)
- Capital receipts (£5.365m)
- Revenue and other resources (£0.617m)
- Prudential borrowing (£23.731m)

4) **The Councils Overall Borrowing Need**

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's debt position. Part of the Council's treasury activity is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements.

At the end of 2021/22, the CFR was £468.895m, and was forecast for the year 2022/23 to be £520.247m, the estimated mid-year CFR, based on the projected expenditure referred to above is £474.813m. The decrease is as a result of the projected reduction in capital expenditure in 2022/23.

5) **Treasury Position at 30th September 2022**

At the end of September 2022, the Treasury position was such that estimated gross external debt was £366.298m. This was made up of:

- a) Total external borrowing £161.749m
- b) PFI and Finance Lease liabilities £204.549m

Comparing this to the estimated CFR of £474.813m means that the Council is estimating to be under-borrowed by £108.515m, compared to an original estimate of £119.518m, as illustrated in the table below:

	2022/23 Original Estimate £'000	2022/23 Revised Estimate £'000
Gross borrowing	195,993	161,749
Plus, other long term liabilities*	204,736	204,549
Total Debt	400,729	366,298
CFR* (year end position)	520,247	474,813
Headroom	119,518	108,515

6) Borrowing Outturn

No borrowing or debt rescheduling has been undertaken in the current financial year, and at this time it is not anticipated that any borrowing will be undertaken this year, however this will be kept under constant review based on capital expenditure and interest rate forecasts. Furthermore, it is confirmed that the Council operated within the prudential indicators as set out in the annual treasury management strategy for the first half of the 2022/23 financial year

7) Investment Portfolio

The key investment portfolio issues to note are as follows:

- a) The Council held £107.700m of investments at 30th September 2022, including property funds (£15m), compared to £105.300m at 31st March 2022. With the exception of the property funds all the investments held are scheduled to mature within 12 months.
- b) Due to the current volatility in the market the performance of the Treasury Management Team only exceeded its target in the 6 month period the benchmark rate of return it measures itself against. Overall, the actual average return over all periods exceeded the benchmark and was 1.39%. These investments earned £770k to support the Council's budget. The comparison of performance against benchmark is:

Benchmark	Benchmark Return SONIA +5%	Council Performance
7 days	1.25%	1.11%
1 month	1.17%	0.61%
3 months	0.96%	0.78%
6 months	0.70%	1.72%
Overall rate of return for the 6 months to 30 Sept. 2022	1.02%	1.39%

8) Other Key Issues

The Council has a number of Lender Option Borrower Option (LOBO) loans that have a call date within the next few months. The lender has the option to increase the interest rate when each loan reaches its call date.

These loans currently have an interest rate lower than the market rate. Due to the current volatility and increasing borrowing rates within the market, these loans could possibly have the interest rate increased at the call date. The Council would then have the option to accept the increased interest rate or could repay the loans.

The treasury team will monitor this situation and report back to the Audit Committee at a future date on any loans that have been repaid.

The Council repaid £6.600m of loan stock which had reached its maturity date at the end of September 2022, thus reducing its level of outstanding debt as this borrowing has not been replaced

Conclusion

As Members of the Audit Committee are aware, there are considerable risks to the security of the Authority's resources if appropriate treasury management strategies and policies are not adopted and followed. The Council has established good practice in relation to Treasury Management which has previously been acknowledged in both Internal and the External Auditors' Reports presented to the Audit Committee.

The Treasury Management activities followed the pattern of the established experience and good practice further evidenced with a rating of 'good' (the highest possible rating) in the recently issued Fundamental Financial Systems (FFS) audit undertaken by Internal Audit on the Treasury Management function.