Report to Cabinet

Treasury Management Review 2022/23

Portfolio Holder: Councillor Abdul Jabbar MBE, Cabinet Member for Finance and Corporate Resources

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Reason for Decision

The 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 CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

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

- an annual treasury strategy in advance of the year (approved by Council on 2 March 2022)
- a mid-year (minimum) treasury update report (approved by Council on 14 November 2022)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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.

The Council confirms that it has complied with the requirements under the Code to give prior scrutiny to the treasury strategy and the mid-year update. The Audit Committee is charged with the scrutiny of treasury management activities in Oldham and is therefore considered and approved the contents of the report at its meeting on 27 June 2023. The committee was content to commend this report to Cabinet. As such, Cabinet is therefore requested to approve the content of this annual report and to commend it to Council (to ensure full compliance with the Code for 2022/23).

Executive Summary

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	76,989	59,113	58,787
Total Capital Financing Requirement:	468,895	464,182	465,723
External debt	167,597	160,997	160,996
Gross Borrowing	381,045	365,528	365,335
Investments			
· Longer than 1 year	15,000	15,000	15,000
· Under 1 year	90,300	69,510	55,780
· Total	**105,300**	**84,510**	**70,780**
Net Borrowing (Gross borrowing less investments)	62,297	76,487	90,216

As can be seen in the table above, actual capital expenditure was slightly less than the revised budget estimate for 2022/23 presented within the 2023/24 Treasury Management Strategy report considered at the Council meeting of 1 March 2023. The outturn position was less than the £100.248m original capital budget for 2022/23 as approved at Budget Council on 2 March 2022.

Other prudential and treasury indicators are to be found in the main body of this report.

The Director of Finance confirms that the statutory borrowing limit (the authorised limit) was not breached during 2022/23.

The financial year 2022/23 has seen the Bank of England increase the official Bank rate to 4.25% by March 2023. From 0.75% in March 2022, the Monetary Policy Committee (MPC) has pushed through increases at every subsequent meeting over the period taking the Bank Rate to 4.25% at the end of 2022/23, with the aim of trying to reduce inflationary price rises.

The report was presented to and considered by the Audit Committee at its meeting of 27 June 2023, the Committee having responsibility for scrutinising all of the Council's treasury management arrangements. All questions and issues raised at the meeting were addressed to the satisfaction of the Committee Members. The Committee was content to recommend the report to Cabinet for approval.

Recommendations

Cabinet is recommended to:

1) Approve the actual 2022/23 prudential and treasury indicators presented in this report
2) Approve the annual Treasury Management Review report for 2022/23
3) Commend this report to Council

Treasury Management Review 2022/23

1 **Background**

1.1 The Council has adopted the Revised Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management 2021. The primary requirements of the code are as follows:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's Treasury Management activities;
- Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report (stewardship report) covering activities during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring Treasury Management Policies and Practices and for the execution and administration of treasury management decisions. In Oldham, this responsibility is delegated to the Section 151 Officer (Director of Finance); and
- Delegation by the Council of the role of scrutiny of the Treasury Management Strategy and policies to a specific named body. In Oldham, the delegated body is the Audit Committee.

Treasury management in this context is defined as:

"*The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. "*

1.2 The report therefore summarises the following the:-

- Council's capital expenditure and financing during 2022/23;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity

2 Current Position

2.1 The Council's Capital Expenditure and Financing during 2022/23

2.1.1 The Council undertakes capital expenditure when it invests in or acquires 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
- Financed by borrowing if insufficient immediate financing is available, or a decision is taken not to apply available resources, the capital expenditure gives rise to a borrowing need.

2.1.2 The actual capital expenditure forms one of the required prudential indicators (these indicators are all summarised in Appendix 1). The table below shows the actual level of capital expenditure and how this was financed. As can be seen in the table below, actual capital expenditure in 2022/23 was slightly less than the revised budget estimate. The revised budget estimate is based on the month 8 2022/23 reported position to align with the Annual Treasury Management Strategy 2023/24 report approved on 1 March 2023, and not the latest reported position (month 9 report on 20 March 2023). All prudential indicators in the 2022/23 strategy are based on this revised budget.

	2021/22 Actual £000	2022/23 Revised £000	2022/23 Actual £000
Non-HRA capital expenditure	76,309	59,113	58,577
HRA capital expenditure	680	-	210
Total capital expenditure	**76,989**	**59,113**	**58,787**
Resourced by:			
• Capital receipts	11,861	6,163	9,271
• Capital grants	31,829	37,326	32,411
• Donated Asset	32,333	-	-
• HRA	912	-	-
• Revenue	54	90	237
• Prudential Borrowing	-	-	-
Unfinanced capital expenditure	**-**	**15,533**	**16,868**

2.2 The Council's Overall Borrowing Need

2.2.1 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 indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

2.2.2 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 that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWLB] or the money markets) or utilising temporary cash resources within the Council.

Reducing the CFR

2.2.3 The Council's (non-Housing Revenue Account [HRA]) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need (there is no statutory requirement to reduce the HRA CFR). This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

2.2.4 The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

2.2.5 The Council's 2022/23 MRP Policy (as required by Government) was approved as part of the Treasury Management Strategy report for 2022/23 at the Council meeting on 2 March 2022.

2.2.6 The Council's CFR for the year is shown in the table below and represents a key prudential indicator. It includes PFI and leasing schemes held on the balance sheet, which increase the Council's borrowing need. In 2022/23 the Council had seven PFI schemes in operation; however, no borrowing is actually required against these schemes as a borrowing facility is included within each contract.

Capital Financing Requirement	**2021/22 Actual £000**	**2022/23 Revised £000**	**2022/23 Actual £000**
Opening balance	491,713	468,895	468,895
Add unfinanced capital expenditure	-	15,533	16,868
Add adjustment for the inclusion of on-balance sheet PFI and leasing schemes (if applicable)	373	-	246
Less MRP/VRP*	(2,742)	(2,742)	(2,742)
Less PFI & finance lease repayments	(20,449)	(17,504)	(17,544)
Closing balance	468,895	464,182	465,723

* Includes voluntary application of capital receipts and revenue resources

2.2.7 Borrowing activity is constrained by prudential indicators for net borrowing, the CFR and by the authorised limit.

Gross Borrowing and the CFR

2.2.8 In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years.

2.2.9 This essentially means that the Council is not borrowing to support revenue expenditure.

2.2.10 This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23 if so required. This flexibility was not used. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	2021/22 Actual £000	**2022/23 Revised £000**	**2022/23 Actual £000**
Gross borrowing position	381,045	365,528	365,335
CFR - including PFI / Finance Leases	468,895	464,182	465,723
(Under) / Over funding of the CFR	(87,850)	(98,653)	(100,388)

The table above shows the position as at 31 March 2023 for the Council's gross borrowing position and CFR. This shows, compared to the revised budget position:

- Small movement in the gross borrowing position, due to lower than expected finance leases.
- A slight increase in the CFR due to the additional Prudential Borrowing used to finance the Capital Programme for 2022/23.

The Authorised Limit

2.2.11 The authorised limit is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003 and was set at £497.500m. Once this has been set, the Council does not have the power to borrow above this level.

The Operational Boundary

2.2.12 The operational boundary is the expected borrowing position of the Council during the year and was set at £472.500m. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached. The Council operated well within this boundary in 2022/23.

	2022/23 Actual £000
Authorised Limit	497,500
Operational Boundary	472,500

Actual financing costs as a proportion of net revenue stream

2.2.13 This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream and is within expected levels.

	2022/23 Actual £000
External Debt	160,996
PFI / Finance leases	204,339
Actual External Debt (Gross Borrowing)	**365,335**
Financing costs as a proportion of net revenue stream (General Fund)	8.81%

2.2.14 The table above splits the gross borrowing position of the Council between actual external debt (loans) and PFI / Finance lease debt. As can be seen above the gross borrowing position is well within the Authorised Limit and Operational Boundary.

2.3 The Council’s Debt and Investment Position

2.3.1 The Council’s debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council’s Treasury Management Practices.

2.3.2 At the end of 2022/23 the Council's treasury position was as follows:

	31 March 2022 Principal £000	Average Rate/ Return	Average Life years	31 March 2023 Principal £000	Average Rate/ Return	Average Life years
Fixed rate funding:						
-PWLB	35,241			35,241		
-Stock	6,600			0		
Market	125,756			125,755		
Total external debt	**167,597**	4.16%	36.05	**160,996**	4.01%	34.17
PFI & Finance Lease Liabilities	**213,448**			**204,339**		
Total Gross Borrowing	**381,045**			**365,335**		
CFR	**468,895**			**465,723**		
Over/ (under) borrowing	**(87,850)**			**(100,388)**		
Investments:						
Financial Institutions/LA's	90,300	0.21%		55,780	2.00%	
Property	15,000	3.83%		15,000	3.59%	
Total investments	**105,300**			**70,780**		
Net Debt	**62,297**			**90,216**		

2.3.3 The maturity structure of the debt portfolio was as follows:

	2021/22 Actual %	Upper Limit %	Lower Limit %	2022/23 Actual %
Under 12 months	33%	40%	0%	34%
12 months and within 24 months	10%	40%	0%	3%
24 months and within 5 years	12%	40%	0%	17%
5 years and within 10 years	9%	40%	0%	8%
10 years and above	36%	50%	0%	28%

2.3.4 The investment portfolio and maturity structure was as follows:

Investment Portfolio	Actual 31 March 2022 £000	Actual 31 March 2022 %	Actual 31 March 2023 £000	Actual 31 March 2023 %
Treasury Investments				
Banks	25,000	23.74%	10,000	14.13%
Building Societies	5,000	4.75%	-	0%
Local Authorities / Public Bodies	14,000	13.30%	10,000	14.13%
Money Market Funds (MMF's)	46,300	43.97%	35,780	50.55%
Total Managed In House	**90,300**	**85.75%**	**55,780**	**78.81%**
Bond Funds	-		-	
Property Funds	15,000	14.25%	15,000	21.19%
Cash Fund Managers	-		-	
Total Managed Externally	**15,000**	**14.25%**	**15,000**	**21.19%**
TOTAL TREASURY INVESTMENTS	**105,300**	**100%**	**70,780**	**100%**
TOTAL NON TREASURY INVESTMENTS	-	0%	-	0%

	2021/22 Actual £000	2022/23 Actual £000
Investments		
Longer than 1 year	-	-
Under 1 year	90,300	55,780
Property Fund	15,000	15,000
Total	**105,300**	**70,780**

2.3.5 Key features of the debt and investment position are:

a) Over the course of the year 2022/23, investments have decreased by £34.520m compared to the investments held as at 31 March 2022. The large decrease relates to the accelerated spend on the Capital Programme during the final month of the year but also from a comparative perspective, in March 2022 (at the end of 2021/22), the Council received additional Government grant funding, to enable it to administer the Council Tax Energy Rebate scheme that was to be distributed in 2022/23.

b) The average rate of return on investments with Financial Institutions increased from 0.21% in 2021/22 to 2% in 2022/23. The year 2022/23 has seen the Bank of England increase the bank rate from 0.75% in March 2022 to 4.25% in March 2023. The Monetary Policy Committee (MPC) has pushed through rises at every subsequent meeting over the period finishing the year with a Bank Rate to 4.25%. Therefore, over the course of the year, the Council has received greater returns on its investments. The increase in Bank Rate is expected to continue over the first two quarters of 2023/24.

2.4 Economic Background 2022/23

2.4.1 The economic backdrop during the January 2023 to March 2023 period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending. 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.

2.4.2 Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates during 2022/23, even in the face of potential economic slowdowns in those regions.

2.4.3 Starting the financial year in April 2022 at 5.5%, the annual Consumer Price Index (CPI) measure of UK inflation rose strongly to hit 10.1% in July 2022 and then 11.1% in October 2022. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February 2023. Annual headline CPI registered 10.4% in February 2023, up from 10.1% in January 2023, with the largest upward contributions coming from food and housing. The Retail Price Index (RPI) followed a similar pattern during the year, hitting 14.2% in October 2022. In February 2023 RPI measured 13.8%, up from 13.4% in the previous month.

2.4.4 Following the decision by the UK Government under Prime Minister Rishi Sunak and Chancellor Jeremy Hunt to reverse some of the support for household energy bills announced under the Liz Truss leadership, further support in the form of a cap on what energy suppliers could charge household was announced in the March 2023 Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April 2023.

2.4.5 The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of 2022/23. The unemployment rate 3mth/year eased from 3.8% April-June 2022 to 3.6% in the following quarter, before picking up again to 3.7% between October - December 2022. The most recent information for the period December 2022 - February 2023 showed an unemployment rate of 3.7%.

2.4.6 The inactivity rate was 21.3% in the December 2022 – February 2023 quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December 2022 – February 2023 at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

2.4.7 Despite household budgets remaining under pressure, consumer confidence rose very slightly to -36 in March 2023, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in

September 2022. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June 2022 period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December 2022 period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Quarter 4 was 0.6%.

2.4.8 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 hikes of 50bps in December 2022 and February 2023 and then 25bps in March 2023, 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 2023 Monetary Policy Report. The February 2023 vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

2.4.9 After reaching 9.1% in June 2022, annual US inflation slowed for eight consecutive months to 6% in February 2023. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March 2023 meeting.

2.4.10 From the record-high of 10.6% in October 2022, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March 2023, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial Markets

2.4.11 Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and questions about how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

2.4.12 Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September 2022 before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

Credit Review

2.4.13 With regard to the credit ratings of Local Government bodies (who have chosen to have a rating), early in the period, Moody's affirmed the long-term rating of

Guildford BC but revised the outlook to negative. The agency also downgraded Warrington BC and Transport for London.

2.4.14 In July 2022 Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable and in the same month Moody's revised the outlook on Bayerische Landesbank to positive.

2.4.15 In September 2022 Standard & Poor (S&P) revised the outlook on the Greater London Authority to stable from negative and Fitch revised the outlook on HSBC to stable from negative.

2.4.16 The following month Fitch revised the outlook on the UK sovereign rating to negative from stable. Moody's made the same revision to the UK sovereign rating, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander. During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March 2023, the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

2.4.17 Credit Default Swap (CDS) prices had been rising since the start of the year due to the invasion of Ukraine, and in the UK rose further in September/October 2022 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 arising from the heightened uncertainty. However, they had moderated somewhat by the end of the year in March 2023 as fears of contagion subsided, but many are still above their pre-March 2023 levels reflecting that some uncertainty remains.

2.4.18 As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Council's counterparty list will continue to remain under constant review. Local authorities remain under financial pressure, but the positive view of the sector is that its credit strength remains to be high. Section 114 notices have been issued by only a handful of authorities with specific issues.

2.5 Borrowing Strategy and control of interest rate risk

2.5.1 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), 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 low and minimising counterparty risk on placing investments also needed to be considered.

2.5.2 A cost of carry remained during the majority of the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns.

2.5.3 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when the Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

2.5.4 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Treasury Management Team and the Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

- if it had been felt that there was a significant risk of a sharp **fall** in long and short term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper **rise** in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

2.5.5 Interest rate forecasts throughout 2022/23 have been rising which has seen gradual rises in medium- and longer-term fixed borrowing rates during 2022/23 and the two subsequent financial years mainly due to inflation concerns. Internal, variable, or short-term rates, were the cheaper form of borrowing over the period.

2.5.6 The Authority continues to hold £85.500m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

2.5.7 During 2023/24 and given the rising of the Bank Rate throughout 2022/23, the Council in conjunction with its treasury advisors will be assessing its LOBO portfolio, as these loans from some banks may present restructuring opportunities with substantial value from a negotiated settlement with the bank. The benefits, include restructuring savings and the opportunity to reduce exposure to medium/long-term optionality.

2.6 Borrowing Outturn for 2022/23

Treasury Borrowing

2.6.1 Due to high cash balances and investment concerns, both counterparty risk and low investment returns at the start of the year, no borrowing was undertaken during the year.

Debt Rescheduling

2.6.2 There was no rescheduling of debt during the year. As interest rate have been steadily raising the Council will look at debt scheduling opportunities during 2023/24.

Repayment of Debt

2.6.3 In September 2022, the Council repaid its loan stock of £6.600m which yielded a rate of 12%. No additional cost was incurred in the repayment as the maturity date had been reached.

Borrowing in Advance of Need

2.6.4 The Council has not borrowed in advance of its needs.

2.7 Investment Outturn

Investment Policy

2.7.1 The Council's investment policy is governed by the Department for Levelling up, Housing and Communities (DLUHC), previously the Ministry of Housing, Communities and Local Government (MHCLG) investment guidance. This has directed the preparation of the annual investment strategy which for 2022/23 was approved by Council on 2 March 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, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

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

2.7.3 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 2022, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6–12-month maturities by the end of the year. By the end of March 2023, the rates on Debt Management Account Deposit Facility (DMADF) deposits ranged between 4.05% and 4.15%. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between 0.9% - 1.1% per annum in early April and between 4.04% and 4.12% at the end of March 2023.

Resources

2.7.4 The Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2022 £000	31 March 2023 £000
Balances General Fund	(20,012)	(18,865)
Balances HRA	(21,721)	(22,585)
Earmarked Revenue Reserves	(99,228)	(79,130)
Revenue Grant Reserve	(10,731)	(7,968)
School Reserve	(10,192)	(8,381)
Provisions	(19,698)	(12,782)
Total	**(181,582)**	**(149,711)**

Investments at 31 March 2023

2.7.5 The Council managed all of its investments in house with the institutions listed in the Council's approved lending list. At the end of the financial year the Council had £70.780m of investments as follows:

Institution	Type	Amount £000	Term/ Days	Rate%	Start Date	End Date
CCLA Property	Property	15,000		3.59%		
		15,000				
Stirling Council	Fixed	5,000	182	3.40%	21-Nov-22	22-May-23
Wrexham Council	Fixed	5,000	182	3.50%	22-Nov-22	22-June-23
Close Brothers Ltd	Fixed	5,000	181	3.50%	22-Nov-22	22-June-23
Close Brothers Ltd	Fixed	5,000	182	4.10%	29-Dec-22	29-June-23
Total Fixed Deposits		**20,000**				
Morgan Stanley MMF*	MMF	20,000	366	4.12%	31-Mar-22	01-Apr-23
Federated MMF*	MMF	10,000	5	4.04%	27-Mar-23	01-Apr-23
Total Money Market Funds (MMF)		**35,780**				
Total Investments		**70,780**				

* Money Market Funds (MMF)

2.7.6 The Council's investment strategy as set in March 2022, was to maintain sufficient cash reserves to give it necessary liquidity, whilst trying to attain a benchmark average rate of return of London Interbank Bid Rate (LIBID) on the relevant time deposit multiplied by 5%, whilst ensuring funds were invested in institutions which were the most secure. LIBID ceased to be used by the Bank of England at 31 December 2021, with SONIA (Sterling Overnight Index Average) replacing it. During the year and in line with the industry movement from LIBID to SONIA the Council updated its measurement of performance to a SONIA benchmark. The table below shows the Council's performance against the investment benchmark. The benchmark for 2022/23 is based on the SONIA.

	Benchmark SONIA Return %	Benchmark SONIA Return % Plus 5%	Actual Return %
Overnight	2.24%	2.35%	2.38%

2.7.7 The Council's investment in the Churches, Charities and Local Authorities (CCLA) Property Fund yielded dividends in year of £0.573m with an average return of 3.59%. This has dropped slightly compared to 2021/22 but continues to provide high returns compared to other investments the Council holds. The higher return reflects the long-term nature of the investment.

2.8 Other Key Issues

International Financial Reporting Standards (IFRS) 9 – Financial Instruments Pooled Investment Fund Statutory Override

2.8.1 The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English Authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

3 Options/Alternatives

3.1 In order that the Council complies with the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management the Cabinet has no option other than to consider and approve the contents of the report and commend the report to Council. Therefore, no options/alternatives have been presented.

4 Preferred Option

4.1 The preferred option is that the contents of the report are agreed by Cabinet and commented to Council for approval.

5 Consultation

5.1 There has been consultation with the Council's, Treasury Management Advisors, Arlingclose.

5.2 The Treasury Management Review 2022/23 report was presented to the Audit Committee for detailed scrutiny on 27 June 2023. All questions and matters raised at the Committee were addressed. This scrutiny prior to approval was in compliance with the requirements of the CIPFA Code of Practice.

5.3 The Committee was content to recommend the report to Cabinet, therefore, the report is now presented to Cabinet for approval and for commending to Council for its approval.

6 Financial Implications

6.1 All included in the report.

7 Legal Services Comments

7.1 None

8 Cooperative Agenda

8.1 The treasury management strategy embraces the Council's cooperative agenda. The Council will develop its investment framework to ensure it complements the cooperative ethos of the Council.

9 Human Resources Comments

9.1 None

10 Risk Assessments

10.1 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 Internal Audit reports and in the External Auditors' reports presented to the Audit Committee.

11 IT Implications

11.1 None

12 Property Implications

12.1 None

13 Procurement Implications

13.1 None

14 Environmental and Health & Safety Implications

14.1 None

15 **Equality, community cohesion and crime implications**

15.1 None

16 **Equality Impact Assessment Completed**

16.1 No

17 **Key Decision**

17.1 Yes

18 **Key Decision Reference**

18.1 N/A

19 **Background Papers**

19.1 The following is a list of background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents which would disclose exempt or confidential information as defined by the Act:

File Ref:	Background papers are provided in Appendix 1
Officer Name:	Lee Walsh
Contact No:	0161 770 6608

20 **Appendices**

Appendix 1 Prudential and Treasury Management Indicators

Appendix 1: Prudential and Treasury Indicators

TABLE 1: Prudential indicators	2021/22	2022/23	2022/23	2022/23
	Outturn	Original	Revised	Outturn
Capital Expenditure				
Non – HRA	76,989	96,865	59,113	58,577
HRA		3,383	0	210
TOTAL	76,989	100,248	59,113	58,787
Ratio of financing costs to net revenue stream				
Non – HRA	9.65%	12.00%	8.81%	8.81%
In year Capital Financing Requirement				
Non – HRA	(22,818)	51,352	(4,713)	(3,172)
TOTAL	(22,818)	51,352	(4,713)	(3,172)
Capital Financing Requirement as at 31 March	468,895	520,247	464,182	465,723

TABLE 2: Treasury Management Indicators	2021/22	2022/23	2022/23	2022/23
	Outturn	Original Budget	Revised	Outturn
Authorised Limit for External Debt				
Borrowing	302,500	336,500	285,000	285,000
Other long term liabilities	220,500	211,500	212,500	212,500
TOTAL	**523,000**	**548,000**	**497,500**	**497,500**
Operational Boundary for External Debt				
Borrowing	282,500	316,500	265,000	265,000
Other long term liabilities	215,500	206,500	207,500	207,500
TOTAL	**498,000**	**523,600**	**472,500**	**472,500**
Actual Gross Borrowing	381,045			365,335
Upper limit for total principal sums invested for over 364 days	50,000	50,000	50,000	50,000

Maturity structure of fixed rate borrowing during 2021/22	Upper Limit	Lower Limit	Actual
Under 12 months	40%	0%	35%
12 months and within 24 months	40%	0%	3%
24 months and within 5 years	40%	0%	17%
5 years and within 10 years	40%	0%	8%
10 years and above	50%	0%	28%