Meeting of:	**GOVERNANCE AND AUDIT COMMITTEE**
Date of Meeting:	**26 JULY 2023**
Report Title:	**TREASURY MANAGEMENT OUTTURN 2022-23**
Report Owner / Corporate Director:	**CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE**
Responsible Officer:	**NIGEL SMITH, GROUP MANAGER – CHIEF ACCOUNTANT**
Policy Framework and Procedure Rules:	**Para 22.5 of the Financial Procedure Rules requires the Chief Finance Officer to prepare an annual report to Council summarising borrowing and investment activity and indicating compliance with any statutory or Council approved guidelines.**
Executive Summary:	• **This report provides the outturn position for Treasury Management activities for the year ending 31 March 2023.** • **It confirms that the Council has complied with the statutory and the Chartered Institute of Public Finance and Accountancy's Code of Practice.** • **As at 31 March 2023 the Council had £99.93 million of long term borrowing, £114.06 million of other long term liabilities, primarily Private Finance Initiative, and £74.50 million of treasury investments.** • **The average interest rate of debt as at 31 March 2023 (excluding Salix borrowing which is interest free) was 4.69% and for investments 2.55%.** • **The Council is required to set and report against Treasury Management Indicators, details of which are included in Appendix A. These show that the Council operated within the approved limits throughout the year.**

1. Purpose of Report

1.1 The purpose of this report is to update the Governance and Audit Committee on the outturn position for treasury management activities for 2022-23, the Treasury Management Indicators for 2022-23, and to highlight compliance with the Council's policies and practices.

2. Background

2.1 Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council is 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 financial risk are therefore central to the Council's prudent financial management.

2.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 edition (the TM Code), which requires the Council to approve a Treasury Management Strategy (TMS) before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report. The TM Code also requires the Council to set a number of Treasury Management Indicators, which are forward looking parameters, and enable the Council to measure and manage its exposure to treasury management risks, and these are included in **Appendix A** to this report. In addition, Welsh Government (WG) issued revised Guidance on Local Authority Investments in November 2019 that requires the Council to approve an Investment Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the TM Code and the Welsh Government Guidance.

2.3 In 2021 CIPFA published an updated version of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The updated Prudential Code includes a requirement for Local Authorities to provide a Capital Strategy, which is a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The definition of investments in the revised 2021 Prudential Code covers all the financial assets of the Council as well as other non-financial assets which the authority holds primarily for financial return. The Council's Capital Strategy 2022-23 complied with CIPFA's requirement and included the Prudential Indicators along with the details regarding the Council's non-treasury investments. The Capital Strategy and Treasury Management Strategy should be read in conjunction with each other as they are interlinked, as borrowing and investments are directly impacted upon by capital plans and both were approved together by Council on 23 February 2022.

2.4 The Council's treasury management advisors are Arlingclose. The current services provided to the Council include:

- advice and guidance on relevant policies, strategies and reports
- advice on investment decisions
- notification of credit ratings and changes
- other information on credit quality
- advice on debt management decisions
- accounting advice
- reports on treasury performance
- forecasts of interest rates
- training courses.

3. Current situation / proposal

3.1 External Context – Economic Background

3.1.1 During 2022-23 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 January to March 2023 continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

3.1.2 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 over the period, even in the face of potential economic slowdowns in those regions.

3.1.3 The Consumer Prices Index (CPI) rose to 10.1% in the 12 months to March 2023. This was an increase from 5.5% at the start of the financial year, but slightly down from February 2023 which was 10.4%, At its highest CPI reached 11.1% in October 2022. Whilst fuel costs have seen some reductions, food, recreation and culture costs have contributed to higher inflation.

3.1.4 Following the decision by the current UK government to reverse some of the support to household energy bills announced under the previous administration, further support in the form of a cap on what energy suppliers could charge households was announced in the March 2023 Budget to run from April until the end of June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

3.1.5 The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate for January to March 2023 increased by 0.1% on the quarter to 3.9%. The increase in unemployment was driven by people unemployed for over 12 months.

3.1.6 The bank rate in the UK started the year at 0.75% and increased 8 times during the year to 4.25% as at 31 March 2023. This was as a result of continued higher than expected inflation rate compared to the Bank of England's target set by the Government to keep inflation at 2%.

3.2 Public Works Loan Board (PWLB) Lending Facility Advice, Revised CIPFA Codes

3.2.1 The Council continues to undertake its duties in line with the current guidance for the PWLB lending facility, which was significantly revised by HM Treasury in August 2021. Authorities that are purchasing or intending to purchase investment assets primarily for yield, or financial return, will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

3.2.2 The Council's treasury management activities are undertaken in line with CIPFA's 2021 Prudential Code for Capital Finance and CIPFA's Treasury Management in the Public Services - Code of Practice. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. In line with CIPFA requirements the Codes will be fully implemented in the 2023-24 financial year. To comply with the Prudential Code authorities must not borrow to invest primarily for financial return. The Prudential Code also states it is not prudent for local authorities to make investment or spending decisions that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold, however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments. The Council will implement in full the requirements of the code when reporting the 2023-24 financial year activities.

3.3 Treasury Management Outturn 2022-23

3.3.1 The Council has complied with its legislative and regulatory requirements during 2022-23. The TMS 2022-23 was approved by Council on 23 February 2022 with the half year report presented to Council on 16 November 2022. Quarterly reports were also presented to Cabinet and the Governance and Audit Committee for scrutiny during 2022-23.

3.3.2 A summary of the treasury management activities for 2022-23 is shown in **Appendix A**. The Council's external debt and investment position for 1 April 2022 to 31 March 2023 is shown in Table 1 below, and more detail is provided in **Appendix A** Section 2 - Borrowing Strategy and Outturn, and Section 3 - Investment Strategy and Outturn. As in the previous year, the Council secured small amounts of Salix interest free loans over a period of between 2 and 10 years for specific energy efficiency schemes. No other long-term debt (of more than 1 year) was taken out, and no debt rescheduling was undertaken as there were no significant savings to be made. However, should the opportunity arise to reschedule any loans at a preferential rate, this would be done. Favourable cash flows have provided surplus funds for investment and the balance on investments at 31 March 2023 was £74.50 million, with an average interest rate of 2.55%. The total of balances held has decreased in comparison to those held at 31 March 2022, when the balance held was £84.07 million, however the weighted average interest rate has increased in comparison to 2.55% as compared with 0.43% for the previous year. Table 4 in **Appendix A** details the movement of the investments by counterparty types and shows the average balances, interest received, original duration and interest rates for 2022-23.

Table 1: Council's external debt and investment position 1 April 2022 to 31 March 2023

	Principal 01/04/2022 £m	Average rate 01/04/2022 %	Principal 31/03/2023 £m	Average rate 31/03/2023 %
External Long-Term Borrowing				
Public Works Loan Board	77.62	4.70	77.62	4.70
Lender's Option Borrower's Option	19.25	4.65	19.25	4.65
Salix Loans	2.68	0.00	3.06	0.00
Total External Borrowing	**99.55**	**4.69***	**99.93**	**4.69***
Other Long-Term Liabilities (LTL)				
Private Finance Initiative (PFI)*	14.77		13.90	
Other LTL	0.39		0.23	
Total Other Long Term Liabilities	**15.16**		**14.13**	
TOTAL Gross External Debt	**114.71**		**114.06**	
Treasury Investments				
Local Authorities	45.50	0.54	53.00	4.05
Debt Management Office	30.20	0.37	7.50	2.19
Banks	8.37	0.53	14.00	3.94
TOTAL Treasury Investments	**84.07**	**0.43**	**74.50**	**2.55**
NET DEBT	**30.64**		**39.56**	

** Excluding Salix loans, which are interest free*
*** PFI for the provision of a Secondary School in Maesteg with 11 years remaining term*

3.3.3 The £19.25 million under external long-term borrowing in Table 1 above relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054, though these may be rescheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending on the prevailing rates at one of the bi-annual trigger points (these being July and January) and, as a result, the Council being given the option to accept the increase or repay the loan without incurring a penalty. There have been significant interest rate rises over the last year, with an expectation that they may rise further thus the lender could still exercise this option in a future interest rate environment.

3.3.4 The Total Other Long Term Liabilities figure of £14.13 million at 31 March 2023 includes £13.90 million for the Council's Private Finance initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. The other long-term liability relates to the provision of vehicles for the waste contract, which will end on 31 March 2024.

3.3.5 Both the TM Code and Welsh Government (WG) Guidance require the Council 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 Council's objective when investing money is to strike an appropriate balance between risk and return. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard and Poor's to ensure that this lies within the Councils' agreed minimum credit rating.

3.3.6 The Council defines high credit quality as organisations and securities having a credit rating of A- (A3 for Moody's) or higher and the Council does not invest in any organisation below this level. **Appendix B** shows the equivalence table for credit ratings for Fitch, Moody's, and Standard and Poor's and explains the different investment grades.

3.3.7 There was one long-term investment (original duration of 12 months or more) outstanding at 31 March 2023 for £5 million with Medway Council. This investment is for a period of 2 years and will mature in July 2024. All other investments at 31 March 2023 were short term deposits including instant access and notice accounts.

3.3.8 The Treasury Management Code requires the Council to set and report on a number of Treasury Management Indicators. The indicators either summarise the expected activity or introduce limits upon the activity. Details of the estimates for 2022-23 set out in the Council's TMS compared to the actual at year end are shown in **Appendix A** and these show that the Council operated within the approved limits throughout the year.

4. Equality implications (including Socio-economic Duty and Welsh Language)

4.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. This is an information report, therefore it is not necessary to carry out an Equality Impact assessment in the production of this report. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

5. Well-being of Future Generations implications and connection to Corporate Well-being Objectives

5.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives because of this report.

6. Climate Change Implications

6.1 The Climate Change implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the environment because of this report.

7. Safeguarding and Corporate Parent Implications

7.1 The Safeguarding and Corporate Parenting implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon Safeguarding and Corporate parenting because of this report.

8. Financial Implications

8.1 The financial implications are reflected within the report.

9. Recommendation

9.1 It is recommended that the Committee:

- Note the annual treasury activities for 2022-23
- Note the actual Treasury Management Indicators for 2022-23 against those approved in the Treasury Management Strategy 2022-23.

Background documents

None