TO: GOVERNANCE AND AUDIT COMMITTEE
25 JANUARY 2023

TREASURY MANAGEMENT REPORT 2023/24 AND 2022/23 MID-YEAR REVIEW
(Director of Finance)

1 PURPOSE OF DECISION

1.1 The Council must operate a balanced budget, which broadly means cash raised during the year plus any use of reserves will meet its cash expenditure. Part of the treasury management operations ensures this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity before considering maximising investment return.

1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the longer-term cash flow planning needs to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans or using longer term cash flow surpluses.

1.3 The Local Government Act 2003 requires a local authority to "have regard to" guidance issued by, or specified by, the Secretary of State. As such, the Council is required to have regard to the Prudential Code and the Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

1.4 CIPFA published the updated Treasury Management and Prudential Codes on 20th December 2021. CIPFA has stated that after a soft introduction of the Codes, Local Authorities are expected to fully implement the required reporting changes within their TMSS/AIS reports from 2023/24.

1.5 The Council is updating its Capital Strategy and the new prudential indicator and these will be included in the final Treasury Management Strategy Statement published in March 2023.

1.6 The Code of Practice requires the Council's annual Treasury Management Strategy (and associated documents) to be examined and reviewed by a responsible body. An additional primary requirement of the code is for the receipt by Full Council of a Mid-Year Review of the Treasury Management activities of the authority.

1.7 This report seeks to achieve both these requirements of updating Members on progress in 2022/23 and to review the Treasury Management Report for 2023/24.

2 RECOMMENDATIONS

2.1 That the Committee consider and review the Mid-Year Review Report.

2.2 That the Committee agree that the Mid-Year Review Report be circulated to all Members of the Council.

2.3 That the Committee review the Treasury Management Report in Annex A for 2023/24 prior to its approval by Council.

3 REASONS FOR RECOMMENDATIONS

3.1 The reasons for the recommendations are set out in the report.

4 ALTERNATIVE OPTIONS CONSIDERED

4.1 The Code of Practice requires the Council's annual Treasury Strategy to be examined and reviewed by a responsible body and for that body to review progress of the Council's treasury management activities. The Governance and Audit Committee has been nominated by Council to be that body.

5 SUPPORTING INFORMATION

Mid-Year Review

5.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:

- An economic update for the first nine months of 2022/23
- A review of the Treasury Management Strategy Statement (TMSS) and Annual Investment Strategy
- The Council's capital expenditure
- A review of the Council's investment portfolio for 2022/23
- A review of compliance with Treasury and Prudential Limits for 2022/23

Economic Update

5.2 Whilst the Council is in no longer debt-free the level of internal resources has enabled the Council to avoid any new external borrowing since 2018. However, given the economic conditions over the last 5 years returns on surplus cash have been historically low leading into 2022/23. This prolonged period of low global interest rates changed markedly from April 2022 onwards, with central banks around the world increasing rates. This has led to the highest UK Base Rate for over 13 years, with the Bank Rate now sitting at 3.5% and expected to move higher over the coming months.

5.3 The coronavirus outbreak wrought huge economic damage to the UK and to economies around the world with the Bank of England (BoE) taking emergency action in March 2020 to cut the Bank Rate to 0.10%. There were however increasing grounds for viewing the nascent economic recovery as running out of steam during 2022 with the potential for stagflation creating a dilemma for the Monetary Policy Committee (MPC) as to whether to focus on combating inflation or supporting economic growth through keeping interest rates low.

5.4 A number of events came to dominate both global and domestic economies over the last 12 months. Supply chain difficulties continued to force prices higher, and with an exceptionally tight labour market, inflation continued to rise in 2022. These problems were overshadowed by the war in Ukraine which has had a tumultuous impact on energy prices around the world. The Consumer Prices Index (CPI), the government preferred indicator of inflation, rose to over 10% - a 40 year high – forcing the BoE to begin a series of Bank Rate increases.

5.5 In August 2022 the MPC increased Bank Rate to 1.75%, with a further rise in September to 2.25%. As a result of political events in Westminster, a new government was formed and brought forward a step change in government policy

aimed at delivering faster growth in the UK economy by cutting taxes in addition to supporting the intense energy pressures faced by the public. Unfortunately, the UK Treasury did not follow normal practices and the Fiscal Event was published without an analysis by the Office for Budget Review (OBR) and the economic markets took fright at the amount of unfunded tax cuts and future borrowing requirements. The market turmoil that followed led to a spike in market borrowing rates and a substantial fall in the pound. This led to the formation on a new Government and almost all the measures reversed in the proceeding weeks.

5.6 As such, whilst domestic factors have largely been unravelled, the UK still faces historically high inflation, a substantial risk of recession and the potential for further economic shocks from global insecurity, a resurgence of COVID limiting impacts on growth and general financial-market risk. This led the MPC to raise interest rates to 3% in November and to 3.5% in December 2022.

5.7 In terms of current market views, the central forecast for interest rates was updated on 19 December and reflects a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Bank Rate stands at 3.5% currently but is expected to reach a peak of 4.5% in H1 2023. Increases in the base rate of this magnitude will clearly benefit the Council if it can continue to rely on internal resources to fund its Capital Programme and offers the potential for higher investment returns.

Treasury Management Strategy Statement Review

5.8 The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by the Council on 24th February 2022. There are no policy changes to the TMSS in 2022/23

Review of Investment and Debt Portfolio 2022/23

5.9 The Council held £25.544m of investments as at 31 December 2021 and the investment portfolio yield for the first nine months of the year is 3.13% against a benchmark (SONIA) of 3.18%.

Investment	Maturity	Amount (£'000)	Rate (%)
Money Market Funds			
Aberdeen	1 Day	6,497	3.16
Black Rock	1 Day	400	3.01
Federated	1 Day	2,190	3.25
Federated Cash Plus	2 Day	2,000	3.52
Goldman Sachs	1 Day	50	2.97
Deutsche	1 Day	9,997	3.15
Fixed Maturity	6 Months	3,000	3.20
Total Investments		**25,544**	

5.10 The 2022/23 interest budget assumed that an average interest rate of 0.5% would be earned on the Council's investment portfolio. This was based on an assumption that the MPC would hold rates at low levels to support the nascent economic recovery. However, as noted above, events over the last 10 months have resulted in an unanticipated sharp rise in rates beyond anything that was foreseen 12 months

ago. As such the return on investments and the level of income reported through Budget Monitoring will be substantially above that budgeted.

5.11 As at 31 December 2021 the Council's debt portfolio was as follows

Short Term Market Loans

Counterparty	Amount £	Rate	Start Date	Maturity Date
NIL	0			
	0			

PWLB Loans

PWLB	Amount	Rate	Start Date	Maturity Date
PWLB	10,000,000	2.60%	09/02/2017	31/03/2062
PWLB	10,000,000	2.60%	09/02/2017	31/03/2066
PWLB	10,000,000	2.42%	20/06/2017	31/03/2063
PWLB	10,000,000	2.41%	20/06/2017	31/03/2064
PWLB	20,000,000	1.85%	21/11/2017	21/11/2024
PWLB	10,000,000	2.50%	21/11/2017	21/11/2062
PWLB	10,000,000	2.14%	03/12/2018	03/12/2028
	80,000,000			

Compliance with Treasury and Prudential Limits for 2022/23

5.12 The Director of Finance can confirm that the approved limits within the Annual Investment Strategy were not breached during the first nine months of 2022/23 and no changes to these limits are proposed for the remaining 3 months.

Treasury Management Report 2023/24

5.13 The Council is required to have regard to the Prudential Code and Code of Practice on Treasury Management in the Public Sector, both issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Under these requirements the Council must set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. At its meeting on 2 March 2011 Council nominated the Governance and Audit Committee as the responsible body to examine and assess the effectiveness of the treasury management strategy and policies and recommend them to Council.

5.14 The attached Treasury Management Report 2023/24 (Annex A) was approved by the Executive, as a part of the Council's overall budget proposals, on 13 December 2022 and outlines the Council's Prudential Indicators for 2023/24 to 2025/26 in addition to setting out the expected treasury strategy and operations for this period. The Executive requested that the Governance and Audit Committee review each of the key elements. Following this review the Treasury Management Report and associated documents will be presented to Council for approval on 22 February 2023.

6 Consultation and Other Considerations

Legal Advice

6.1 The Treasury Management Activities by local authorities must have regard to the CIPFA Code of Practice.

Financial Advice

6.2 The financial implications are contained within the report.

Other Consultation Responses

6.3 The Overview & Scrutiny Commission was consulted on the budget proposals, including the Treasury Management Strategy, in January 2023.

Equalities Impact Assessment

6.3 None.

Climate Change Implications

6.4 The recommendations in Section 2 above will have no immediate impact on emissions of CO_2.

Background Papers

None

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