



Annual Treasury Management Report

2022/23

1. Introduction and Background

- 1.1. 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 the year. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).
- 1.2. During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:
 - an annual treasury strategy in advance of the year (February)
 - a mid-year treasury update report
 - an annual treasury report

In addition, this Council has received quarterly treasury management update reports. Scrutiny to all treasury management reports was provided by the Audit & Regulatory Committee before being reported to the full Council.

- 1.3. The regulatory environment places responsibility on Members for the review and scrutiny of Treasury Management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.
- 1.4. This report covers:
 - The Council's treasury position at the end of the year
 - Interest rate movements during the year
 - Borrowing activity
 - Investment performance & portfolio
- 1.5. There will be a supplementary report which will cover capital activity and the impact on the overall borrowing need, and related prudential indicators. This will be presented to a subsequent Audit & Regulatory Committee when the information is available through the Closure of Accounts for 2022/23.
- 1.6. Treasury Limits and Treasury management and Prudential Indicators were set within the Treasury Management Strategy 2022/23. The Council has complied with all indicators. Details of these are embedded throughout this report.

2. The Current Treasury Position

- 2.1. The Council's treasury management debt and investment position is organised by the treasury team 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 and through officer activity in accordance with the Council's Treasury Management Practices. The table below shows the Council's treasury position at the end of 2022/23 and a comparison with the previous year:

	2022/23			2021/22		
	Principal at 31st March	Average annual principal	Average annual interest rate/ return	Principal at 31st March	Average annual principal	Average annual interest rate/ return
Debt						
PWLB	£50,277,304	£50,277,304	3.87%	£50,277,304	£53,984,329	3.77%
Market Loans	£9,500,000	£12,257,534	4.55%	£12,800,000	£12,800,000	4.57%
Local Authority Loans	£2,000,000	£136,986	4.50%			
Total	£61,777,304	£62,671,824	4.00%	£63,077,304	£66,784,329	3.92%
Capital Financing Requirement*	<i>tbc</i>			£80,297,254		
Over/ (under) borrowed	<i>tbc</i>			-£17,219,950		
<i>*current year to be reported subsequently as Closure of Accounts process ongoing at time of writing</i>						
Treasury management investments	-£16,487,810	-£29,141,281	1.89%	-£30,112,000	-£32,648,369	0.21%
Net Debt	£45,289,494			£32,965,304		

3. The 2022/23 Treasury Management Strategy & Economic Conditions

- 3.1. The expectation for interest rates amongst forecasters at the time of setting the treasury management strategy for 2022/23 was that Bank Rate would increase following the reversal of the emergency cut to 0.10% at the start of the Covid-19 pandemic, but only to 0.75% by the end of the year. However the interest rate changes were far more significant and fast paced with increases to 1.00% on 5th May, 1.25% on 16th June, 1.75% on 4th August, 2.25% on 22nd September, 3.00% on 3rd November, 3.50% on 15th December, 4.00% on 2nd February, and 4.25% on 23rd March.

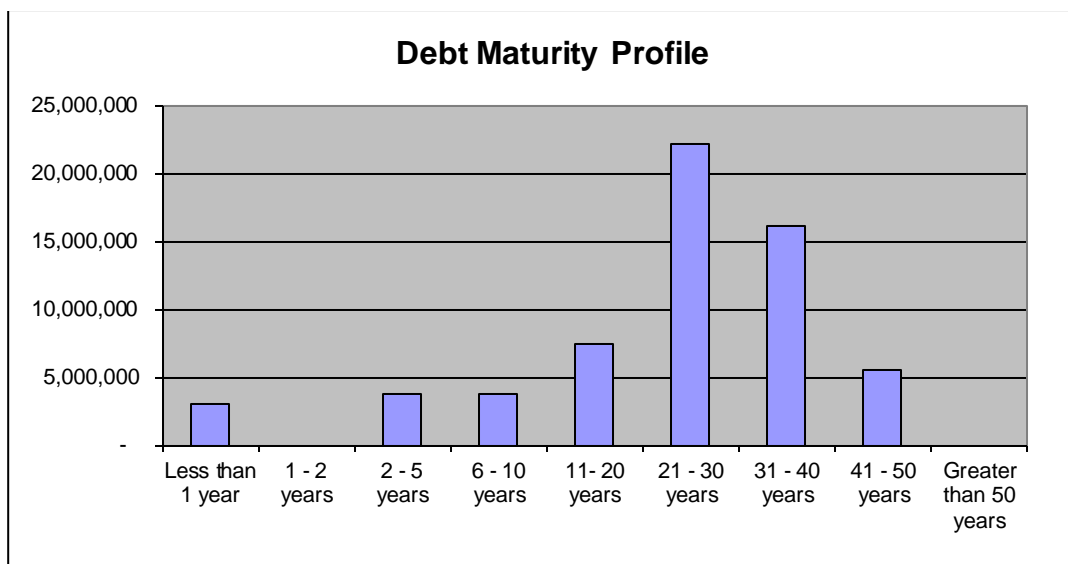
- 3.2. The impact of these increases was reflected in the months following each base rate increase in the improved yield on investment opportunities available. Where the average investment return was 0.80% in quarter 1, this was 3.39% in quarter 4, with an annual average of 1.89%. Cash balances at the end of the year were lower than previous years and at more normal levels as the various Central Government funded schemes to support residents and businesses during the Covid-19 pandemic came to a close and capital funding was allocated to projects in the year.
- 3.3. Borrowing interest rates on offer also increased significantly during the year, but with only a small external borrowing requirement, this had minimal impact on the borrowing costs outturn.

4. Borrowing Outturn

- 4.1. External borrowing activity during 2022/23 and the maturity profile at year end are shown in the tables below:

Amount	Lender	Interest Rate	Term	Month
£63,077,304	External borrowing 1st April 2022			
Redeemed Loans				Maturing
£3,300,000	Commerzbank LOBO	4.99%	59 years	January (redeemed 42 years early)
£3,300,000	Total			
New Loans				Starting
£2,000,000	Fareham Borough Council	4.50%	70 days	March
£2,000,000	Total			
<i>£1,300,100</i>	<i>Net decrease in external borrowing</i>			
£61,777,304	External borrowing 31st March 2023			
£36,448,609	HRA Share 59%*			
£25,328,695	General Fund Share 41%*			
	<i>*tbc pending Closure of Accounts</i>			
	Average borrowing during the year			
£50,277,304	PWLB	3.87%		
£12,257,534	Market Loans	4.55%		
£62,671,824	Total	4.00%		
£36,976,376	HRA Share 59%*			
£25,695,448	General Fund Share 41%*			

- 4.2. Attention must be given to the maturity profile of the loans to ensure maturity dates are evenly spread and the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below illustrates the maturity profile of the current portfolio of loans.



Maturity structure of borrowing	Fixed rate		Variable rate	
	Upper limit set 2022/23	As at 31st March 2023	Upper limit set 2022/23	As at 31st March 2023
under 12 months	60%	5%	100%	0%
12 months to 2 years	60%	0%	50%	0%
2 to 5 years	60%	6%	0%	0%
5 to 10 years	60%	6%	0%	0%
10 to 20 years	90%	12%	0%	0%
20 to 30 years		36%	0%	0%
30 to 40 years		26%	0%	0%
40 to 50 years		9%	0%	0%

- 4.3. A LOBO (Lender Option Borrower Option) loan of £3,300,000 from Commerzbank was extinguished on 31st January 2023. The original maturity date on this loan was 2065 and interest was charged at 4.99%. The loan has been repaid using cash balances and it has not been necessary to refinance the debt. The Council has paid a premium to repay this loan early of £897,461. This premium is written back under regulations and there will be an annual equal charge amortised over the remaining life of the original loan until 2065. This charge is split between the general fund and the HRA in proportion to the share of the borrowing pool at the time of redemption. The reduced interest cost weighed against the annual premium charge is a net discounted benefit to the Council over this period of £674,695.
- 4.4. £2,000,000 of new external borrowing was taken in March 2023 with a term of 70 days to manage cashflow into the new financial year with the remaining borrowing requirement continuing to be funded using internal resources available at the time.

There were no maturing or refinanced loans during the year, nor has the Council borrowed in advance of need.

- 4.5. External borrowing opportunities currently attract very high interest rates in the context of the last 10 years. Therefore wherever possible the Council will avoid medium to long term borrowing commitments by utilising spare cash balances as internal funding, reviewing borrowing requirements when the rates begin to decrease again, as is currently anticipated. The practice of internal borrowing has served well over recent years to make net savings on financing costs with loss of interest income being smaller than external borrowing costs, which is still the case. However, this is kept under constant review in climate of rises and fluctuations.
- 4.6. The total borrowing costs achieved an estimated saving of £182,499 against the budget; £106,924 is due to a greater estimated net charge to the HRA under the one pool approach of borrowing, with the remaining £75,575 being due less new external borrowing than anticipated. This outturn is subject to change as the closure of accounts process is ongoing.

5. Investment Performance & Portfolio

- 5.1. The investment performance of the Treasury Management function is dependent upon a number of factors, including the size of available investment balances; the market interest rates available; the timing of capital spend; and the restrictions placed on the Council by its approved Lending List.
- 5.2. The Council achieved an average interest rate of 1.89% on its investment portfolio:

	Q1	Q2	Q3	Q4	2022-23
Long term investments > 364 days	n/a	n/a	n/a	n/a	n/a
Short term investments < 364 days	0.84%	1.53%	2.56%	3.68%	1.89%
Instant Access Cash	0.72%	1.33%	2.38%	3.02%	1.88%
Total	0.80%	1.46%	2.46%	3.39%	1.89%
<i>Bank of England base rate at end of period</i>	1.25%	2.25%	3.50%	4.25%	

- 5.3. The Council manages its investments in-house, investing only with institutions that meet the Council's approved minimum lending criteria. The Lending List is constructed based on credit ratings provided by the three main credit agencies supplemented by additional market data, using the Link Creditworthiness analysis (see Annex A for lending limits applied in 2022/23).
- 5.4. Money was invested during the year with nine institutions. All investments were placed in line with the Council's approved lending limits. The table below summarises the Council's investments during the financial year including the average daily investment, interest earned and the associated interest rates. Interest rates vary

depending on the length and timing of investments. The investment funds include those held in the Council's instant access accounts. The average daily investment during 2022/23 was £29.1million.

Financial Institution	ESG linked	Country of Domicile	Duration	Interest earned	Average daily investment	Rate of return
Money market funds	No	UK	Instant access	£168,929	£7,498,932	2.25%
Barclays	Yes	UK	65 and 95 day notice	£121,278	£5,051,507	2.40%
Standard Chartered	Yes	UK	69-184 days	£79,719	£3,520,548	2.26%
Santander notice accounts and Certificate of Deposit	No	UK	95-180 days	£53,963	£3,886,025	1.39%
Handelsbanken	No	UK	Instant access	£43,763	£2,694,905	1.62%
Nationwide Building Society	No	UK	92 to 153 days	£36,201	£2,284,932	1.58%
Lloyds Bank Certificate of Deposit	No	UK	95-183 days	£31,929	£2,170,473	1.47%
NatWest Bank	No	UK	Instant access	£7,421	£1,534,553	0.48%
NatWest Bank Certificate of Deposit	No	UK	182 days	£6,482	£498,630	1.30%
Bank of Scotland	No	UK	Instant access	£0	£776	0.01%
Total				£549,685	£29,141,281	1.89%
ESG proportion	29.42%			£200,997	£8,572,055	2.34%
Barclays	<i>Linked to Barclays' Green Bond Purchasing Programme which covers 'a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction'.</i>					
Standard Chartered	<i>Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.</i>					

5.5. The short average maturity of investments during the year enabled increasing average yields on investments as opportunities improved following frequent base rate rises. The budget was set with an expectation of modest interest rate returns during the year. The investment income for the year was £549,685 against the budget of £103,670. The £446,015 surplus has been achieved as a result of the significant base rate rises and consequent increased interest earning investment opportunities throughout the year.

5.6. As agreed, no interest has been charged during the year on the £250,000 loan to the Buxton Crescent Heritage Trust.

5.7. Investments held at the 31st March 2023 are shown in the table below. All investments are for a period of one year or less:

Financial Institution	ESG linked	Country of Domicile	Principal invested at 31st March 2023	Fixed/variable
Money marketfunds	No	UK	£5,300,000	Variable
Barclays	Yes	UK	£5,200,000	Variable
NatWest Bank	No	UK	£2,587,810	Variable
Standard Chartered	Yes	UK	£2,000,000	Fixed
Handelsbanken	No	UK	£1,400,000	Variable
Total			£16,487,810	
ESG proportion			£7,200,000	43.67%

	2022/23	31st March 2023
	Treasury Management Strategy	Actual
Principal sums invested >365 days	£5,000,000	£0

ANNEX A**Current Lending Limits**

	UK			International	
	Individual		Group	Individual	
Category (per Link's creditworthiness model)	Principal Limit	Maximum Length	Principal Limit	Principal Limit	Maximum Length
NatWest (the Council's main bank account)	£9.25m	1 year	n/a	n/a	n/a
Money market funds	£9.25m	1 year	£14.06mm	n/a	n/a
Yellow	£9.25m	5 years	n/a	n/a	n/a
Purple	£9.25m	2 years	£14.06mm	£7.40m	2 years
Orange	£7.40m	1 year	£11.10m	£6.66m	1 year
Red	£6.66m	6 months	£9.99m	£5.55m	6 months
Green	£5.55m	100 days	£8.51m	£4.44m	100 days
No colour	-	Not to be used		-	Not to be used
Local Authority	£2.00m	1 year	£9.25m	n/a	n/a