

# CABINET

## 18<sup>TH</sup> SEPTEMBER 2023

### ANNUAL TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT 2022-23

#### 1. Introduction

The Treasury Management Policy and Strategy for 2022-23 was approved by Council on 2<sup>nd</sup> March 2022. Section B 1.1(2) stated that a year end annual report would be produced.

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) and outlines the Treasury Management activities in 2022-23 financial year.

#### 2. Investments

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Funds, Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily with the approved counterparties either via brokers on the Money Markets or direct. The security of the investments is the main priority, appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

For 2022-23 investments to individual counterparties were limited to:

	Maximum to Lend £m
<b>Upper Limit</b> Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term or AA-, Aa3 or AA- long term	10
<b>Middle Limit</b> Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term	7
<b>UK Banks Part Nationalised</b> Included as investment counterparties, as long as they continue to have appropriate UK Government support	7
Any one Local Authority	5
Any one AAA Rated Money Market Fund	10
Debt Management Office*	125

The DMADF (DMO) limit was increased in April 2022 to £125m from £100m by the Director of Corporate Services under Emergency powers. The limits on Money Market Funds were also increased to £10m (each) from £5m.

The total investments at 1st April 2022 and 31st March 2023 are shown in the following table:

Investments	01.04.22				31.03.23			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks and 100% Wholly Owned Subsidiaries	39.50	0.00	39.50	25	27.50	14.00	41.50	28
Building Societies	0.00	7.00	7.00	4	0.00	7.00	7.00	5
Money Market Funds	25.00	0.00	25.00	16	40.00	0.00	40.00	27
DMADF (DMO)	0.00	57.00	57.00	35	0.00	20.00	20.00	13
Local Authorities	0.00	32.00	32.00	20	0.00	40.00	40.00	27
<b>TOTAL</b>	<b>64.50</b>	<b>96.00</b>	<b>160.50</b>	<b>100</b>	<b>81.50</b>	<b>67.00</b>	<b>148.50</b>	<b>100</b>

The total investment figure of £148.50m at 31<sup>st</sup> March 2023 includes £33.45m Swansea Bay City Deal.

An analysis of the daily cash schedules indicates that the minimum balance lent over the twelve month period was £148.50m and the maximum balance lent was £251.02m. The average balance for the year was £206.41m.

The total investments made by the Council and repaid to the Council (the turnover) amounted to £1,853.00m. This averaged approximately £35.54m per week or £5.08m per day. A summary of the turnover is shown below:

	£m
Total Investments 1st April 2022	160.50
Investments made during the year	920.50
Sub Total	1081.00
Investments Repaid during the year	(932.50)
<b>Total Investments 31st March 2023</b>	<b>148.50</b>

The main aim of the Treasury Management Strategy is to manage the cash flows of the Council and the risks associated with this activity. Lending on the money market secures an optimum

rate of return, allows for diversification of investments and consequently reduction of risk, which is of paramount importance in today's financial markets.

For the period under review the average "90-day un compounded SONIA rate" was 1.81% whereas the actual rate the Council earned was 1.82%, an out performance of 0.01%.

This outperformance can be quantified as £50k additional interest earned compared to the average rate above.

The gross interest earned on investments for 2022-23 amounted to £3.614m, which was more than the estimated figure of £0.500m. The Bank of England Official rate was increased from 0.75% to 4.25% during 2022-23.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

### **3. Security, Liquidity and Yield (SLY)**

Within the Treasury Management Strategy Statement for 2022-23, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is still considered appropriate to keep investments short term to cover cash flow requirements.

Attached at Appendix 1 is a list of the individual investments held as at the 31<sup>st</sup> March 2023 together with their credit ratings, historic risk of default and the risk weighting attached to each investment.

### **4. Borrowing**

As Members are aware the Authority has a capital investment programme. For 2022-23 actual capital expenditure was £100.20m. This was financed from:

	<b>£m</b>
Borrowing	16.87
Grants and Contributions	71.04
Usable Capital Receipts Applied	0.96
Revenue and Reserves	11.33
<b>Total</b>	<b>100.20</b>

Under the Treasury Management Strategy it was resolved:

- To borrow to meet the funding requirements of the Authority, after allowing for capital grants, capital receipts and capital contributions, and to stay within the Prudential Indicators to ensure affordability, prudence and sustainability.
- To borrow when interest rates are at their most advantageous, after considering cash flow requirements.

The following loans were borrowed during 2022-23 to fund the capital programme:

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
PWLB 548866	5.00	3.91%	12th September 2022	47yrs	28th September 2069
PWLB 548868	5.00	3.90%	12th September 2022	48yrs	28th September 2070
PWLB 548870	5.00	3.90%	12th September 2022	49yrs	28th September 2071
PWLB 548872	5.00	3.89%	12th September 2022	49yrs 10mths	31st July 2072
<b>Total</b>	<b>20.00</b>				

The total loans outstanding at 1<sup>st</sup> April 2022 and 31<sup>st</sup> March 2023 were:

Loans	Balance at 01.04.22 £m	Balance at 31.03.23 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	387.61	397.61	10.00
Market Loan	3.00	3.00	0.00
Salix, Invest-to-Save, HILS & TCL	10.13	9.96	(0.17)
<b>Total</b>	<b>400.74</b>	<b>410.57</b>	<b>9.83</b>

The total external interest paid in 2022-23 amounted to £16.42m, which compares favourably with the budget of £19.39m. The savings have arisen due to under borrowing on the capital programme and borrowing at lower than anticipated interest rates.

## 5. Treasury Management Prudential Indicators

Under the requirements of the Prudential Code of Practice for Capital Finance in Local Authorities, the Council are required to set a number of treasury management prudential indicators for the year 2022-23. The indicators set and the performance against those indicators is shown below:

5.1 The estimated and actual interest exposure limits as at 31<sup>st</sup> March 2023 were:

	Estimate 31.03.23 £m			Actual 31.03.23 £m		
	Fixed Interest Rate	Variable Interest Rate	Total	Fixed Interest Rate	Variable Interest Rate	Total
Borrowed	472.00	3.00	475.00	407.57	3.00	410.57
Invested	(40.00)	(35.00)	(75.00)	(67.00)	(81.50)	(148.50)
<b>Net</b>	<b>432.00</b>	<b>(32.00)</b>	<b>400.00</b>	<b>340.57</b>	<b>(78.50)</b>	<b>262.07</b>
Proportion of Total Net Borrowing	108%	(8%)	100%	130%	(30%)	100%
<b>Limit</b>	<b>125%</b>	<b>5%</b>		<b>125%</b>	<b>5%</b>	

The Section 151 Officer reports that the authority exceeded this requirement in 2022-23 due to increased investments in Variable Interest Rate products such as Money Market Funds. This PI is currently under review and the Section 151 officer will update members in the Quarter 1 2023 report.

### 5.2 Maximum principal sums invested > 365 days

	<b>2022-2023 Limit £m</b>	<b>2022-2023 Actual £m</b>
Maximum principal sums invested > 365 days	10	NIL

### 5.3 Interest rate exposure limits

	<b>2022-23 Limit £m</b>	<b>2022-23 Actual £m</b>
Limits on fixed interest rates based on net debt	512.00	340.57
Limits on variable interest rates based on net debt	51.00	(78.50)

5.4 The upper and lower limits set for the maturity structure of borrowing along with the actual maturity structure as at 31<sup>st</sup> March 2023.

	<b>Estimated Upper Limit 2022-2023 %</b>	<b>Estimated Lower Limit 2022-2023 %</b>	<b>Actual 31.03.23 %</b>
Under 12 months	15	0	2.02
12 months to 2 years	15	0	2.79
2 years to 5 years	50	0	6.01
5 years to 10 years	50	0	8.39
10 years to 20 years	50	0	21.19
20 years to 30 years	50	0	21.68
30 years to 40 years	50	0	21.12
40 years and above	50	0	16.80
<b>Total</b>			<b>100.00</b>

Details of the above maturity structure are shown below:

Loan Maturities	PWLB Debt	Average Interest Rate	Market Loans/ Invest to Save/Salix/ HILS/TCL	Average Interest Rate	Total Debt Outstanding
	£m	%	£m	%	£m
Before 1st April 2024	8.00	6.69	0.29	0	8.29
1st April 2024 to 31st March 2025	11.16	5.13	0.29	0	11.45
1st April 2025 to 31st March 2028	23.82	4.13	0.87	0	24.69
1st April 2028 to 31st March 2033	30.83	4.18	3.62	0	34.45
1st April 2033 to 31st March 2043	82.10	4.31	4.90	0	87.00
1st April 2043 to 31st March 2053	89.00	4.16	0	0	89.00
1st April 2053 to 31st March 2063	83.70	4.84	3.00	4.72	86.70
After March 2063	69.00	2.77	0	0	69.00
<b>Total as at 31.03.23</b>	<b>397.61</b>		<b>12.96</b>		<b>410.57</b>

## 6. Prudential Indicators

### 6.1 Affordability

#### 6.1.1 Actual and estimated ratio of financing costs to net revenue stream.

Ratio of Financing Costs to Net Revenue Stream		
	2022-2023 Estimate %	2022-2023 Actual %
Non-HRA	3.95	3.27
HRA	30.90	29.70

The indicator shows the proportion of income taken up by capital financing costs.

## 6.2 Prudence

### 6.2.1 The Capital Financing Requirement (CFR).

	<b>31.03.2023 Estimate £m</b>	<b>31.03.2023 Actual £m</b>
Non-HRA	285	265
HRA	178	162
HRAS	69	69
<b>Total</b>	<b>532</b>	<b>496</b>

The Capital Financing Requirement reflects the underlying need to borrow for capital purposes.

### 6.2.2 Gross Borrowing against the Capital Finance Requirement indicator.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. Gross borrowing must not exceed the CFR for 2022-23 plus the expected changes to the CFR over 2023-24 and 2024-25 but can in the short term due to cash flows. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£m	2022-2023 Estimate	2022-2023 Actual
Debt at 1 <sup>st</sup> April 2022	411	401
Expected Change in Debt	64	10
<b>Gross debt at 31<sup>st</sup> March 2023</b>	<b>475</b>	<b>411</b>
<b>CFR</b>	<b>532</b>	<b>496</b>
<b>Under / (Over) borrowing</b>	<b>57</b>	<b>85</b>

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2022-23.

### 6.2.3 The Authorised Limit and Operational Boundary.

The Authorised Limit is the "Affordable Borrowing Limit" required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2022-23 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	<b>2022-2023 £m</b>
Authorised Limit	585.40
Gross borrowing	410.57
Operational Boundary	532.20
Average gross borrowing position	404.89
Financing costs as a proportion of net revenue stream	5.86%

## **7. Leasing**

No finance leases were negotiated during the year.

## **8. Rescheduling**

No rescheduling was undertaken during the year.

## **9. Conclusion**

This report demonstrates compliance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

## **10. Recommendations**

It is recommended that this report be received by Cabinet.