

5 March 2024

| | | | |
|-----------------------|--|---------------|---|
| Report of | The Section 151 Officer | Author | Chris Hartgrove (chris.hartgrove@colchester.gov.uk) |
| Title | Treasury Management Outturn 2022/23 | | |
| Wards affected | Not applicable | | |

1. Executive Summary

- 1.1 The Council's Treasury Management Strategy (including Investment Strategy) for 2022/23 was adopted by full Council in February 2022.
- 1.2 The Borrowing and Investment position as at 31st March 2023 was as follows:
 - Borrowing – external borrowing marginally decreased by £4.5 million (from £161.1 million to £156.6 million) during the period April 2022 to March 2023; and
 - Investments – there was a decrease in investments of £32.0 million (from £64.5 million to £32.5 million) during the same period.
- 1.3 The report also considers compliance with key Treasury Management indicators. Full compliance was achieved in all cases in 2022/23.

2. Recommended Decisions

- 2.1 To note the Treasury Management Outturn 2022/23.

3. Reason for Recommended Decision

- 3.1 To enable the robust scrutiny the Council's Treasury Management performance for 2022/23.

4. Alternative Options

- 4.1 None.

5. Background and Introduction

5.1 The Council's Treasury Management Strategy for 2022/23 (including Investment Strategy) was adopted by the Council in February 2022. The purpose of this report is to update the Committee on the final outturn position against that Strategy following the publication of the Council's draft Statement of Accounts 2022/23 on 26th February 2024.

6. Borrowing Activity

6.1 Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

6.2 Acceptable use of PWLB borrowing includes Service Delivery, Housing, Regeneration, Preventative Action, Refinancing and Treasury Management.

6.3 The Council is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB.

6.4 At 31st March 2023, the Council held £156.6 million in loans (a decrease of £4.5 million compared to the position as at 31st March 2022), as part of its strategy for funding the Capital Programme and is summarised in the table below.

Borrowing 2022/23

| Description | Balance 31/03/22 | Net Movement | Balance 31/03/23 | 31/03/23 Weighted Average Rate (%) | 31/03/23 Weighted Average Maturity |
|--------------------------------|---------------------|-----------------|---------------------|---|---|
| | £M's | £M's | £M's | | |
| Public Works Loan Board (PWLB) | 132.1 | 0 | 132.1 | 3.80% | 38.4 Years |
| Banks | 9.0 | 0 | 9.0 | 4.26% | 70.1 Years |
| Local Authorities (long-term) | 20.0 | (20.0) | 0 | 2.11% | 2.0 Years |
| Local Authorities (short-term) | 0 | 10.0 | 10.0 | 2.0% | Less than 1-Year |
| LOBO's | 5.5 | 0 | 5.5 | 3.62% | Less than 1-Year |
| Total Borrowing | 161.1 | (10.0) | 156.6 | | |

6.5 The chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

- 6.6 The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March 2023 around 2% to 4% higher than those at the beginning of April 2022. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September 2022 after the Liz Truss 'mini budget' that included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period, some PWLB rates increased to 6.0%. Rates fell from their September 2022 peaks but remained volatile and well above recent historical norms. The PWLB 10-year maturity certainty rate stood at 4.33% at 31st March 2023, 20-years at 4.70% and 30-years at 4.66%.
- 6.7 A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts (HRA) and the delivery of social housing and was made available with effect from 15th June 2023, initially for a period of one year.

7. Treasury Investment Activity

- 7.1 CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define Treasury Management Investments as investments that arise from the organisation's cash flows or Treasury Risk Management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.
- 7.2 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held, and money borrowed in advance of need. During 2022/23, as is normal, the Council's investment balances varied due to timing differences between income and expenditure.
- 7.3 At 31st March 2023, the Council held £32.5 million in investments (down £32.0 million compared to the position as at 31st March 2022), which are summarised in the table below.

Treasury Investments 2022/23

| Description | Balance 31/03/22 | Net Movement | Balance 31/03/23 | 31/03/23 Income Return | 31/03/23 Weighted Average Maturity |
|---|---------------------|-----------------|---------------------|------------------------------|---|
| | £M's | £M's | £M's | | |
| Banks & Building Societies (unsecured) | 39.0 | (31.5) | 7.5 | 4.09% | Less Than 1-Year |
| Government (incl. local authorities) | 6.5 | (1.5) | 5.0 | 4.10% | Less Than 1-Year |
| Money Market Funds | 19.0 | 1.0 | 20.0 | 4.10% | Instant Access |
| Total Investments | 64.5 | (32.0) | 32.5 | | |

- 7.4 Both the CIPFA Code and Government guidance requires local authorities to invest 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 Council'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.

8. Treasury Management Indicators

8.1 The Section 151 Officer reports that Treasury Management activities undertaken during 2022/23 complied with the extant CIPFA Treasury Management Code.

8.2 The Section 151 Officer also confirms that Investment activity was undertaken in accordance with the professional advice provided by the Council's retained Treasury Management advisors, Link with strict adherence to the Counterparty List (which is kept under continuous review).

8.3 Compliance was measured against the following Treasury Management indicators in the year:

- Operational Boundary – an estimate of the Council's (most likely) total external debt. It is possible for the Operational Boundary to be temporarily breached to take account of unusual movements in cash flow, although this should not be a regular occurrence.
- Authorised Limit – essentially the same as the Operational Boundary but includes headroom over and above it to take account of unusual movements in cash flow and therefore should be the maximum amount of external debt that the Council is exposed to at any given time.
- Maturity Structure of Borrowing - this indicator is set to control exposure to refinancing risk through the spreading of loan maturities; and
- Principal Sums Invested for Longer than 1-Year - the purpose of limiting principal sums invested for periods longer than a year is to contain exposure to the possibility of loss that might arise as a result of having to borrow short term at higher rates or redeem investments at a loss.

8.4 Full compliance with the Council's Operational Boundary and Authorised Limit was achieved in 2022/23 with the actual level of External Borrowing significantly below both indicators as presented in the table below.

| Operational Boundary and Authorised Limit for External Debt | | | |
|--|-------------------------|-----------------------|------------------|
| Description | 2022/23 Strategy | 2022/23 Actual | Complied? |
| | £Ms | £Ms | |
| Operational Boundary – Borrowing | 375.0 | 156.6 | Yes |
| Operational Boundary – Other Long-Term Liabilities | 0 | 0 | Yes |
| Operational Boundary – Total External Debt | 375.0 | 156.6 | Yes |
| Authorised Limit – Borrowing | 405.0 | 156.6 | Yes |
| Authorised Limit – Other Long-Term Liabilities | 0 | 0 | Yes |
| Authorised Limit – Total External Debt | 405.0 | 156.6 | Yes |

8.5 The Council's Borrowing maturity structure remained within Strategy limits in 2022/23 as summarised in the table below.

| Maturity Structure of Borrowing | | | | |
|--|----------------------------|------------------------|------------------------|------------------|
| | 31/03/23 Actual | Upper Limit | Lower Limit | Complied? |
| Under 12 months | 6.4% | 15.0% | 0% | Yes |
| 12 months and within 24 months | 0% | 15.0% | 0% | Yes |
| 24 months and within 5 years | 0.4% | 15.0% | 0% | Yes |
| 5 years and within 10 years | 4.2% | 15.0% | 0% | Yes |
| 10 years and within 20 years | 14.7% | 30.0% | 0% | Yes |
| 20 years and within 30 years | 24.3% | 30.0% | 0% | Yes |
| 30 years and within 40 years | 21.1% | 40.0% | 0% | Yes |
| 40 years and within 50 years | 24.3% | 40.0% | 0% | Yes |
| More than 50 years | 5.7% | 10.0% | 0% | Yes |

8.6 The Council had no sums invested for longer than one-year in 2022/23 as summarised in the table below.

| Principal Sums Invested for Periods Longer than One-Year | |
|---|----------------|
| | 2022/23 |
| Actual principal invested beyond year end. | £0 million |
| Limit on principal invested beyond year end. | £10.0 million |
| Complied? | Yes |

9. Equality, Diversity and Human Rights implications

9.1 None.

10. Standard References

10.1 The capital investment plans included within the overall Capital Programme for 2022/23 (both General Fund and HRA) reflected the Council's priorities within the "Better Colchester Strategic Plan 2020/23" (adopted October 2020).

10.2 Management Accounts 2022/23 (Month 12).

11. Environmental and Sustainability Implications

11.1 None.