3.0 **ANNUAL TREASURY MANAGEMENT AND PRUDENTIAL INDICATORS REPORT 2022/23**

OVERVIEW

3.1 **This section of the report presents the results of the Treasury Management operations of North Yorkshire County Council and the District Councils for 2022/23 and the outturn position on Prudential Indicators for all 8 authorities.**

BACKGROUND

3.2 This section of the report presents a summary of the actual Treasury Management Activity undertaken in 2022/23 by all eight legacy councils following the closure of the individual authority accounts.

3.3 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in Public Services and in this context is the management of the borrowing, cash flows, banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimal performance consistent with those risks.

3.4 The Code recommends that Members should be informed of Treasury Management activities including as a minimum an Annual Strategy, a mid-year review and an annual report after the year end.

3.5 This report has been prepared in the context of all the Annual Treasury Management Strategies for 2022/23 which were approved by each council Where appropriate, this report reflects performance for North Yorkshire Council, with detailed performance for each District Council included in Appendices D to J

3.6 This **Annual Treasury Management Report** for 2022/23 addresses the following:-

- overall treasury (debt and cash) position
- performance measurement
- Treasury Management Strategy for 2022/23
- the Economy in 2022/23
- borrowing and investment rates in 2022/23
- borrowing outturn for 2022/23
- debt rescheduling and the Premature Repayment of External Debt
- investment outturn for 2022/23
- revenue impact of 2022/23 Treasury Management Activity
- compliance with Treasury limits and Prudential Indicators

OVERALL TREASURY (DEBT AND CASH) POSITION

3.7 The position for all Councils at the end of the 2022/23 financial year was as follows:-

	As at 31 March 2023	
	Principal	**Weighted Average Return**
	£m	**%**
External Debt Outstanding		
NYCC	208.5	4.32
District Councils		
Craven DC	**5.5**	**4.16**
Hambleton DC	**41.9**	**2.00**
Harrogate BC	**38.1**	**3.22**
Richmondshire DC	**12.6**	**3.55**
Ryedale DC	**5.4**	**3.74**
Scarborough BC	**34.4**	**2.71**
Selby DC	**52.8**	**3.63**
	190.7	**3.04**
Total External Debt	**399.2**	**3.71**
Investments		
NYCC	**315.9**	**2.13**
District Councils		
Craven DC	**17.1**	**0.74**
Hambleton DC	**0.0**	**0.0**
Harrogate BC	**22.7**	**1.39**
Richmondshire DC	**11.6**	**3.01**
Ryedale DC	**25.7**	**1.29**
Scarborough BC	**42.0**	**3.88**
Selby DC	**77.1**	**2.16**
	196.2	**2.25**
Total Investments	**512.0**	**2.18**
Net Investments	**-112.8**	

3.8 In the above table the weighted average rate for 'cash available' is expressed on an annualised average basis.

TREASURY MANAGEMENT STRATEGY 2022/23

3.9 The expectation for interest rates incorporated within all the **Annual Treasury Management Strategies for 2022/23** was based on officers' views at that time, prepared with assistance from the County Council's Treasury Management Advisor, Link Treasury Services Limited, (Link) and supported by a selection of City forecasts.

3.10 The interest rates for the UK were expected to be as follows:

Bank Base Rate was expected to be 0.5% through to 2022/23, rising to 0.75 in March 2023.

PWLB Borrowing rates were forecast to rise gradually throughout the next three years in all periods. Variable and short term rates were expected to be the cheaper form of borrowing over the period.

a) Long Term Debt to Finance Capital Expenditure (borrowing strategy 2022/23)

2022/23 was expected to continue as a year of low bank interest rates,

Borrowing in advance of need within the constraints of the Prudential Code and approved Prudential Indicators would only be considered in exceptional circumstances.

Consideration would be given to financing capital expenditure by taking borrowing from PWLB/money markets, but the key treasury strategy was to postpone borrowing and maintain an under borrowed position to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

In considering this option however, day to day cash flow constraints and the loss of longer term interest stability would also be taken into account together with the possibility of having to replace the internal borrowing with external borrowing in a subsequent year at higher interest rates.

b) Investment of Surplus cash (investment strategy 2022/23)

Investment priorities are firstly the security of capital and secondly the liquidity of its investments. The highest return would then be sought provided that proper levels of security and liquidity are achieved.

THE ECONOMY IN 2022/23

3.11 The treasury advisors Link summarised the key points associated with economic activity in 2022/23 as follows:

UK Economy

- UK interest rates have proven volatile, driven by the backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies

- CPI inflation peaked at 11.1% in October. Any significant falls from this level will mainly be dependant on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. The majority of commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.
- The UK unemployment rate fell throughout 2022 to a 48-year low of 3.6k. Without an increase in the labour force participation rate, it is unlikely that the UK economy will grow. Average wage increases are over 6% and the MPC may be concerned that wage inflation will continue to add to inflation increases as major supply-side shocks to food and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.
- Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

BORROWING AND INVESTMENT RATES IN 2022/23

3.12 Notwithstanding the forecasts for interest rates and prospects for the economy in 2022/the actual interest position experienced during the year is described below.

3.13 The movement in relevant UK market interest rates for the year was as follows:

a) for Bank rate

Period	%
1 April 2022 – 4 May 2022	0.75
5 May 2022 – 15 June 2022	1.00
16 June 2022 – 3 August 2022	1.25
4 August 2022 – 21 September 2022	1.75
22 September 2022 – 2 November 2022	2.25
3 November 2022 – 14 December 2022	3.00
15 December 2022 – 1 February 2023	3.50
2 February 2023 – 22 March 2023	4.00
23 March 2023 – 31 March 2023	4.25

b) for PWLB rates

Item	Range during Year	Start of Year	End of Year	Average In Year
Fixed Interest Maturity	%	%	%	%
1 year	2.15 – 5.31	1.95	4.78	3.26
5 years	2.41 – 5.63	2.33	4.28	3.82
10 years	2.58 – 5.67	2.51	4.35	3.98
25 years	2.72 – 6.08	2.68	4.70	4.27
50 years	2.45 – 5.71	2.42	4.41	3.94

The PWLB rates in the above table reflect the PWLB 0.2% discount rate.

BORROWING OUTTURN FOR 2022/23

3.14 The year on year movement in the external debt position for all Council's is as follows:-

3.15 The reduction in external debt during 2022/23 of £13.3m (from £221.8m to £208.5m) reflects the impact of debt repayments and the total 2022/23 borrowing requirement being funded internally from cash balances.

3.16 Recognising the Borrowing Strategy, the economic situation in 2022/23 and the actual borrowing rates during the year, in general, the borrowing approach taken in 2022/23 was as follows:-

a) in view of interest rate forecasts it was recognised that the internal borrowing strategy was not a significant risk throughout 2022/23. Continuing substantial cash balances ensured there was no need to borrow for cash flow purposes alone. Deferral of any potential new borrowing also supported all Councils in terms of reduced credit risk on its investments;

b) it was appreciated that the overall forecast for long term borrowing rates is to increase over the next few years and, therefore, consideration was also given to weighting the short term advantage of internal borrowing against potential long term costs. A close watch will, however, continue to be kept on interest rates;

c) continuing low investment rates, in comparision to borrowing rates, throughout 2022/23 supported the continued use of cash balances, where appropriate, to maintain the internal financing (under borrowed) position of the annual borrowing requirement;

d) the 2022/23 borrowing requirement increased the internal financing position. No additional external debt repayments were made due to early redemption penalties that would be incurred;

e) the internal borrowing strategy achieves significant short term revenue savings and also mitigates the credit risk incurred by holding investments in the market. The strategy is not risk free, however, in terms of the loss of long term stability in interest payments, operational cash flow and ultimate refinancing of the capital borrowing requirement;

3.17 The total borrowing requirement for 2022/23 and the financing of that requirement was as follows:-

Item	Capital Borrowing Requirement		External Borrowing		Over / (Under) Borrowing	
	£m	£m	£m	£m	£m	£m
NYCC		281.3		208.5		(72.8)
District Councils						
Craven DC	14.3		5.5		(8.8)	
Hambleton DC	63.6		41.9		(21.8)	
Harrogate BC	96.9		38.1		(58.8)	
Richmondshire DC	16.1		12.6		(3.4)	
Ryedale DC	1.6		5.4		3.8	
Scarborough BC	84.7		34.4		(50.3)	
Selby DC	52.6	329.8	52.8	190.7	0.3	(139.1)
Total in year borrowing requirement		**611.1**		**399.2**		**(211.9)**

Excludes PFI / lease Liability

3.18 Minimum Revenue Provision (MRP) for North Yorkshire County Council was £10.1m for 2022/23,which was as budgeted. A full, detailed, calculation of the MRP charge for North Yorkshire Council will be provided in the Quarter 1 report.

DEBT RESCHEDULING AND THE PREMATURE REPAYMENT OF EXTERNAL DEBT

3.19 The rescheduling of debt involves the early repayment of existing debt and its replacement with new borrowing. This can result in one-off costs or benefits called respectively premiums and discounts dependent on whether the rate of the loan to be repaid is higher (premium) or lower (discount) than comparative current rates.

3.20 No cost effective repayment options were identified in year.

INVESTMENT OUTTURN FOR 2022/23

Internally Managed Investments

3.21 Investment policy is governed by DLUHC guidance which has been implemented in the annual investment strategies for North Yorkshire County Council and the District Councils. These policies set out the approach for choosing investment counter parties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps, bank share price etc.

All investment activity during the year conformed to the approved strategies and none of the council's had liquidity difficulties.

3.22 The results of all investment activity for 2022/23 was as follows:-

	NYCC	Districts	Combined
Balance Held as at 31/03/2023	315.9m	196.1m	512.0m
Interest Earned	6.9m	4.9m	11.8m
Average Rate achieved 2022/23	2.13%	2.25%	2.18%
Average 7 Day Rate 2022/23			2.20%
Average Bank Rate 2022/23			2.30%

3.23 An analysis of the investments placed by the North Yorkshire County Council Investment Pool at 31 March 2023 totalling £442.3m is attached at **Appendix A**.

3.24 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.

North Yorkshire County Council Treasury Management Investment Pool

3.25 The level of funds loaned out and interest earned figures reported above for NYCC include transactions relating to the various independent bodies for which the County Council provided treasury management services during 2022/23.

3.26 Due to the size of the cash balances of these bodies, the County Council operates a 'sweep' arrangement under which any surplus cash of the organisation(s) are merged with similar funds managed by the County Council to secure better overall returns in the money market.

3.27 This arrangement is advantageous to these bodies because on their own the day to day balances in their bank accounts can be volatile and unpredictable and yet are small in terms of involvement in the money market.

3.28 Interest is paid out to these organisations at the same overall average rate as earned by the County Council on the total funds loaned out, and they are charged an annual fee for the service provided.

3.29 Any loss incurred as a result of default by a bank / building society counterparty would be apportioned between the County Council and these organisations in proportion to the total surplus cash funds of each organisation, at the time of default.

3.30 In terms of levels of balances outstanding the position is as follows:-

Item	**31 March 2022**	**31 March 2023**	**Interest Earned in 2022/23**
	£m	**£m**	**£000**
NY Pension Fund	21.7	1.8	181.7
NY Fire and Rescue Authority	5.9	7.2	116.1
Richmondshire District Council	0.0	7.8	9.0
Yorkshire Dales National Park	4.0	4.0	107.1
North York Moors National Park	4.5	6.4	140.0
Peak District National Park	6.6	7.5	159.0
Selby District Council	80.5	77.9	1,856.3
National Parks England	0.2	0.2	6.1
Align Property Partners	1.4	1.9	37.5
NYnet Limted	6.0	11.7	0.0
	130.9	126.3	2,612.6
County Council	286.9	315.9	6,852.5
Total	**417.8**	**442.2**	**9,465.1**

Fund Managers and Externally Managed Investments

3.31 The option to use external Fund Managers for management of an element of the Investment Portfolio has been kept under constant review throughout 2022/23 and is discussed as part of regular strategy meetings with the Council's Treasury Management advisors, Link.

3.32 No Fund Managers were used during 2022/23 by NorthYorkshire County Council or the District Councils.

NORTH YORKSHIRE COUNTY COUNCIL ALTERNATIVE INVESTMENTS

3.33 The prolonged low interest rate environment has resulted in reduced returns on treasury management investments. Moreover, the introduction of the general power of competence has given local authorities far more flexibility in the types of activity they can engage in. These changes in the economic and regulatory landscape, combined with significant financial challenges, have led many authorities to consider different and more innovative types of investment. Details of Alternative Investments undertaken by the District Council's during 2022/23 are reported separately in appendices D to J.

3.34 The primary objectives of alternative investment activities are:

a) Security – to protect the capital sums invested from loss; and
b) Liquidity – ensuring the funds invested are available for expenditure when needed.

3.35 Non-core activities and investments are primarily undertaken by the Council in order to generate income to support the delivery of a balanced budget. Such investments are only entered following a full assessment of the risks and having secured expert external advice (i.e. where it is relevant to do so).

3.36 An overall maximum exposure of £60m for alternative investments was approved by Executive on 15 January 2019.

3.37 In order to manage risk appropriately, achieve targets for investment returns, deliver a diverse portfolio and maintain a level of liquidity, the Commercial Investment Board has established an investment framework. The investment framework provides a range of investment options and investment limits for each option.

Commercial Property

3.38 The acquisition of land and buildings for investment purposes are classified as Commercial Property.

3.39 The investments in Commercial Property are classed as capital expenditure. As Commercial Properties are funded from core cash balances, the investments are effectively funded from internal borrowing for capital accounting purposes. As a result, expenditure on Commercial Property investments are included in the calculation of the Capital Financing Requirement (CFR). When the County Council ultimately disinvests and sells the properties, the income will be classed as a capital receipt and applied to reduce the CFR. The County Council will not borrow to fund commercial investment through loans from PWLB or money markets.

3.40 Commercial Properties in place as at 31 March 2023 are as follows:

Property	Date Purchased	Amount	Rate of Return	Return
		£m	**%**	**£k**
Bank Unit in Stafford Town Centre	May-19	0.9	6.05	53.0
Harrogate Royal Baths	Jan-19	9.5	1.41	134.1
Co-op Store in Somercotes	Mar-19	1.5	5.22	79.8
		11.9	**2.25**	**266.9**

Commercial Property is a long term investment and valuations can, therefore, rise as well as fall, over the period they are held. In order to mitigate any potential future losses funds have been set aside to offset reductions in valuations previously identified and future maintenance costs, to ensure that there is no impact on the General Fund at the point of any future sale.

Loans to Companies in which North Yorkshire County Council has an interest

3.41 The County Council's policy on making loans to companies in which it has an interest is incorporated into the Annual Treasury Management Strategy and is as follows:-

a) the County Council's general investment powers under the Annual Treasury Management and Investment Strategy come from the Local Government Act 2003 (section 12). Under this Act a local authority has the power to invest for any purpose relevant to its functions or for the purpose of the prudent management of its financial affairs;

b) in addition to investment, the County Council has the power to provide loans and financial assistance to limited companies under the Localism Act 2011 (and also formally under the general power of wellbeing in the Local Government Act 2000) which introduced a general power of competence for authorities (to be exercised in accordance with their general public law duties); and

c) any such loans to limited companies by the County Council would therefore be made under these powers. They would not, however, impact on the Investment Strategy but would be classed as capital expenditure by the County Council under the Local Authorities (Capital Finance and Accounting) Regulations 2003 and would be approved, financed and accounted for accordingly.

3.42 The position on these loans at 31 March 2023 is as follows:-

Period	Yorwaste	NYnet	Brierley Homes	First North Law	NY Highways	Total
	£m	£m	£m	£m	£m	£m
Balance as at 31 March 2022	6.03	0.00	14.51	0.09	7.96	28.59
Variation in 2022/23	-2.33	0.00	-4.02	-0.02	3.00	3.37
Balance as at 31 March 2023	3.70	0.00	10.49	0.07	10.96	25.22
Approved Limits	**7.50**	**10.00**	**22.90**	**0.25**	**11.00**	**51.65**

3.43 These loans have been treated as Capital Expenditure by the County Council and financed from Internal Borrowing. The revenue interest loss is offset by the interest charged to the four companies.

Property Funds

3.44 Property Funds, pooled investment vehicles investing in diversified UK commercial property, were added to the schedule of Non Specified Investments as part of the 2022/23 Annual Treasury Management Strategy.

3.45 Following consultation with the Audit Committee and subsequent approval by the Commercial Investment Board, a procurement process, supported by the County Councils Treasury Management advisers was undertaken during 2018/19 and two Property Funds, BlackRock UK Property Fund and Threadneedle Property Unit Trust were selected.

3.46 Investments held in Property Funds are classified as Non-Specified Investments and are, consequently, long term in nature. Valuations can, therefore, rise as well as fall, over the period they are held. Any gains or losses in the capital value of investments are held in an unusable reserve on the balance sheet and do not impact on the General Fund until units in the funds are sold. As at 31 March 2023 the total capital value of the Property Fund investments had decreased by £537.3k (£223.6k BlackRock; £313.7k Threadneedle).

3.47 Each fund also provides a monthly revenue return, representing interest earned on the fund over that period. The position on Property Funds at 31 March 2023 is as follows:-

In year

Fund	Bfwd Investment	Valuation as at 31 March 2023	Gain / (Loss)	Revenue Return	Return	Transfer to Reserve
	£k	£k	£k	£k	%	£k
Blackrock	3,448.9	2,779.4	(699.5)	82.9	2.8	95.0
Threadneedle	3,163.6	2,613.4	(550.2)	124.4	4.3	95.0
Total	**6,612.5**	**5,392.8**	**(1,219.7)**	**207.3**	**3.5**	**190.0**

Total Fund Performance

Fund	Orginial Investment	Valuation as at 31 March 2023	Gain / (Loss)	Revenue Return	Return
	£k	£k	£k	£k	%
Blackrock	3,003.0	2,779.4	(223.6)	405.2	13.5
Threadneedle	2,927.1	2,613.4	(313.7)	551.2	18.8
Total	**5,930.1**	**5,392.8**	**(537.3)**	**956.4**	**16.1**

Summary

3.48 The investment framework and alternative position as at 31 March 2023 is as follows:

Type of Investment	Max Limit	Invested as at 31/03/2023	Rate of Return	Return Achieved 22/23
	£m	£m	%	£k
Alternative Treasury Instruments				
Money Market Funds	20.0	0.0	3.97	257.7
Enhanced Cash Funds	20.0	0.0	0.00	0.0
Certificate of Deposit	20.0	0.0	0.00	0.0
Property Funds	20.0	5.9	3.50	207.3
Total Alternative Treasury Instruments	**80.0**	**5.9**	**3.50**	**465.0**
Alternative Investments				
Loans to Council Companies	41.7			
- Yorwaste		3.7	8.25	359.5
- Brierley Homes		10.5	10.25	1,145.2
- First North Law		0.1	8.25	4.4
- NY Highways		11.0	10.75	961.9

Total Loans to Council Companies	**41.7**	**25.3**	**10.17**	**2,471.0**
Other Alternative Investments				
Spend to Save	5.0	0.0	0.00	0.0
Loans to Hosung Associations	10.0	0.0	0.00	0.0
Solar Farm (or similar) Project	5.0	0.0	0.00	0.0
Commercial Investments/Local Growth	20.0	11.9	2.25	266.9
Total Other Alternative Investments	**45.0**	**11.9**	**2.25**	**266.9**
Total Alternative Investments	**60.0**	**37.2**	**7.63**	**2,737.9**

SUMMARY OF NORTH YORKSHIRE COUNTY COUNCIL REVENUE IMPACT OF 2022/23 TREASURY MANAGEMENT ACTIVITY

3.49 The revenue impact of the 2022/23 Treasury Management Actvity for North Yorkshire County Council is as follows:

Activity	Principal	Weighted Average Return	Return
	£m	%	£m
Investments			
Core Treasury Management (inc Alternative Treasury Instruments)	315.9	2.13	6.85
Alternative Investments	37.2	7.63	2.74
Total Investments	**353.1**	**2.72**	**9.59**
Capital Financing			
External Debt	208.5	4.32	-9.71
Minimum Revenue Provision			-10.13
Total Capital Financing Costs	**208.5**	**4.32**	**-19.84**
Transfer to Reserves			
Commercial Property			-0.19
Property Funds			0.00
Total Transfer to Reserves			**-0.19**
Net Revenue Impact			**-10.44**

COMPLIANCE WITH TREASURY LIMITS AND PRUDENTIAL INDICATORS

3.50 The North Yorkshire Council is required to comply with the CIPFA Prudential Code and set Prudential Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable.

3.51 During the financial year the County Council and District Council's operated within the Treasury Limits and Prudential Indicators as set out in each Council's Treasury Management Strategy for 2022/23.

3.52 As part of this Annual Treasury Management Report for 2022/23 it is therefore appropriate to report the 2022/23 outturn position on these Prudential Indicators compared with the last updated set of indicators. For North Yorkshire County Council, these are set out in **Appendix B, District Council's are set out in Apendices xx to xx**

APPROVED LENDING LIST

3.53 An Approved Lending List, with effect from 1 April 2023, for North Yorkshire Council was approved by Council in February 2023. The Approved Lending List is monitored on an ongoing basis and changes made as appropriate by the Corporate Director – Resources to reflect changes in organisations standing against the agreed criteria. This includes credit rating downgrades/upgrades, mergers or market intelligence and rumours that impact on the 'credit score' and 'colour coding system'

3.54 Changes to the Approved Lending List, together with the current List are then included in the Treasury Management section of the Quarterly Performance Monitoring reports submitted to Executive.

RECOMMENDATION

3.55 That the Executive is notes the performance of the Treasury Management operation during 2022/23 and the outturn position on Prudential Indicators for North Yorkshire County Council and the District Councils.

TREASURY MANAGEMENT APPENDICES

Appendix A	Analysis of North Yorkshire Couny Council Pool Investments placed at 31 March 2023
Appendix B	North Yorkshire County Council Compliance with Treasury Limits and Prudential Indicators
Appendix C	Approved Lending List for North Yorkshire Council
Appendix D	Treasury Management Outturn Report – Craven DC
Appendix E	Treasury Management Outturn Report – Hambleton DC
Appendix F	Treasury Management Outturn Report – Harrogate BC
Appendix G	Treasury Management Outturn Report – Richmondshire DC
Appendix H	Treasury Management Outturn Report – Ryedale DC
Appendix I	Treasury Management Outturn Report – Scarborough BC
Appendix J	Treasury Management Outturn Report – Selby DC

Analysis of North Yorkshire County Council Pool Investments placed at 31 March 2023

	Lender	Sector	Start Date	Amount	End Date	Interest Rate
				£		**%**
	Barclays Bank Plc (NRFB)	Bank		62,550,000		3.80
	Property Funds	Prop F		5,930,079		3.50
	Handelsbanken	Bank		30,000,000		1.75
	Santander UK Plc 95 Day Notice	Bank		23,000,000		3.54
	Santander UK Plc 180 Day Notice	Bank		27,000,000		3.87
Apr-23	Hambleton DC	LA	20-Apr-22	10,000,000	01-Apr-23	1.25
	Ryedale DC	LA	16-Mar-23	4,000,000	01-Apr-23	3.82
	Craven DC	LA	17-Mar-23	4,000,000	01-Apr-23	3.82
	Hambleton DC	LA	20-Mar-23	5,000,000	01-Apr-23	3.82
	Craven DC	LA	31-Mar-23	400,000	01-Apr-23	3.82
	Hambleton DC	LA	31-Mar-23	350,000	01-Apr-23	3.82
	Sumitomo Mitsui BCE	Bank	04-Jan-23	20,000,000	04-Apr-23	3.89
	Goldman Sachs	Bank	07-Oct-22	10,000,000	06-Apr-23	4.26
	LB Croydon	LA	10-Oct-22	10,000,000	11-Apr-23	4.10
	Sumitomo Mitsui BCE	Bank	12-Jan-23	10,000,000	12-Apr-23	3.96
	LB Croydon	LA	13-Oct-22	10,000,000	13-Apr-23	4.25
	Goldman Sachs	Bank	14-Oct-22	5,000,000	14-Apr-23	4.20
	Helaba	Bank	27-Oct-22	10,000,000	27-Apr-23	3.93
	LB Havering	LA	28-Feb-23	5,000,000	28-Apr-23	4.10
May-23	DBS	Bank	04-May-22	10,000,000	03-May-23	1.90
	DBS	Bank	11-May-22	5,000,000	10-May-23	1.85
	Goldman Sachs	Bank	11-Nov-22	5,000,000	11-May-23	3.86
	DBS	Bank	23-May-22	10,000,000	22-May-23	1.85
Jun-23	Standard Chartered	Bank	21-Dec-22	5,000,000	21-Jun-23	4.12
	Standard Chartered	Bank	21-Dec-22	10,000,000	21-Jun-23	4.12
	Standard Chartered	Bank	22-Dec-22	10,000,000	22-Jun-23	4.11
Jul-23	Standard Chartered	Bank	11-Jan-23	10,000,000	11-Jul-23	4.24
	Goldman Sachs	Bank	12-Jan-23	10,000,000	12-Jul-23	4.20
	Helaba	Bank	18-Jan-23	10,000,000	18-Jul-23	4.09
	Standard Chartered	Bank	20-Jan-23	10,000,000	20-Jul-23	4.34
Aug-23	National Westminster Bank PLC	Bank	19-Aug-22	5,000,000	18-Aug-23	3.05
	Helaba	Bank	23-Aug-22	5,000,000	22-Aug-23	3.52
	National Westminster Bank PLC	Bank	31-Aug-22	5,000,000	30-Aug-23	3.40
Sep-23	National Westminster Bank PLC	Bank	21-Sep-22	10,000,000	20-Sep-23	3.90
	Goldman Sachs	Bank	21-Mar-23	10,000,000	21-Sep-23	4.35
	Goldman Sachs	Bank	23-Mar-23	5,000,000	23-Sep-23	4.63
	National Westminster Bank PLC	Bank	30-Sep-22	10,000,000	29-Sep-23	4.80
Oct-23	National Westminster Bank PLC	Bank	04-Oct-22	10,000,000	03-Oct-23	4.70
	LB Brent	LA	05-Oct-22	10,000,000	04-Oct-23	4.40
	Handelsbanken	Bank	11-Oct-22	10,000,000	11-Oct-23	4.67
	National Westminster Bank PLC	Bank	18-Oct-22	5,000,000	17-Oct-23	4.60
	National Westminster Bank PLC	Bank	28-Oct-22	10,000,000	27-Oct-23	4.40
				442,230,079		**3.69**

NORTH YORKSHIRE COUNTY COUNCIL PRUDENTIAL INDICATORS

(i) Statutory Affordable Borrowing Limit for 2022/23 required under Section 3 of the Local Government Act 2003

Item	Borrowing	Other Long Term Liabilities	Total
	£m	**£m**	**£m**
Initial figure approved February 2022	395.7	170.6	566.3
Revised Quarter 2 2022/23	331.2	143.6	474.8
Actual limit 2022/23	**261.8**	**143.6**	**405.4**

The limit set reflects sufficient headroom to cover a number of eventualities that could have occurred in the course of the financial year. Examples include debt rescheduling, capital receipts slippage, new capital borrowing requirements being taken early in the financial year and unusual cash movements.

(ii) Ratio of capital financing costs to the net revenue budget

Formally Required Indicator Net of Interest Earned

	%
Reported February 2022	9.8
Revised Quarter 2 2022/23	9.3
Actual 2022/23 outturn	**9.3**

The capital finance costs figure takes into account loan charges (principal plus interest) on external debt plus PFI and Finance Lease charges less interest earned on cash invested.

Local Indicator

Capital Financing costs are capped to 10% of the annual Net Revenue Budget (excludes interest earned on surplus cash balances).

	%
Reported February 2022	4.8
Revised Quarter 2	**4.8**
Actual 2022/23 outturn	**4.8**

(iii) **Capital Expenditure Actual and Forecasts**

	£m
Reported February 2022	83.2
Revised Quarter 2	115.4
Actual 2022/23 outturn	**84.6**

The outturn position is lower than the probable as a result of rephasing of capital spending in the year self-funded from revenue and capital contributions, including school schemes.

(iv) **Capital Financing Requirement (as at 31 March)**

	Borrowing	**Other Long Term Liabilities**	**Total**
	£m	**£m**	**£m**
Reported February 2022	**288.2**	**170.6**	**458.8**
Revised Quarter 2	277.4	143.6	421.0
Actual 2022/23 outturn	**281.3**	**143.6**	**424.9**

The outturn position is lower than the previous forecast largely as a result of the lower than anticipated

(v) **Gross borrowing against the Capital Financing Requirement**

The Prudential Indicator requires that, except in the short term, gross debt should not exceed the capital need to borrow as demonstrated by the Capital Financing Requirement (CFR).

The Corporate Director – Strategic Resources reports that the County Council has had no difficulty in meeting this requirement up to 2022/23 with the 2022/23 outturn position being as follows:

	£m
CFR (borrowing) at 31 March 2023	424.9
Less actual external debt at 31 March 2023	352.1
Head room at 31 March 2022 (= internally financed capital expenditure at 31/3/2023)	**72.8**

(vi) **External Debt Limits**

	Borrowing	Other Long Term Liabilities	Total
Reported February 2022	**£m**	**£m**	**£m**
- Authorised limit for 2022/23	395.7	170.6	566.3
- Operational Boundary for 2022/23	375.5	170.6	546.3
Actual limit reached during 2022/23	**261.8**	**143.6**	**405.4**

(vii) **Actual External Debt**

	Borrowing	Other Long Term Liabilities	Total
	£m	£m	£m
At 31 March 2022	221.8	147.6	369.4
At 31 March 2023	**208.5**	**143.6**	**352.1**

(viii) **Maturity Structure of Borrowing**

The amount of borrowing maturing in each period as a percentage of total projected borrowing that is fixed rate.

	Lower Limit	Upper Limit	Actual at 31 March 2023
	%	%	%
Under 12 months	0	50	5
12 months and within 24 months	0	25	2
24 months and within 5 years	0	50	7
5 years and within 10 years	0	75	12
10 years and within 25 years	0	100	23
25 years and within 50 years	0	100	51
			100

(ix) **Total Principal Sums Invested for Periods longer than 365 days**

The agreed maximum sum for investment longer than one year was £40m. There were no investments in place at 31 March 2023.

Appendix D

APPROVED LENDING LIST – NORTH YORKSHIRE COUNCIL
TO COMMENCE 1 APRIL 2023

	Country	Specified Investments		Non-Specified	
		Total Exposure £m	Time Limit *	Total Exposure £m	Time Limit *
UK "Nationalised" banks / UK banks with UK Central Government involvement					
Royal Bank of Scotland PLC (RFB)	GBR	90.0	365 days	-	-
National Westminster Bank PLC (RFB)	GBR				
UK "Clearing Banks", other UK based banks and Building Societies					
Santander UK PLC (includes Cater Allen)	GBR	80.0	6 months	-	-
Barclays Bank PLC (NRFB)	GBR	90.0	6 months	-	-
Barclays Bank UK PLC (RFB)	GBR				
Bank of Scotland PLC (RFB)	GBR	80.0	6 months	-	-
Lloyds Bank PLC (RFB)	GBR				
Lloyds Bank Corporate Markets PLC (NRFB)	GBR				
Goldman Sachs International Bank	GBR	80.0	6 months	-	-
Sumitomo Mitsui	GBR	80.0	6 months	-	-
Standard Chartered Bank	GBR	80.0	6 months	-	-
Handlesbanken	GBR	80.0	365 days	-	-
Nationwide Building Society	GBR	40.0	6 months	-	-
Leeds Building Society	GBR	40.0	100 Day	-	-
Coventry Building Society	GBR	40.0	6 months	-	-
High Quality Foreign Banks					
National Australia Bank	AUS	40.0	365 days	-	-
Credit Industriel et Commercial	FRA	40.0	365 days	-	-
Landesbank Hessen-Thueringen Girozentrale (Helaba)	GER	40.0	365 days	-	-
DBS (Singapore)	SING	40.0	365 days	-	-
Bayerische Landesbank	GER	40.0	6 months	-	-
National Bank of Canada	CAN	40.0	6 months	-	-
Local Authorities					
County / Unitary / Metropolitan / District Councils		30.0	365 days	5.0	5 years
Police / Fire Authorities		30.0	365 days	5.0	5 years
National Park Authorities		30.0	365 days	5.0	5 years
Other Deposit Takers					
Money Market Funds		40.0	n/a - liquid	-	-
Property Funds		5.0	not listed	5.0	10 years
UK Debt Management Account		150.0	365 days	-	-

AGENDA ITEM X

Treasury Management Outturn Report 2022/23

Report of the Chief Finance Officer - s151 officer

Lead Member – Financial Resilience: Councillor Mulligan

Ward(s) affected: All

1. Purpose of Report

To inform Members of the treasury activity undertaken in the year in the context of current and forecast economic climates.

2. Recommendations

Members are recommended to:

- Note the actual Prudential Indicators for 2022/23;
- Note the actual Treasury Management Indicators for 2022/23
- Note the Treasury Management Annual Report for 2022/23

3. Introduction

3.1 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 2022/23. 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).

3.2 During 2022/23 the reporting requirements were that the full council or delegated committee should receive the following reports:

- an annual treasury strategy in advance of the year (Council 01/02/2022);
- a mid-year treasury update report (Policy Committee 05/12/2022);
- An annual review following the end of the year describing the activity compared to the strategy (this report).

3.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

3.4 This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Policy Committee before they were reported to the full Council.

4. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2021/22 Actual £000	2022/23 Budget £000	2022/23 Actual £000
Capital expenditure	8,431	4,985	10,874
Financed in year	7,224	3,389	6,506
Unfinanced capital expenditure	1,207	1,596	4,368

5. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). The table below highlights the Council's gross borrowing position against the CFR.

£000	31st March2022 Actual £000	31st March 2023 Budget £000	31st March 2023 Actual £000
CFR	9,950	19,982	14,318
Gross borrowing position	5,488	17,060	5,488*
Under/(over) borrowing	4,462	2,922	8,830

*Doesn't include short term borrowing.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The limit was set at £18.00m in 22/23 so the council's borrowing was within its limit during the year.

6. Overall Treasury Position as at 31 March 2023

At the beginning and end of 2022/23 the Council's treasury position was as follows:

	31 March 2022 Principal	Average Rate/ Return	Average Life yrs	31 March 2023 Principal	Average Rate/ Return	Average Life yrs
Total debt	£5.488m	4.16%	20.27	£16,888m	4.16%	19.27
CFR	£9.950m			£14,318m		
Over / (under) borrowing	£4.462m			£8,830		
Total investments	£22,000m	0.40%	1.21	£17.135m	0.74%	1.36
Net debt	£16,512m			£0.247m		

** Average rate enhanced by long-term loan rate*

The Council did not enter into any borrowing by Private Finance Initiatives or finance leases.

The maturity structure of the debt portfolio was as follows:

Maturity structure of fixed rate borrowing during 2022/23	31St March 2022 £	31st March 2023 £
Under 12 months	0	11,500,000
12 months and within 24 months	500,000	0
24 months and within 5 years	0	0
5 years and within 10 years	700,000	700,000
10 years and within 20 years	0	0
20 years and within 30 years	0	0
30 years and within 40 years	4,288,110	4,288,110
40 years and within 50 years	0	0

All the council's long term external borrowing is currently with the PWLB and the average annual interest payments amount to £224,859. During the year the council engaged in some short-term borrowing from other Local Authorities, the table below summarises the outstanding short-term borrowing as at 31.03.2023.

Counterparty	Date of Investment	Date of Maturity	Value £	Interest rate
North Somerset	22/08/2022	22/05/2023	3,000,000	2.50%
South Oxfordshire District Council	19/10/2022	05/05/2023	2,000,000	3.45%
Newport City Council	28/02/2023	03/04/2023	2,000,000	4.20%
North Yorkshire County Council	17/03/2023	03/04/2023	4,000,000	3.82%

The table below gives a detailed breakdown of the council's investments as at 31.03.23

Counterparty	Date of investment	Date of maturity	Value £	Interest rate %
Fixed term				
Slough Borough Council	05/05/2021	05/05/2023	2,000,000	0.30
Thames Valley Housing Ass	21/06/2021	21/06/2023	1,000,000	0.30
Principality BS	04/04/2022	03/04/2023	1,000,000	1.23
Furness Building Society	12/07/2021	12/07/2023	1,000,000	0.40
Cherwell Borough Council	15/11/2021	15/11/2023	2,000,000	0.40
Lancashire County Council	28/04/2022	27/04/2023	2,000,000	1.05
Eastleigh Borough Council	27/05/2022	26/05/2023	2,000,000	0.45
Blackpool Borough Council	10/06/2022	09/06/2023	2,000,000	1.19
Guildford Borough Council	02/09/2022	02/06/2023	2,000,000	1.25
Brentwood Borough Council	27/10/2022	25/08/2023	2,000,000	0.83
Long term loan	01/10/2022	30/09/2026	135,000	6.00
Transaction accounts:				
Lloyds current account	N/A	N/A	42,777	4.25

7. The Strategy for 2022/23

7.1 Investment strategy and control of interest rate risk

Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for. Starting in April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.50%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

The large change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape. With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used. Throughout the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

The council had few new investments during 22/23 as a result of capital expenditure that was far higher than usual leading to the council using short run borrowing during the year to ensure adequate cash flow.

7.2 Borrowing strategy and control of interest rates risk.

During 2022-23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council’s reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Chief Finance Officer therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks.

If it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.

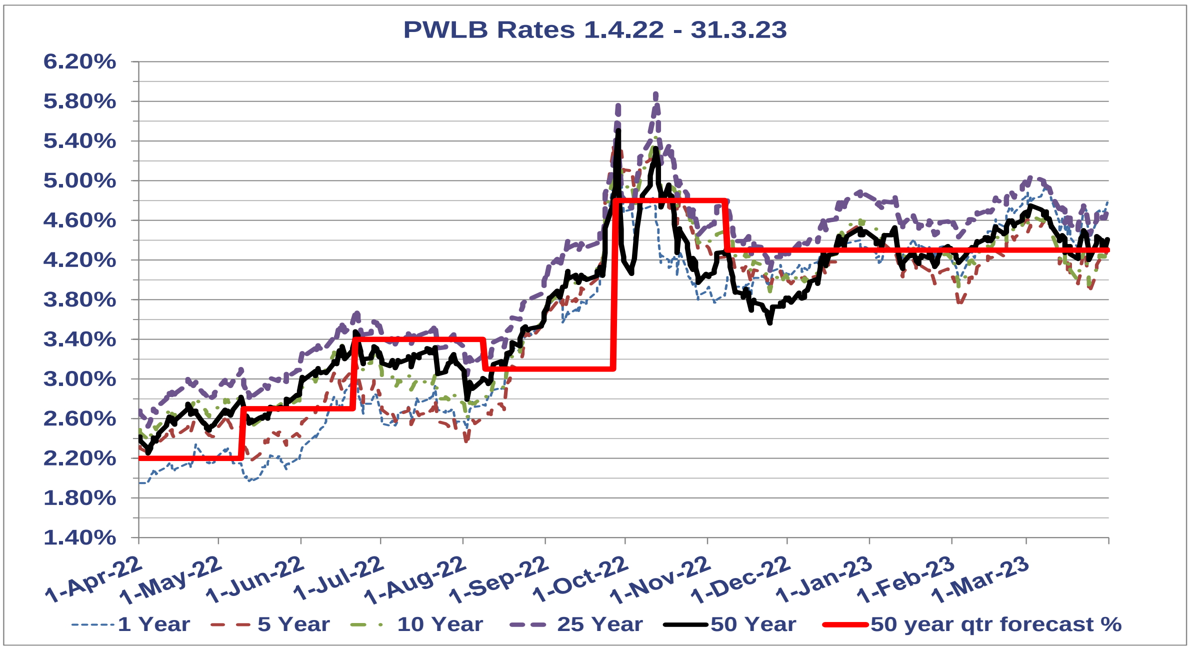
If it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years

Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

Interest rates forecast

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

PWLB RATES 22/23



8. Investment Outturn

8.1 **Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 1st February 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data.

8.2 **Investments held by the Council**

- The Council maintained an average balance of £25,08m of internally managed funds.
- The internally managed funds earned an average rate of return of 0.76%
- The comparable performance indicator is the average 7-day SONIA rate, which was 2.19%
- This compares with a budget assumption of £23,000m investment balances earning an average rate of 0.50%.
- Total investment income was £142,071 compared to a budget of £255,710

9. Prudential and treasury indicators.

The key actual prudential and treasury indicators which detail the impact of capital expenditure activities during the year, with comparators are as follows:

	2021/22 Actual £000	2022/23 Original £000	2022/23 Actual £000
Prudential indicators			
Capital expenditure	8,431	4,985	10,874
Ratio of financing costs to net revenue stream	4.02	7.06%	5.19%
Capital financing requirement	9,950	19,982	14,318
Gross borrowing in year	0	3,237	11,000
Gross debt	5,488	17,060	5,488
Treasury management indicators			
Authorised limit for external debt	15.00	18.00	18.00
Operational Boundary for external debt	14.00	17.50	17.50
Total investments	22,000	13,000	17,135
Actual external debt	5,488	17,060	16,888
Net investments/(debt)	16,512	(4,060)	247

10 Implications

10.1 Financial Implications - There are no financial implications associated with this report.

10.2 Legal Implications - There are no legal implications attached to this report.

- **Contribution to Corporate Priorities**

The Treasury Management function does not contribute directly to the Council's Corporate Priorities albeit the delivery of the Treasury Management Strategy supports the Council's budget strategy which in turn is a fundamental element of the Council's service and financial planning approach to achievement of the Council Plan.

- **Risk Management**

There are no direct risk management implications arising from this report. Regular review provides assurance that treasury management activities are being managed in line with the Treasury Management Strategy.

- **Equalities Impact Assessment**

Since this report is not seeking to set or amend policy, the Council's Equality Impact Assessment procedure has not been followed.

- **Consultations with Others**

None

- **Access to Information : Background Documents**

Working papers held in Financial Services.

- **Author of the Report**

Elliot O'Shea, Finance Officer

Tel: 01756 706422
Email: Elliot.oshea@northyorks.gov.uk

Note: Members are invited to contact the author in advance of the meeting with any detailed queries or questions.

Report To:	Executive
Date:	30th May 2023
Subject:	**Hambleton District Council** **2022/23 Treasury Management Outturn Report**
Report By:	Interim Head of Finance

1.0 Purpose and Background

1.1 The purpose of this report is to provide Members with the outturn position for treasury management in 2022/23 for Hambleton District Council.

1.2 Treasury Management in Local Government is governed by the CIPFA Code of Practice on Treasury Management in Public Services and in this context is the management of the District Council's borrowing, cash flows, its banking and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimal performance consistent with those risks. Hambleton District Council adopted the Code and complied with its requirements.

1.3 The Code recommends that Members should be informed of Treasury Management activities including, as a minimum, an Annual Strategy, a mid-year review and an annual report after the year end. This report ensures, therefore, that the Council is adopting Best Practice in accordance with CIPFA's Code of Practice.

1.4 This report has been prepared in the context of the Annual Treasury Management Strategy Statement for 2022/23 approved by Hambleton District Council on 22 February 2022.

1.5 This Annual Treasury Management Report for 2022/23 addresses the following:

- the Council's overall treasury (debt and cash) position
- Interest Rates and the Treasury Management Strategy for 2022/23
- Borrowing outturn for 2022/23
- Investment outturn for 2022/23
- compliance with Treasury limits and Prudential Indicators

1.6 The key statistics and performance indicators explained in this report can be summarised as follows:

- Long-term external debt remained unchanged for the year at £26.5m. No long-term borrowing was undertaken in 2022/23 and there were no scheduled loan repayments. Any borrowing required as part of the in-year capital programme has been financed from internal borrowing;

- Short-term borrowing of £15.350m was undertaken during the year to support cashflow balances. These loans were all repaid on 1 April 2023;

NOT PROTECTIVELY MARKED

- the average rate of interest on the long-term debt is 1.975%;

- for cash invested the average rate of interest achieved was 1.85% which compares with the average 7-day market rate of 2.20% and the average bank rate during the year of 2.30%;

- none of the approved Treasury Management Prudential Indicators and limits were exceeded during the year

2.0 Overall Treasury (Debt and Cash) Position

2.1 The District Council's position at the end of the 2022/23 financial year was as follows:

	£m	Weighted Average %
External Debt Outstanding		
- PWLB	26.500	1.97
- Short-term Borrowing	15.350	2.06
Investments	0.000	n/a
Net Debt	**41.850**	**n/a**

2.2 The Capital Financing Requirement (CFR) is the total historic outstanding capital expenditure which has not yet been financed from either revenue or capital resources. It is a measure of the Council's indebtedness and so underlying borrowing need. Any capital expenditure which has not been financed through revenue, or capital resource will increase the CFR.

2.3 The CFR does not increase indefinitely, as the Minimum Revenue Provision is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset's life and charges the economic consumption of capital assets as they are used.

2.4 The Capital Financing Requirement for the Council is set out in the table below,

	£m
Opening CFR – 1st April 2022	**59.077**
Financing need for the year	4.809
Less MRP set aside in-year	- 0.275
Closing CFR – 31st March 2023	**63.611**

2.5 £33.6m of the CFR relates to the loan to a local Housing Association and will be covered by setting aside future loan repayments as and when they are received.

3.0 Interest Rates and the Treasury Management Strategy for 2022/23

NOT PROTECTIVELY MARKED

3.1 The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2022/23 was based on officers' views at that time, prepared with assistance from the District Council's Treasury Management Advisor, Link Treasury Services Limited, supported by a selection of City forecasts.

3.2 Prior to the start of the financial year, interest rates for the UK were forecast to be 0.25% and increases of 0.25% in Quarter 1 and Quarter 4 of 2022/23 were anticipated, taking Bank Rate to an expected level of 0.75% by the end of the financial year.

3.3 A change in the economic climate, driven by rising inflation, saw Bank Rate start the year at 0.75% and continue to rise throughout the year much faster than previously anticpiated.

3.4 There were eight rate increases, ranging between 0.25% in May and June 2022 and Mar 2023, 0.50% increases in August, September, December 2022 and February 2023, 0.75% increase in November.

3.5 At March 2023, the official Bank Rate stood at 4.25%.

4.0 Borrowing Outturn for 2022/23

4.1 The total borrowing by the Council at the end of 2022/23 was £41.850m as set out in the table below.

Item	£m
Debt Outstanding at 1st April 2022	26.500
Temporary Borrowing in the year	15.350
External Debt Outstanding at 31st March 2023	**41.850**

4.2 £26.5m is with the Public Works Loan Board (PWLB) taken in previous financial years over six loans with varying maturity dates.

4.3 £10.0m short-term borrowing was taken from North Yorkshire County Council on 20 April 2022 and repaid on 1 April 2023. Two further loans were taken in March 2023 to cover year-end cashflow requirements totalling £5.350m, both of which were repaid on 1 April 2023.

4.4 Details of the loans outstanding at 31 March 2023 are shown in the table below.

NOT PROTECTIVELY MARKED

Item	Principal £m	Start Date	Maturity Date	Interest Rate %
Public Works Loan Board:	5.000	2 Sept 2019	2 Sept 2029	1.20
	2.500	16 Mar 2020	16 Sept 2033	2.19
	5.000	5 Sept 2019	5 Sept 2034	1.43
	2.500	25 Mar 2019	25 Mar 2064	2.24
	2.500	16 Mar 2020	16 Sept 2067	2.23
	9.000	7 Mar 2019	7 Mar 2069	2.45
North Yorkshire Council:	10.000	20 Apr 2022	1 Apr 2023	1.25
	5.000	20 Mar 2023	1 Apr 2023	3.82
	0.350	31 Mar 2023	1 Apr 2023	0.00

4.5 By utilising internal cash balances, the District Council was able to defer any long-term borrowing requirement during the year and instead only borrowed short-term to cover cashflow requirements. This strategy resulted in a savings of £268,614 in borrowing costs for the financial year compared to the original budget.

5.0 Investment Outturn for 2022/23

5.1 In order to meet cashflow requirements for the Council’s Capital Programme and ahead of the transition to Local Government Reorganisation, cash balances were all invested in short-term investments for liquidity purposes throughout the year.

5.2 Balances were invested in line with the key treasury management principles of security, liquidity and yield and were spread into different investments, so that the best yield was obtained whilst ensuring the money was available by the Council when required. These investments included the use of Santander, Blackrock/Federated Money Market Funds and Call Accounts with Lloyds Banking Group.

5.3 Investment balances fluctuated throughout the year, starting at £10.890m on 1 April 2023, before rising to a peak of circa £26.1m in May 2022. For the reasons already outlined in terms of cash-flow, capital programme requirements and the internal borrowing position, investment balances steadily reduced as the year progressed.

5.4 Investment balances as at 31 March 2023 were Nil, with the Council having undertaken some short-term borrowing from the County Council towards year-end in order to meet cashflow requirements. These loans were repaid on 1 April 2023.

5.5 Increases in Bank Rate referred to in Section 3 above resulted in an increase on interest received compared to the Original Budget. An initial budget estimate of £7,500 for the year was increased by £80,000 in Quarter 1 and £122,980 in Quarter 2 and a further £60,000 in Quarter 3, leaving a revised Budget for the year of £270,480. Actual interest received during the financial year was £313,450.

5.6 The reducing level of cash balances throughout the year, combined with the requirement to keep investments on call for liquidity purposes meant that the Council

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was unable to benefit fully from the rise in interest rates in the latter part of the year and therefore perfomed lower than the 7-day benchmark average for the year.

5.7 The District Council has previously given a total of £35.0m of loans to a local Housing Association, of which £1.4m has been repaid to date. This has been made up of eight individual loans with varying maturity dates and fulfils the agreement taken out with the Housing Association.

5.8 The interest received from the loans to the local Housing Association is not included in this section of the report because the loan is classed as capital expenditure under economic development to support local businesses. However, the interest earned in the financial year 2022/23 from the £33.6m loaned to the Local Housing association was £1.430m, in line with budget estimates.

6.0 Compliance with Treasury Limits and Prudential Indicators

6.1 The District Council is required to comply with the CIPFA Prudential Code and set Prudential Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable.

6.2 During the financial year, the District Council operated within the Treasury Limits and Prudential Indicators as set out in the Council's Treasury Management Policy Statement and Annual Treasury Management Strategy for 2022/23

7.0 Legal Implications:

7.1 Treasury Management activities and the capital programme conform to the Local Government Act 2003 and the Council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code and the CIPFA Treasury Management Code of Practice.

8.0 Recommendations:

8.1 That the Executive note the performance and outturn position of the Treasury Management operation for Hambleton District Council in 2022/23.

Background papers: None

Contact: Saskia Calton
Corporate Finance Manager
Direct Line No 01609 767226

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PRUDENTIAL AND TREASURY INDICATORS

Prudential Indicators:

P1 Capital Expenditure

Capital Expenditure for:	2021/22 Outturn £'000	2022/23 OE as set	2022/23 Mon £'000	2022/23 Outturn £'000
General Fund	15,422	37,046	49,122	22,715
HRA	4,893	15,473	12,731	10,638
Total Capital Expenditure	20,315	52,519	61,853	33,353

Note: It is in the nature of capital expenditure to have variations from estimates. It is the success of the medium term plan that is important [CIPFA Prudential Code].

P2 Ratio of Financing Costs to Net Revenue Stream

Ratio of financing costs to net revenue stream for:	2021/22 Outturn %	2022/23 OE % as set	2022/23 Mon %	2022/23 Outturn %
General Fund	1.2	2.9	1.5	1.2
HRA	111.8	31.7	33.6	33.2

The estimates of financing costs include current commitments and the proposals in the budget report. The high HRA financing costs are mainly due to including depreciation charges for Council Houses.
The borrowing strategy for HRA also included voluntary set aside for debt repayment of £15m in 2021/22.

P3 Capital Financing Requirement

Capital Financing Requirement for:	2021/22 Outturn 31-Mar-22 £'000	2022/23 OE 31-Mar-23 £'000	2022/23 Mon 31-Mar-23 £'000	2022/23 Outturn 31-Mar-23 £'000
General Fund	37,076	64,744	66,300	50,697
HRA	46,189	46,189	46,189	46,189
Total CFR	83,265	110,933	112,489	96,886

The capital financing requirement measures the Council's underlying need to borrow for capital purposes. In accordance with best professional practice, Harrogate does not associate borrowing with particular items or types of expenditure. The Council has an integrated treasury management strategy (reported to Cabinet each February) and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. Harrogate has, at any point in time, a number of cashflows both positive and negative, and manages its treasury position in terms of its borrowings and investments in accordance with its approved treasury management strategy and practices. In day to day cash management, no distinction can be made between revenue cash and capital cash. External borrowing arises as a consequence of all the financial transactions of the Council and not simply those arising from capital spending. In contrast, the capital financing requirement reflects the Council's underlying need to borrow for capital purposes.

P4 Gross External Debt compared with Capital Financing Requirement

CIPFA's *Prudential Code for Capital Finance in Local Authorities* includes the following as a key indicator of prudence:

" In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of the capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

Harrogate had no difficulty meeting this requirement in 2022/23, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposed budget and capital programme.

Is gross external debt kept below the CFR?	2021/22 Outturn 31-Mar-22 £'000	2022/23 OE 31-Mar-23 £'000	2022/23 Mon 31-Mar-23 £'000	2022/23 Outturn 31-Mar-23 £'000
Gross external debt	38,061	38,055	38,055	38,055
Capital financing requirement	83,265	110,933	112,489	96,886

Treasury Indicators:

T1 Actual External Debt

It should be noted that actual external debt is not directly comparable to the authorised limit and operational boundary, since the actual external debt reflects the position at one point in time.

Gross External Debt:	31/03/2022	31/03/2023
	£'000	£'000
External Borrowing	38,061	38,055
Other Long Term Liabilities	0	0
Gross External Debt	38,061	38,055

T2 Authorised Limit for External Debt

It is recommended that the Council approves the following authorised limits for its total external debt, and delegates authority to the Section 151 Officer, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long term liabilities (such as finance leases) in accordance with options appraisal and best value for money for the authority. Any such changes will be reported to the Council at its next meeting following the change.

Authorised Limit for:	2022/23
	£m
External Borrowing	73
Other Long Term Liabilities	0
Total Authorised Limit	73

These authorised limits for external debt are consistent with the authority's current commitments, existing plans and the proposed budget and capital programme and with its approved treasury management policy statement and practices. They are based on the estimate of most likely, prudent but not worst case scenario, with in addition sufficient headroom over and above this to allow for operational management, for example unusual cash movements. Risk analysis and risk management strategies have been taken into account; as have plans for capital expenditure, estimates of the capital financing requirement and estimates of cashflow requirements for all purposes.
The Council is asked to note that the authorised limit for 2022/23 was the statutory limit determined under section 3(1) of the Local Government Act 2003.

T3 Operational Boundary for External Debt

The Council is also asked to approve the following operational boundary for external debt. The proposed operational boundary is based on the same estimates as the authorised limit but reflects directly the Section 151 Officer's estimate of the most likely, prudent but not worst case scenario, without the additional headroom included within the authorised limit to allow for example for unusual cash movements, and equates to the maximum of external debt projected by this estimate.
The operational boundary represents a key management tool for in-year monitoring by the Section 151 Officer. The Council is also asked to delegate authority to the Section 151 Officer, within the total operational boundary for any individual year, to effect movement between the separately agreed figures for borrowing and other long term liabilities, in a similar fashion to the authorised limit. Any such changes will be reported to the Council at its next meeting following the change.

Operational Boundary for:	2022/23
	£m
External Borrowing	58
Other Long Term Liabilities	0
Total Operational Boundary	58

T4 Interest Rate Exposure and Maturity Structure

Harrogate Borough Council has adopted the CIPFA '*Code of Practice and Cross-Sectoral Guidance Notes for Treasury Management in the Public Services'.*

The following indicators are recommended to the Council:

			2022/23
A	Upper limit on fixed interest rate exposures		
	as a percentage of net outstanding principal sums -	*borrowings*	100%
	less	*lendings*	100%
		NET	100%
B	Upper limit on variable interest rate exposures		
	as a percentage of net outstanding principal sums -	*borrowings*	60%
	less	*lendings*	100%
		NET	100%

This means that the Section 151 Officer will manage fixed interest rate exposures within the range of 40%-100% on borrowings and 0%-100% on lendings, and variable interest rate exposures within the range of 0%-60% on borrowings and 0%-100% on lendings. This is a continuation of current practice.

It is recommended that the Council sets upper and lower limits for the maturity structure of its borrowings as follows:

C Fixed interest debt 2022/23 maturing in each band as a percentage of total estimated fixed interest debt at 31 March 2023.

Band	Upper limit %	Lower Limit %
under 12 months	50	0
12 months and within 24 months	50	0
24 months and within 5 years	50	0
5 years and within 10 years	50	0
10 years and within 15 years	50	0
15 years and within 20 years	25	0
20 years and above	25	0

D Upper limit on lendings beyond 12 months

	Upper limit
1-2yrs	£25m
2-3yrs	£10m
3-4yrs	£5m
4-5yrs	£5m
over 5yrs	£5m

Authorities should contain their exposure to long-dated lendings to avoid losses on forced early redemptions. Harrogate has no current plans for longer term lending, but believes the recommended framework provides a suitable balance between caution and freedom to take advantage of suitable market opportunities that may arise.

Harrogate
BOROUGH COUNCIL

Agenda Item No.

REPORT TO:	
DATE:	
SERVICE AREA:	Finance
REPORTING OFFICER:	Financial Services Manager *(Graham Byrne)*
SUBJECT:	**TREASURY MANAGEMENT ANNUAL REPORT 2022/23**
WARDS AFFECTED:	None
FORWARD PLAN REF:	N/A

1.0 PURPOSE OF REPORT

1.1 This report provides, for information, details of the authority's Treasury Management activity and performance for the year 2022/23.

2.0 RECOMMENDATION

2.1 That the report be received.

3.0 RECOMMENDED REASON FOR DECISION

3.1 To comply with the authority's financial regulations and the Chartered Institute of Public Finance and Accountancy (CIPFA) Codes of Practice.

4.0 ALTERNATIVE OPTION CONSIDERED AND RECOMMENDED FOR REJECTION

4.1 None.

5.0 INTRODUCTION

5.1 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 2022/23. 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).

5.2 During 2022/23 the minimum reporting requirements were that Council should receive the following reports:

- an annual treasury strategy in advance of the year
- a mid-year treasury update report
- an annual review following the end of the year describing the activity compared to the strategy (this report)

5.3 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

5.4 The Council confirms that it has complied with the requirement under the Code to give prior scrutiny to relevant treasury management reports by the Audit and Governance Committee before they were reported to Council. Member training on treasury management issues was undertaken in November 2021 in order to support members' scrutiny role.

6.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING

6.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how it was financed:

	2021/22 Actual £000	2022/23 Budget £000	2022/23 Actual £000
General Fund:			
Capital Expenditure	15,423	37,047	22,715
Financed in year	7,154	9,084	7,992
Unfinanced Capital Expenditure	8,269	27,963	14,723
Housing Revenue Account (HRA):			
Capital Expenditure	4,893	15,473	10,638
Financed in year	4,893	15,473	10,638
Unfinanced Capital Expenditure	0	0	0

The General Fund and HRA capital programmes are reviewed in detail in individual separate reports.

7.0 THE COUNCIL'S OVERALL BORROWING NEED

7.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

7.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

7.3 **Reducing the CFR** – the Council's (non-HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the non-HRA borrowing need; there is no statutory requirement to reduce the HRA CFR. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

The total CFR can also be reduced by:

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2022/23 MRP Policy, as required by DLUHC Guidance, was approved as part of the Treasury Management Strategy Report for 2022/23 on 12/01/2022.

7.4 The Council's CFR for the year is shown below, and represents a key prudential indicator:

	2021/22 Actual £000	**2022/23 Budget £000**	**2022/23 Actual £000**
CFR (£m): General Fund			
Opening balance	29,549	37,892	37,076
Add Unfinanced Capital Expenditure	8,269	27,963	14,723
Less MRP	-742	-1,111	-1,102
Closing balance	37,076	64,744	50,697
CFR (£m): HRA			
Opening balance	61,189	46,189	46,189
Add Unfinanced Capital Expenditure	0	0	0
Less VRP	-15,000	0	0
Closing balance	46,189	46,189	46,189

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

7.5 **Gross borrowing and the CFR** - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2022 Actual £000	31 March 2023 Budget £000	31 March 2023 Actual £000
CFR General Fund (GF)	37,076	64,744	50,697
CFR Housing Revenue Account (HRA)	46,189	46,189	46,189
Total CFR	**83,265**	**110,933**	**96,886**
Gross Borrowing position	38,061	38,055	38,055
Under funding of CFR	**45,204**	**72,878**	**58,831**

7.6 **The authorised limit** - the authorised limit is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. Once this has been set, 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.

7.7 **The operational boundary** – 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 are acceptable subject to the authorised limit not being breached.

7.8 **Actual financing costs as a proportion of net revenue stream** - this indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2022/23 £000
Authorised Limit	73,000
Maximum Gross Borrowing position during the year	38,061
Operational Boundary	58,000
Average Gross Borrowing position	38,058
Financing costs as a proportion of net revenue stream - GF	1.2%
Financing costs as a proportion of net revenue stream - HRA	33.2%

8.0 TREASURY POSITION AS AT 31 MARCH 2023

8.1 At the beginning and the end of 2022/23 the Council's treasury position was as follows:

DEBT PORTFOLIO	31 March 2022		31 March 2023	
	General Fund (GF) £000	Housing Revenue Account (HRA) £000	General Fund (GF) £000	Housing Revenue Account (HRA) £000
Total Debt	0	38,061	0	38,055
CFR	37,076	46,189	50,697	46,189
Over/under (-) borrowing	-37,079	-8,128	-50,697	-8,134
Total Investments	-21,369	-10,951	-10,186	-7,714
Net Debt	-21,369	27,110	-10,186	30,341

8.2 The maturity structure of the debt portfolio was as follows:

DEBT STRUCTURE	31 March 2022 £000	31 March 2023 £000
Under 12 months	7	7
12 months and within 24 months	7	8
24 months and within 5 years	15,026	15,029
5 years and within 10 years	15,048	15,041
10 years and within 15 years	7,973	7,970

8.3 The investment portfolio was as follows:

INVESTMENT PORTFOLIO	31 March 2022		31 March 2023	
	£000	%	£000	%
Treasury investments				
Banks Building Societies	32,320 0	85 0	17,900 0	79 0
Total managed in-house	**32,320**	**85**	**17,900**	**79**
Property funds	5,713	15	4,785	21
Total managed externally	**5,713**	**15**	**4,785**	**21**
Total Treasury investments	**38,033**	**100**	**22,685**	**100**
Non-treasury investments				
Wholly-owned companies	1,500	39	700	23
Property	2,305	61	2,305	77
Total Non-treasury investments	**3,805**	**100**	**3,005**	**100**
Treasury investments	38,033	91	22,685	88
Non-treasury investments	3,805	9	3,005	12
Total investments	**53,226**	**100**	**25,690**	**100**

8.3.1 All bank and building society investments are due to mature within a year. All other investments are due to mature in over a year.

8.3.2 During 2022/23, the Council's property fund investments reduced in capital value but the revenue returns remained strong and the overall return in the year was 3.8%. Also during 2022/23, Bracewell Homes Ltd, the Council's wholly-owned Housing company, repaid £800k of the loans it had taken out from the Council, as its growth allowed it to better support its cashflow requirements.

9.0 THE STRATEGY FOR 2022/23

Investment strategy and control of interest rate risk

9.1 Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for. Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

9.2 The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

9.3 With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used. Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

9.4 Nonetheless, while the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

Borrowing strategy and control of interest rate risk

9.5 During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need (the CFR) was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were low and minimising counterparty risk on placing investments also needed to be considered.

9.6 A cost of carry remained during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal borrowing.

9.7 The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

9.8 Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. We therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks:

- if it had been felt that there was a significant risk of a sharp FALL in long and short term rates, (e.g. due to a marked increase of risks around relapse into recession or of risks of deflation), then long term borrowings would have been postponed, and potential rescheduling from fixed rate funding into short term borrowing would have been considered.
- if it had been felt that there was a significant risk of a much sharper RISE in long and short term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the United States (US) and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

9.9 Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year-end. Nonetheless, there remain significant risks to that central forecast. Forecasts at the time of approval of the treasury management strategy report for 2022/23 were as follows:

Link Group Interest Rate View 20.12.21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

9.10 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

9.11 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Federal Open Market Committee, European Central Bank and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

9.12 Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%. At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows:

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target. As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

9.13 The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

10.0 BORROWING OUTTURN

10.1 Due to investment concerns, both counterparty risk and low investment returns, no borrowing was undertaken during the year.

10.2 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

10.3 No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

11.0 INVESTMENT OUTTURN

11.1 **Investment Policy** – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council in March 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

11.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

11.3 **Resources** – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources	31 March 2022 £000	31 March 2023 £000
General Fund		
Working Balance	4,587	2,500
Earmarked Reserves	32,745	19,450
Usable Capital Receipts	101	0
Capital Grants	7,062	8,305
Total	***44,495***	***30,255***
Housing Revenue Account		
Working Balance	16,139	19,274
Earmarked Reserves	1,424	5
Usable Capital Receipts	5,239	3,632
Total	***22,802***	***22,911***
Overall Total	**67,297**	**53,166**

11.4 **Investments held by the Council**

- The Council maintained an average balance of £35,500k of internally managed funds
- The internally managed funds earned an average rate of return of 1.39% (0.12% in 2021/22, reflecting the impact of the increases in bank rate to during 2022/23).
- The comparable performance indicator is the average 7-day SONIA rate, which was 2.23%
- This compares with a budget assumption of £31,000k investment balances earning an average rate of 0.75%.
- Total investment income was £693k compared to a budget of £235k.

12.0 OTHER ISSUES

IFRS 9 – Fair value of financial instruments

12.1 Following the consultation undertaken by the Department for Levelling Up, Housing and Communities (DLUHC) on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

12.2 We will need to take account of these changes for the valuation of investments. Whilst this is not a significant issue this year, as the revaluation loss on the property funds will be reversed out of the accounts, valuations will need to be carefully monitored going forward as we approach the current end date of the statutory override (31 March 2025).

13.0 PRUDENTIAL AND TREASURY INDICATORS 2022/23

13.1 The CIPFA Prudential Code advises that Cabinet should review the outturn prudential and treasury indicators as part of the treasury management annual report. These indicators are detailed at Appendix 1 (in the manner recommended by the Codes).

13.2 There are no matters of concern contained in Appendix 1. Capital Expenditure (P1) overall was lower than originally budgeted, primarily due to delays on major schemes. The CFR (P3) movement is due to taking out internal borrowing for capital schemes, albeit at slightly lower levels than planned for in the budget. All other indicators proceeded to plan.

14.0 REQUIRED ASSESSMENTS AND IMPLICATIONS

14.1 The following were considered: Financial Implications; Human Resources Implications; Legal Implications; ICT Implications; Strategic Property/Asset Management Considerations; Risk Assessment; Equality and Diversity (the Public Sector Equality Duty and impact upon people with protected characteristics). If applicable, the outcomes of any consultations, assessments, considerations and implications considered necessary during preparation of this report are included in the report.

15.0 CONCLUSION

15.1 For the long-term debt portfolio, this was a stable year with no opportunity for significant developments. On lending activity, treasury investment income overperformed against budget, as interest rates increased consistently as the year went by.

15.2 In 2022/23, the Council maintained its investment in property funds, generating a revenue return that exceeded the budget, and received partial repayment of the loans that is had made to support the growth of its wholly-owned company, Bracewell Housing.

Background papers – None

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Richmondshire District Council Annual Treasury Management Review

2022/23

Annual Treasury Management Review 2022/23

1. Introduction

This 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 2022/23. 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).

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 (Council 22.02.22)
- a mid-year (minimum) treasury update report (CB 15.11.2022)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Corporate Board before they were reported to the full Council.

2. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£000	2021/22 Actual	2022/23 Budget	2022/23 Actual
Capital expenditure – Non HRA	**948**	**2,820**	**3,228**
Capital expenditure – HRA	**1,694**	**1,713**	**2,261**
Financed in year	2,642	4,533	5,489
Unfinanced capital expenditure	**0**	**0**	**0**

3. The Council's Overall Borrowing Need

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR).

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31 March 2022 Actual	31 March 2023 Budget	31 March 2023 Actual
CFR General Fund (£m)	2,242	2,082	2,091
CFR HRA (£m) *(if applicable)*	15,074	13,962	13,962
Total CFR	17,316	16,044	16,053
Gross borrowing position	13,753	12,641	12,641
Under / (over) funding of CFR	3,563	3,403	3,412

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, 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 – 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 are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2022/23
Authorised limit	£31.500m
Maximum gross borrowing position during the year	£13,753m
Operational boundary	£30.000m
Average gross borrowing position	£13,197m
Financing costs as a proportion of net revenue stream	GF(2.22)%/ HRA 20.66%

4. Treasury Position as at 31 March 2023

At the beginning and the end of 2022/23 the Council's treasury, (excluding borrowing by PFI and finance leases), position was as follows:

DEBT PORTFOLIO	31 March 2022 Principal	Rate/ Return	Average Life yrs	31 March 2023 Principal	Actual Rate	Rate/ Return	Average Life yrs
Fixed rate funding:							
-PWLB	£13,753m	3.55%	22	£12,641m		3.55%	21.5
Total debt	**£13,753m**			**£12,641m**			
CFR	**£17,316m**			**£16,053m**			
Over / (under) borrowing	**£3.563m**			**£3,412m**			
Total investments	**£25,900m**	**0.55%**		**£11,560m**	**3.01%**		
Net debt	**£(12,147)m**			**£1,081m**			

The maturity structure of the debt portfolio was as follows:

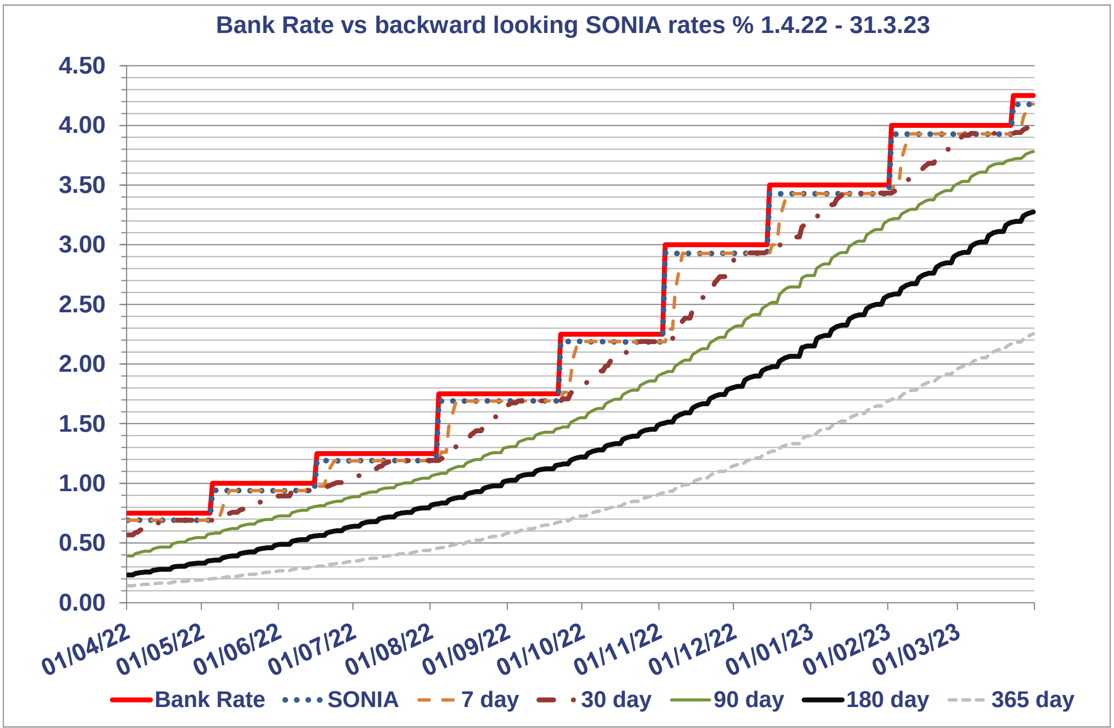
	31 March 2022 actual	2022/23 original limits	31 March 2023 actual
Under 12 months	£1,112m	£1,140m	£1,140m
12 months and within 24 months	£1,140m	£1,170m	£1,170m
24 months and within 5 years	£3,601m	£3,694m	£3,694m
5 years and within 10 years	£6,650m	£5,387m	£5,387m
10 years and above	£1,250m	£1,250m	£1,250m

INVESTMENT PORTFOLIO	Actual 31.3.22 £000	Actual 31.3.22 %	Actual 31.3.23 £000	Actual 31.3.23 %
Treasury investments				
Banks	25,900	100	3,760	32.50
Building Societies - rated	0	0	0	0
Building Societies – unrated	0	0	0	0
Local authorities	0	0	7,800	67.50
DMADF (H M Treasury)	0	0	0	0
Total managed in house	25,900	100	11,560	100
Bond funds	0	0	0	0
Property funds	0	0	0	0
Cash fund managers	0	0	0	0
Total managed externally	0	0	0	0
TOTAL TREASURY INVESTMENTS	25,900	100%	11,560	100%

Note there were no non treasury investments during the year.
The maturity structure of the investment portfolio was that all investments were up to one year.

5. The strategy for 2022/23

5.1 Investment strategy and control of interest rate risk



Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

With bond markets selling off, equity valuations struggling to make progress and, latterly, property funds enduring a wretched Q4 2022, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration) became more actively used.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

Nonetheless, while the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Great Financial Crisis of 2008/9. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.2 Borrowing strategy and control of interest rate risk

During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

A cost of carry generally remained in place during the year on any new long-term borrowing that was not immediately used to finance capital expenditure, as it would have caused a temporary increase in cash balances; this would have incurred a revenue cost – the difference between (higher) borrowing costs and (lower) investment returns. As the cost of carry dissipated, the Council sought to avoid taking on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal and temporary borrowing, supplemented by short-dated borrowing (<3 years) as appropriate.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this has been kept under review to avoid incurring higher borrowing costs in the future when this Authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

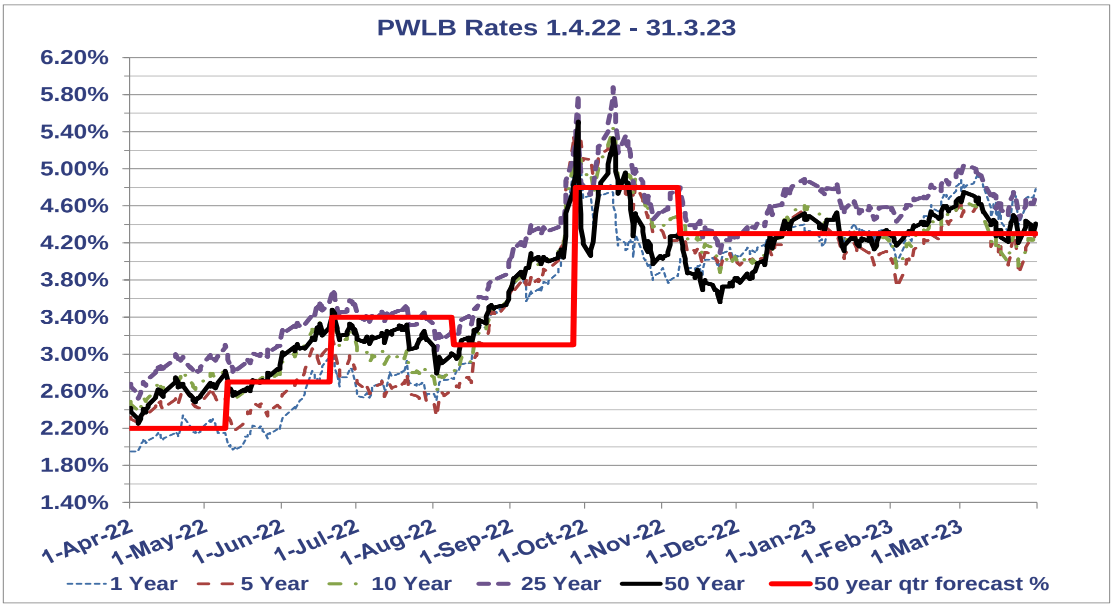
Against this background and the risks within the economic forecast, caution was adopted with the treasury operations. The Director of Finance therefore monitored interest rates in financial markets and adopted a pragmatic strategy based upon the following principles to manage interest rate risks

- if it had been felt that there was a significant risk of a sharp FALL in long and short-term rates, (e.g., due to a marked increase of risks around relapse into recession or of risks of deflation), potential rescheduling from fixed rate funding into short term borrowing would have been considered.

- if it had been felt that there was a significant risk of a much sharper RISE in long and short-term rates than initially expected, perhaps arising from an acceleration in the start date and in the rate of increase in central rates in the USA and UK, an increase in world economic activity or a sudden increase in inflation risks, then the portfolio position would have been re-appraised. Most likely, fixed rate funding would have been drawn whilst interest rates were lower than they were projected to be in the next few years.

Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

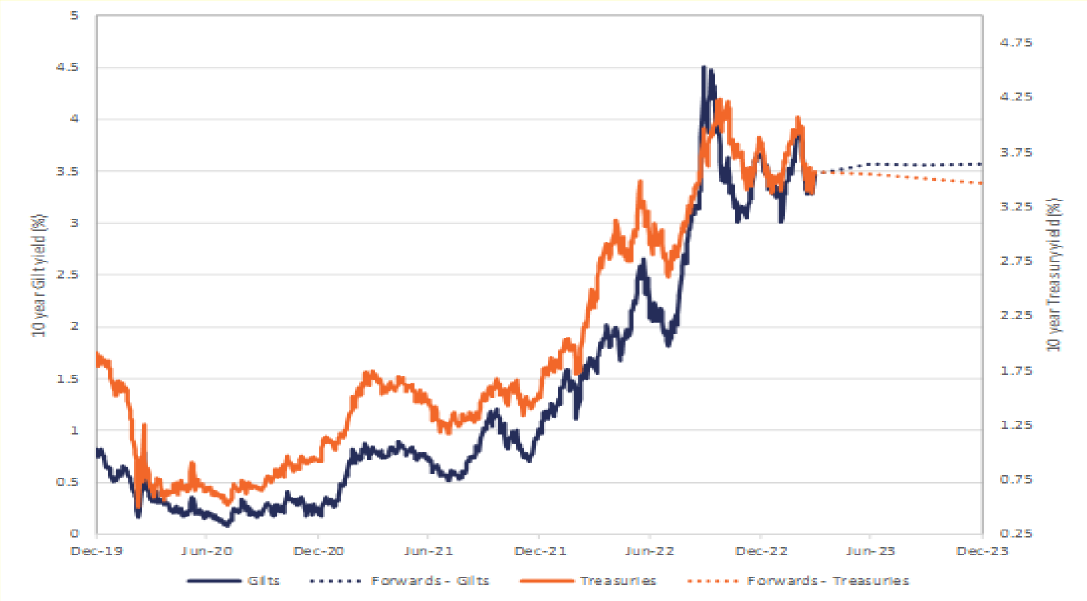
Link Group Interest Rate View	20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30



PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by persistent inflation that is exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

Graph of UK gilt yields v. US treasury yields



Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields are broadly range bound between 3% and 4.25%.

At the close of the day on 31 March 2023, all gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7.5 years being the lowest yield.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate first rises to dampen inflationary pressures and a tight labour market, and is then cut as the economy slows, unemployment rises, and inflation (on the Consumer Price Index measure) moves closer to the Bank of England's 2% target.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

The Bank of England is also embarking on a process of Quantitative Tightening, but the scale and pace of this has already been affected by the Truss/Kwarteng "fiscal experiment" in the autumn of 2022 and more recently by the financial market unease with some US (e.g., Silicon Valley Bank) and European banks (e.g., Credit Suisse). The gradual reduction of the Bank's original £895bn stock of gilt and corporate bonds will be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, is an unknown at the time of writing.

6. Borrowing Outturn

Treasury Borrowing - the Council undertook no external borrowing for cash flow purposes during 2022/23.

Borrowing - the Council undertook no external borrowing for financing purposes during 2022/23. The capital programme was fully financed by a mixture of external grants, capital receipts, reserve funding and revenue contributions. There was no shortfall in funding therefore there was no requirement to borrow.

Rescheduling
No rescheduling was done during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Repayments
The Council repaid principal on loans with the PWLB in line with the loan agreements.

7. Investment Outturn

Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by Council on 22.02.22. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council

- The Council maintained an average balance of £25,941m of internally managed funds.
- The internally managed funds earned an average rate of return of 1.69%.
- The comparable performance indicator is the average 7-day backward looking SONIA uncompounded rate, which was 2.19%.
- Total investment income was £380,194 compared to a budget of £250,200 which is £129,994 above budget.

8. The Economy and Interest Rates

UK. Economy.

Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps in 2022. The table below provides a snapshot of the conundrum facing central banks:

inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

	UK	Eurozone	US
Bank Rate	4.25%	3%	4.75%-5%
GDP	0.1%q/q Q4 (4.1%y/y)	+0.1%q/q Q4 (1.9%y/y)	2.6% Q4 Annualised
Inflation	10.4%y/y (Feb)	6.9%y/y (Mar)	6.0%y/y (Feb)
Unemployment Rate	3.7% (Jan)	6.6% (Feb)	3.6% (Feb)

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.

The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20th February, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. That's despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

USA. The flurry of comments from Fed officials over recent months suggest there is still an underlying hawkish theme to their outlook for interest rates. Markets are pricing in a further interest rate increases of 25-50bps, on top of the current interest rate range of 4.75% - 5%.

In addition, the Fed is expected to continue to run down its balance sheet once the on-going concerns about some elements of niche banking provision are in the rear-view mirror.

As for inflation, it is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the economy slide into a recession of any kind there will be scope for rates to be cut at the backend of 2023 or shortly after.

EU. Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

Appendix 1: Prudential and treasury indicators

1. PRUDENTIAL INDICATORS	2021/22	2022/23	2022/23
Extract from budget and rent setting report	**actual**	**Original**	**actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non - HRA	£ 948	£2,820	£ 3,228
HRA (applies only to housing authorities)	£1,694	£1,713	£2,261
TOTAL	£2,642	£4,533	£5,489
Ratio net of financing costs to net revenue stream			
Non - HRA	2.10%	2.42%	(2.22)%
HRA (applies only to housing authorities)	22.11%	21.46%	20.66%
Gross borrowing requirement General Fund			
brought forward 1 April	£18,456	£17,313	£17,316
carried forward 31 March	£17,316	£16,044	£16,053
in year borrowing requirement	£(1,140)	£(1,269)	£(1,163)
CFR			
Non – HRA	£ 2,242	£ 2,082	£ 2,091
HRA (applies only to housing authorities)	£15,074	£13,962	£13,962
TOTAL	£17,316	£16,044	£16,053
Annual change in Cap. Financing Requirement			
Non – HRA	£ 104	£(160)	£ (151)
HRA (applies only to housing authorities)	£ 0	£(1,112)	£ (1,112)
TOTAL	£ 104	£(1,272)	£(1,263)

2. TREASURY MANAGEMENT INDICATORS	2021/22	2022/23	2022/23
	actual	original	actual
	£'000	£'000	£'000
Authorised Limit for external debt -			
borrowing	£30,000	£30,000	£30,000
other long term liabilities	£ 1,500	£ 1,500	£ 1,500
TOTAL	£31,500	£31,500	£31,500
Operational Boundary for external debt -			
borrowing	£29,000	£29,000	£29,000
other long term liabilities	£ 1,000	£ 1,000	£ 1,000
TOTAL	£30,000	£30,000	£30,000
Actual external debt	£13,753	£12,641	£12,641

Maturity structure of fixed rate borrowing during 2022/23	upper limit	lower limit
under 12 months	9%	9%
12 months and within 24 months	9%	9%
24 months and within 5 years	29%	29%
5 years and within 10 years	43%	43%
10 years and above	10%	10%

Appendix 2: Approved countries for investments as at 04.04.23

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)
- France

AA-

- Belgium
- Qatar
- **U.K.**

Appendix H

RYEDALE DISTRICT COUNCIL

PART A:

REPORT TO:

DATE: **30 MAY 2023**

REPORT OF THE:

TITLE OF REPORT: **TREASURY MANAGEMENT ANNUAL REPORT 2022-23**

WARDS AFFECTED: **ALL**

EXECUTIVE SUMMARY

1.0 PURPOSE OF REPORT

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 2022-23. 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).

2.0 RECOMMENDATIONS

2.1 That Council is recommended to:

(i) Note the annual treasury management report for 2022-23; and

(ii) Approve the actual 2022-23 prudential and treasury indicators in this report.

3.0 REASON FOR RECOMMENDATIONS

3.1 The Council has adopted the Code. A provision of the Code is that an annual review report must be made to the Full Council relating to the treasury activities of the previous year.

4.0 SIGNIFICANT RISKS

4.1 There are significant risks when investing public funds especially with unknown institutions. However, by the adoption of the CIPFA Code and a prudent investment strategy these are minimised. The employment of Treasury Advisors also helps reduce the risk.

5.0 POLICY CONTEXT AND CONSULTATION

5.1 The Council has adopted the CIPFA Code of Practice on Treasury Management in Local Authorities and this report complies with the requirements under this code.

5.2 The Council uses the services of Link Asset Services – Treasury Solutions (Link) to provide treasury management information and advice.

REPORT

6.0 REPORT DETAILS

6.1 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 (Council 17 February 2022)
- A mid year (minimum) treasury update report (Audit, Overview & Scrutiny Committee 24 November 2022)
- An annual review following the end of the year describing the activity compared to the strategy (this report).

6.2 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

6.3 This Council also confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Overview and Scrutiny Committee before they were reported to the full Council.

6.4 This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- Reporting of the required prudential and treasury indicators;
- Summary of interest rate movement in the year;
- Detailed borrowing activity;
- Detailed investment activity.

The Council's Capital Expenditure and Financing 2022-23.

6.5 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

6.6 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2022-23 Actual (£)	2021-22 Actual (£)
Total Capital Expenditure	**1,290,857**	**2,763,430**
Resourced by:		
Capital receipts	240,000	48,670
Capital grants and contributions	5,000	837,981
Reserves	793,386	1,003,030
S106 Commuted Sums	210,051	520,789
External Borrowing	-	219,000
Internal Borrowing	42,420	134,000
Total	1,290,857	2,763,430

The Economy and Interest rates

6.7 The Council's treasury advisors Link Asset Services – Treasury Solutions (Link) summarised the key points associated with economic activity in 2021/22 up to 31 March 2022**:**

- Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and world economies. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it remained unchanged until raising to 0.25% in December 2021, 0.50% in February 2022 and then to 0.75% in March 2022.

- The UK economy has endured several false dawns through 2021/22, but with most of the economy now opened up and nearly back to business-as-usual, the GDP numbers have been robust (9% y/y Q1 2022) and sufficient for the Monetary Policy Committee to focus on tackling the second-round effects of inflation, now that the CPI measure has already risen to 6.2% and is likely to exceed 8% in April.

- Gilt yields fell towards the back end of 2021, but despite the war in Ukraine gilt yields have shot higher in early 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.65% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation.

Overall Treasury Position as at 31 March 2023

6.10 The Council's opening and closing treasury position for the financial year was as follows (excluding finance leases):

	31 March 2023	31 March 2022
Total Debt	£5.434m	£1.474m
CFR	£1.617m	£1.652m
Over/(Under) borrowing	**£3.817m**	**-£0.178m**
Total Investments	£25.677m	£35.155m
Net Debt	**-£21.680m**	**-£34.977m**

The Strategy for 2022-23

6.11 The Treasury Management Strategy for 2022-23 was approved by members at full Council on 17 February 2022.

6.12 The expectation for interest rates incorporated within the Annual Treasury Management Strategy for 2022-23 was based on officers' views at that time, prepared with assistance from the Council's Treasury Management Advisor (Link Asset Services) and supported by a selection of City forecasts.

6.13 The interest rates for the UK were expected to be as follows:

Bank Base Rate following the impact of the Covid-19 Pandemic the Monetary Policy Committee voted for its first rise in December 2021 to 0.25%. Expectations at the time were that further increases would not be seen until June 2022, to 0.5%, and possibly March 2023 before a further increase to 0.75%. Expected investment returns were therefore modest at 0.5% for the year.

PWLB Borrowing rates were forecast to rise marginally throughout the next three years in all periods. Variable and short term rates were expected to be the cheaper form of borrowing over the period.

6.14 Based on the above, the Strategy adopted by the Council for 2022-23 was as follows:

a) Long Term Debt to Finance Capital Expenditure (borrowing strategy 2022-23)

2022-23 was expected to remain as a year of low bank interest rates, with low returns expected from the Council's investments. This situation extends the current opportunity for the Council to utilise an internal borrowing strategy. Borrowing in advance of need within the constraints of the Prudential Code and approved Prudential Indicators would only be considered in exceptional circumstances.

Consideration would be given to financing capital expenditure by taking borrowing from PWLB/money markets, but the key treasury strategy was to maintain an under borrowed position to avoid the cost of holding higher levels of investments and to reduce counterparty risk.

In considering this option however, day to day cash flow constraints and the loss of longer term interest stability would also be taken into account together with the possibility of having to replace the internal borrowing with external borrowing in a subsequent year at higher interest rates.

b) Investment of Surplus cash (investment strategy 2022-23)

The Council's investment priorities are firstly the security of capital and secondly the liquidity of its investments. The highest return would then be sought provided that proper levels of security and liquidity are achieved. The investment risk appetite of the Council is low in order to give priority to the security of investments.

The Borrowing Requirement and Debt

6.13 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR) (excluding borrowing by finance leases).

	31 March 2022 Actual	31 March 2023 Budget	31 March 2023 Actual
Total CFR	£1.652m	£1.483m	£1.617m

Borrowing Rates in 2022-23

6.14 The movement in relevant UK market interest rates for the year was as follows:

a) For Bank Rate

Period	%
1 April 2021 – 15 December 2021	0.10
16 December 2021 – 02 February 2022	0.25
03 February 2022 – 16 March 2022	0.50
17 March 2022 – 31 March 2022	0.75

b) For PWLB rates (Inclusive of the 0.20% discount rate)

Item	Range during Year	Start of Year	End of Year	Average In Year
	%	%	%	%
Fixed Interest Maturity				
1 year	0.78 - 2.03	0.80	1.91	1.13
5 years	1.08 – 2.38	1.26	2.26	1.49
10 years	1.42 – 2.55	1.77	2.45	1.81

25 years	1.66 – 2.75	2.22	2.63	2.10
50 years	1.25 – 2.48	2.02	2.38	1.84

Borrowing Outturn for 2022-23

6.15 One new loan as temporary borrowing was undertaken in March 2023 to cover cash-flow timing due to repayment of unspent Covid-19 relief grants. No new long term 5.borrowing was undertaken during the year and scheduled repayments were made. At the end of the financial year the debt portfolio was as follows:

Lender	Principal	Type	Interest Rate	Borrowing term at inception	Remaining Term length
PWLB	£1.00m	Maturity	3.69%	50 years	42 years
PWLB	£0.51m	EIP	2.99%	19 years	11 years
North Yorkshire County Council	£4.00m	Maturity	3.82%	16 days	1 day

Investment Rates in 2021-22

6.16 Deposit rates continued into the start of 2021-22 at previously depressed levels following the cuts to the base rate in March 2020.

	Bank Rate	7 day	1 mth	3 mth	6 mth	12 mth
High	0.25	0.06	0.06	0.14	0.36	0.73
High Date	17/12/2021	29/12/2021	31/12/2021	31/12/2021	30/12/2021	28/10/2021
Low	0.10	-0.09	-0.08	-0.07	-0.04	0.04
Low Date	01/07/2021	27/08/2021	17/09/2021	08/09/2021	27/07/2021	08/07/2021
Average	0.11	-0.07	-0.05	-0.01	0.09	0.31
Spread	0.15	0.15	0.14	0.20	0.40	0.68

Investment Outturn for 2022-23

6.17 The Council's investment policy is governed by MHCLG guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 17 February 2022. This policy sets out the approach for choosing investment counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc).

6.18 The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.

6.19 The following table shows the result of the investment strategy undertaken by the Council:

	AverageTotal Investment (£)	Average Rate of Return (%)	Benchmark return (7 day rate)
Internally Managed:			
Temporary & On-Call Investments	£3.721m	0.10%	
Fixed Term Deposits	£28.00m	1.45%	2.2%

6.19 The interest received by the Council from investments in 2022-23 totalled £414k; this compares to a budgeted estimate of £84k. The surplus investment income was driven by the increasing bank rates through-out the year as a result of inflation pressures.

6.20 The Council's investment position is organised by the Finance Section in order to ensure adequate liquidity for revenue and capital activities and security of investments. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Treasury Management Practices. The opening and closing investments position for 2022-23 was as follows:

	31 March 2023 (£)	31 March 2022 (£)
Internally Managed Investments	25,677,472	35,155,031

6.21 The maturity of the investment portfolio was as follows;

	31 March 2022 (£)	31 March 2022 (£)
On-call Investments	1,177,472	5,155,031
Fixed Term Deposits: Repayable within 1 month	-	-
Repayable 1 month to 3 months	8,000,000	7,000,000
Repayable 3 months to 6 months	7,000,000	16,000,000
Repayable 6 months to 12 months	7,500,000	7,000,000
Repayable 12 months to 24 months	2,000,000	0
Total	**25,677,472**	**35,155,031**

6.22 Investments were placed with the following institutions:

Type of Institution	31 March 2023 (£)	31 March 2022 (£)
UK Clearing Banks	6,177,472	17,155,031
Foreign Banks	-	-
Building Societies	-	-
Local Authorities	19,500,000	18.000.000
Total	**25,677,472**	**35,155,031**

Compliance with Treasury Limits

6.23 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's Treasury Management Strategy Statement (annex B).

7.0 IMPLICATIONS

7.1 The following implications have been identified:

a) Financial
The results of the investment strategy effect the funding of the capital programme.

b) Legal
There are no legal implications within this report

c) Other (Equalities, Staffing, Planning, Health & Safety, Environmental, Crime & Disorder, Climate Change)
There are no additional implications within this report.

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Background Papers: None

Prudential Indicators - As at 31 March 2023

Note	Prudential Indicator	2022/23 TM Strategy	Quarter 4 Actual
1	Capital Financing Requirement £'000	52,133	52,572
	Gross Borrowing £’000	52,833	52,833
	Investments £'000	53,216	84,226
2	Net Borrowing £'000	-383	-31,393
3	Authorised Limit for External Debt £'000	78,000	52,833
4	Operational Boundry for External Debt £'000	73,000	52,833
5	Limit of fixed interest rates based on net debt %	100%	100%
	Limit of variable interest rates based on net debt %	30%	0%
6	Principal sums invested for over 364 days		
	1 to 2 years £'000	20,000	0
	2 to 3 years £'000	15,000	0
	3 to 4 years £'000	5,000	0
	4 to 5 years £'000	5,000	0
7	Maturity Structure of external debt borrowing limits		
	Under 12 months %	20%	0.00%
	1 to 2 years %	20%	0.00%
	2 to 5 years %	50%	0.00%
	5 to 10 years %	50%	0.00%
	10 to 15 years %	50%	3.00%
	15 years and above %	90%	97.00%

1. Capital Financing Requirement – this is a measure of the Council’s underlying need to borrow long term to fund its capital projects.

2. Net Borrowing (Gross Borrowing less Investments) – this must not except in the short term exceed the capital financing requirement.

3. Authorised Limit for External Debt – this is the maximum amount of borrowing the Council believes it would need to undertake its functions during the year. It is set above the Operational Limit to accommodate unusual or exceptional cashflow movements.

4. Operational Boundary for External Debt – this is set at the Council's most likely operation level. Any breaches of this would be reported to Councillor's immediately.

5. Limit of fixed and variable interest rates on net debt – this is to manage interest rate fluctuations to ensure that the Council does not over expose itself to variable rate debt.

6. Principal Sums Invested for over 364 days – the purpose of these limits is so that the Council contains its exposure to the possibility of loss that might arise as a result of having to seek early repayment or redemption of investments.

7. Maturity Structure of Borrowing Limits – the purpose of this is to ensure that the Council is not required to repay all of its debt in one year. The debt in the 15 years and over category is spread over a range of maturities from 23 years to 50 years.

SELBY
DISTRICT COUNCIL

Report Reference Number: *(dem services to add)*

To:	**Executive**
Date:	**TBA**
Status:	**Non Key Decision**
Ward(s) Affected:	**All**
Author:	**Chris Chapman, Accountant**
Lead Executive Member:	**Councillor Cliff Lunn**
Lead Officer:	**Karen Iveson – Chief Finance Officer, S151**

Title: Treasury Management – Quarterly Update Q4 2022/23

Summary:

This report reviews the former Selby District Council's borrowing and investment activity (Treasury Management) for the period 1 April 2022 to 31 March 2023 and presents performance against the Prudential Indicators. Following abolition of Selby District Council with effect from 1st April 2023 this final report is submitted for consideration by the North Yorkshire Council's Executive.

Investments – On average the Council's investments held in the NYCC investment pool totalled £85.95m over the year at an average rate of 2.16% and earned interest of £1,856.3k (£1,339.0k allocated to the General Fund; £517.3k allocated to the HRA) which is £1,703.8k above the total annual budget. This exceeded the Q3 estimated return of £1,853.7k by £2.6k. For the General Fund, any interest earned above a £350k threshold is to be transferred to the Contingency Reserve. This figure amounted to £989.0k for the year.

Investments have performed positively as a result of the regular and sustained rises in Bank of England base rate that have been experienced over the course of the year, as well as higher sustained cash balances. Base rate has risen from 0.25% when budgets were initially set, to their current level of 4.25%.

In addition to investments held in the pool, the council had £4.49m invested in property funds as at 31st March 2023. The funds achieved a 3.72% revenue return and 17.69% capital loss over the course of the year, resulting in revenue income of £176.3k and an 'unrealised' capital loss of £965.7k. Following the peak in Capital values reported in the Q4 2021/22 and Q1 2022/23 treasury reports, a subsequent capital loss has been incurred over the remainder of the 22/23 financial year as a result of the current strain on commercial property markets, driven by the increasing cost of borrowing that has been seen as the year progressed. These funds remain

long term investments and changes in capital values are realised when the units in the funds are sold.

Borrowing – Long-term borrowing totalled £52.833m at 31 March 2023, (£1.6m relating to the General Fund; £51.233m relating to the HRA), Interest payments of £1.917m were paid in 2022/23, a saving of £59k against budget. The Council undertook no short term borrowing during the year.

Prudential Indicators – the Council's affordable limits for borrowing were not breached during the year.

Looking ahead to the 2023/24 financial year, investment returns are expected to remain steady, with latest base rate forecasts indicating that the rate is expected to stabilise at its current level, and remain within the 4.00%-4.50% bracket over the course of the year. This position remains highly fluid however, and is based on the latest expectations by the Council's treasury advisors. As a result of Local Government Re-organisation within North Yorkshire, Selby District Council's Investments and External borrowing will be consolidated from the 1st April into North Yorkshire Council's wider Treasury Portfolio.

Recommendations:

i. Councillors endorse the actions of officers on Selby District Council's treasury activities for Q4 2022/23 and approve the report.

Reasons for recommendation

To comply with the Treasury Management Code of Practice, the Executive is required to receive and review regular treasury management monitoring reports**. 1.**

Introduction and background

1.1 This is the final monitoring report for the former Selby District Council's treasury management in 2022/23 and covers the period 1 April 2022 to 31 March 2023. During this period the Council complied with its legislative and regulatory requirements. Following abolition of Selby District Council with effect from 1st April 2023 this final report is submitted for consideration by the North Yorkshire Council Executive.

1.2 Treasury management in Local Government is governed by the CIPFA "Code of Practice on Treasury Management in the Public Services" and in this context is the management of the Council's cash flows, its banking and its capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. This Council has adopted the Code and complies with its requirements.

1.3 The Council's Treasury Strategy, including the Annual Investment Strategy and Prudential Indicators was approved by Council on 24 February 2022.

1.4 The two key budgets related to the Council's treasury management activities are the amount of interest earned on investments £152.5k (£110k General Fund, £42.5k HRA) and the amount of interest paid on borrowing £1.976m (£75k General Fund, £1.901m HRA).

2. The Report

Market Conditions and Interest Rates

2.1 The Council's treasury advisors Link Group summarised the key points associated with economic activity in 2022/23 up to 31st March 2023:

- UK interest rates have proven volatile, driven by the backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies
- Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes.
- CPI inflation picked up to what should be a peak reading of 11.1% in October. Any significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. The majority of commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.
- UK unemployment rate fell through 2022 to a 48-year low of 3.6%, this despite a net migration increase of c500k. Many economic participants are registered as long-term sick however, resulting in the UK labour force shrinking by c500k in the year to June. Without an increase in the labour force participation rate, it is unlikely that the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.
- Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

Interest Rate Forecasts

2.2 The current interest rate forecasts (as at 31st March 2023) of Link Group are as follows:

Date	*Bank rate*	*5 year PWLB**	*10 year PWLB**	*25 year PWLB**	*50 year PWLB**
	%	%	%	%	%
Current rates	4.25%	4.21%	4.24%	4.62%	4.31%
June 2023	4.50%	4.10%	4.20%	4.60%	4.30%
Sept 2023	4.50%	4.10%	4.20%	4.50%	4.20%
Dec 2023	4.25%	3.90%	4.00%	4.40%	4.10%
March 2024	4.00%	3.80%	3.90%	4.20%	3.90%
June 2024	3.50%	3.70%	3.80%	4.10%	3.80%
Sept 2024	3.25%	3.60%	3.70%	4.00%	3.70%
Dec 2024	3.00%	3.50%	3.50%	3.80%	3.50%
Mar 2025	2.75%	3.40%	3.50%	3.70%	3.50%

* Net of certainty rate 0.2% discount

2.3 The previous months have seen the Bank of England continue to take sustained action via increases to the bank base rate in their effort to combat inflationary pressures. As such base rate set by the Monetary Policy Committee (MPC) is currently sitting at 4.25%. As shown in the forecast table above, latest expectations are that this period of sustained rate increases is now coming to an end, with rates currently expected to stabilise over the course of the 23/24 financial year, before beginning to decrease in subsequent years.

Annual Investment Strategy

2.4 The Annual Investment Strategy outlines the Council's investment priorities which are consistent with those recommended by DCLG and CIPFA:

- Security of Capital and
- Liquidity of its investments

2.5 The Investment of cash balances of the Council are managed as part of the investment pool operated by North Yorkshire County Council (NYCC). In order to facilitate this pooling, The Councils Annual Investment strategy and Lending List has been aligned to that of NYCC.

2.6 NYCC continues to invest in only highly credit rated institutions using the Link suggested creditworthiness matrices which take information from all the credit ratings agencies. Officers can confirm that the Council has not breached its approved investment limits during the year.

2.7 The Council's investment activity in the NYCC investment pool up to 31st March 2023 was as follows:

- Balance invested at 31 March 2023 £77.05m
- Average Daily Balance Q4 2022/23 £87.60m
- Average Interest Rate Achieved Q4 2022/23 3.62%
- Average Daily Balance (Full Year) £85.95m
- Average Interest Rate Achieved (Full Year) 2.16%
- Total Interest Budgeted for 2022/23 £152.5k
- Total Forecast Interest for 2022/23 £1,856.3k

2.8 The average annual return of 2.16% compares with the average benchmark returns as follows:

- 1 month 2.09%
- 3 months 1.81%
- 6 months 1.42%
- 12 months 0.90%

Commentary on Investment Returns

2.9 As indicated above in paragraph 2.7, the total interest return for 22/23 amounted to £1,856.3k for the year, a figure that compares positively to the budgeted figure of £152.5k.

2.10 There are two primary reasons for this over-performance against budget. First, that average cash balances held and invested by the council have remained higher than anticipated over the course of the previous year. Second, that Average interest rates currently achieved on council investments are significantly higher than was previously anticipated.

2.11 The table below summarises current assumptions, vs the assumptions used at the time the budget was set in these two areas.

	Budget	Current Position
Average Cash balance (Full year)	£61,000k	£85,950k
Average Interest rate (Full year)	0.25%	2.16%
Annual Interest	£152.5k	£1,856.3k

2.12 Cash Balances held and invested by the council were expected to decrease significantly, as expenditure accelerated on the Council's Capital and P4G programmes. Slippage in these programmes between financial years however has meant that balances have continued to remain high over the course of the year, with the invested balance as at 31.03.2023 sitting at £77.05m.

2.13 The average interest rate achieved on council investments has also increased significantly faster than was previously anticipated. The rate used in determining the Council's investment returns is based upon the expected movement in Bank of England base rate over the course of the year, as advised by the Council's Treasury Advisors, Link Group. At the time the budget was set, the base rate stood at 0.10%, with Link Group not expecting any increase in rate until the 24/25 financial year, whereupon the rate was expected to rise to 0.25%. The wider global economic situation however, has led the Bank of England Monetary Policy Committee to increase base rates at an unprecedented rate, in an attempt to combat Inflationary pressures. Whilst this has had a positive impact on the council's investment returns, there has been corresponding pressures in other areas of council expenditure, such as expenditure on energy and fuel.

Borrowing

2.14 It is a statutory duty for the Council to determine and keep under review its "Affordable Borrowing Limits". The Council's approved Prudential Indicators (affordable limits) were outlined in the Treasury Management Strategy Statement (TMSS). A list of the limits is shown at Appendix A. Officers can confirm that the Prudential Indicators were not breached during the year.

2.15 The TMSS indicated that there was no requirement to take long term borrowing during 2022/23 to support the budgeted capital programme.

2.16 The Council approved an Authorised Borrowing Limit of £78m (£77m debt and £1m Leases) and an Operational Borrowing Limit of £73m (£72m debt and £1m Leases) for 2022/23 on the 24 February 2022 within the Council's Treasury Strategy.

2.17 As at 31st March 2023 Long-term borrowing totalled £52.833m, (£1.6m relating to the General Fund; £51.233m relating to the HRA). This figure has remained unchanged throughout the year, with the next scheduled loan repayment for the Selby District Council external borrowing portfolio scheduled for March 2035.

2.18 The Treasury strategy, in relation to capital financing, is to continue the voluntary set aside of Minimum Revenue Provision (MRP) payments from the HRA in relation to self-financing debt, to allow for repayment of the outstanding debt. Following an updating of the HRA business plan in 2021/22, the voluntary set aside of HRA MRP payments has been reprofiled over the life of the existing debt, a change from the original 30 year profiling period. As a result of this update, £1.21m of HRA Voluntary MRP was incurred in 2022/23.

2.19 As at 31st March 2023, the Council was in an overborrowed position of £0.271k. This means that capital borrowing (external debt) is currently and temporarily higher than the Council's underlying need to borrow. This movement from the £1.5m under-borrowed position reported at Q3 has been driven by the annual MRP charges to the General Fund and HRA, which have been incurred at the end of the financial year.

2.20 The overborrowed position of £0.271m is in line with the approved Treasury Management Strategy, which had anticipated an overborrowed position of £0.700m at year end. This slight variance is primarily driven by the ongoing discussions around settlement of the Summit Contract, which had been anticipated to conclude this financial year. Upon settlement of the contract a Voluntary MRP contribution of £0.510m is forecast to be incurred. As discussions regarding settlement of the contract remain ongoing, this MRP contribution is now anticipated to be incurred in the next financial year.

Capital Strategy

2.21 The Capital Strategy was included as part of the Council's Annual Treasury Management and Investment Strategy 2022/23, approved in February 2022. The Capital Strategy sets out how capital expenditure, capital financing and treasury management contribute to the provision of Corporate and service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability. It sets out the long term context in which capital expenditure and investment decisions are made and gives due consideration to both risk and reward and impact on the achievement of priority outcomes.

2.22 Alternative non-treasury investments are considered as part of the Capital Strategy. Given the technical nature of potential alternative investments and strong linkages to the Council's Treasury Management function, appropriate governance and decision making arrangements are needed to ensure robust due diligence in order to make recommendations for implementation. As a result, all investments are subject to consideration and where necessary recommendations of the Executive.

2.23 Aside from the existing loans to Selby & District Housing Trust to support the Housing Delivery Programme, no further options for alternative investments were pursued in the year.

Housing Delivery Programme Loans

2.24 The Housing Delivery Programme has delivered a number of successful schemes so far, in partnership with Selby & District Housing Trust. No further schemes are planned, rather, the decision has been made by Selby District Council in conjunction with the Trust to purchase the properties included under the schemes detailed below. The proposed approach as to the purchase of the properties has been considered, and subsequently approved, by the Charity Commission. Discussions with the Trust with regards to the finalisation of the purchase are entering the final stages, and, are anticipated to be concluded early in the 2023/24 financial year. In the interim period the existing loans to the Trust will continue until their settlement as part of the agreement detailed above.

Scheme	Loan Rate %	Principal Outstanding as at 31 March 2023 £	Interest at March 22/23 £	Interest Full year £
Kirgate, Tadcaster	4.56%	173,679	8,514	8,514
St Joseph's St	4.20%	189,111	8,331	8,331
Jubliee Close, Riccall	3.55%	501,901	18,410	18,410
Ulleskelf	4.87%	1,006,985	49,670	49,670
Ousegate	3.65%	806,225	30,496	30,496
Total Principal / Average Rate	**4.19%**	**2,677,901**	**115,423**	**115,423**

Commercial Property Investments

2.25 The Council currently possesses one Commercial Property, the former NatWest Bank located in Tadcaster. As part of the Council's wider P4G programme a decision has been made to declare the property as surplus to council requirements and formally dispose of the property.

Property Funds

2.26 The forecast position on Property Funds at 31 March 2023 is as follows:

<u>In Year Performance -</u>

			In Year Performance Q4 22/23			
Fund	Bfwd Investment £k	Valuation as at 31-Mar-23 £k	Capital Gain / (Loss)		Revenue Return	
			£k	%	£k	%
Blackrock	2,823.44	2,316.20	(507.2)	(17.97)	71.5	2.73
Threadneedle	2,636.30	2,177.80	(458.5)	(17.39)	104.8	4.24
Total	**5,459.73**	**4,494.00**	**(965.7)**	**(17.69)**	**176.3**	**3.46**

Total Fund Performance

Fund	Original Investment £k	Valuation as at 31-Mar-23	Total Performance			
			Capital Gain / (Loss)		Revenue Return	
		£k	£k	%	£k	%
Blackrock	2,502.50	2,316.20	(186.3)	(7.44)	340.1	3.10
Threadneedle	2,439.24	2,177.80	(261.4)	(10.72)	460.5	4.36
Total	**4,941.73**	**4,494.00**	**(447.7)**	**(9.06)**	**800.6**	**3.72**

2.27 Investments held in Property Funds are classified as Non-Specified Investments and are, consequently, long term in nature. Valuations can, therefore, fall and rise over the period they are held. Any gains or losses in the capital value of investments are held in an unusable reserve on the balance sheet and do not impact on the General Fund until units in the funds are sold.

2.28 Following the peak in value that the funds experienced at the beginning of the current financial year, the Capital Values of both funds have experienced a reduction in value over the remainder of the financial year. At the end of March 2022/23 the funds have demonstrated a combined capital loss of £965.7k over the course of the year, and a loss of £447.7k against initial purchase price. This loss has been incurred as a result of the current strain on commercial property markets, driven by the increasing cost of borrowing that has been seen as the year progressed. This strain has resulted in the decrease in the value of the funds to their current levels, which, combined with the reported value of the funds at the beginning of the year being the highest since Selby District Council took ownership of the funds, has resulted the loss figure reported. Both funds continue to generate a positive revenue return however, amounting to £176.3k over the course of the year by the end of March 2023.

3. Alternative Options Considered

3.1 The Council has access to a range of investments through the pooled arrangements in place through North Yorkshire County Council.

4. Implications

4.1 Legal Implications

There are no legal implications as a direct result of this report.

4.2 **Financial Implications**

The financial implications are set out in the report.

4.3 **Policy and Risk Implications**

4.3.1 Management of the Council's treasury activities are in accordance with approved policies. Treasury management in Local Government is governed by the CIPFA "Code of Practice on Treasury Management in the Public Services" which aims to ensure the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks. This Council has adopted the Code and complies with its requirements.

4.4 Corporate Plan Implications

4.4.1 There are no direct Corporate Plan implications as a result of this report.

4.5 Resource Implications

4.5.1 The resources necessary to manage the Council's Treasury activities are contained within the collaboration agreement with NYCC.

4.6 Other Implications

4.6.1 There are no other implications as a direct result of this report.

4.7 Equalities Impact Assessment

4.7.1 There are no equalities impacts as a direct result of this report.

5. Conclusion

5.1 Overall the Council's investments have generated strong revenue returns over the course of the year. This has been driven by the sustained increases in the bank base rate combined with higher than anticipated cash balances.

5.2 After a sustained period of Capital growth since the midst of the Covid-19 Pandemic, culminating in a peak in value at Q4 21/22 and Q1 22/23, the Council's Property Fund investments have since reported a subsequent fall in Capital Values. Both funds continue to generate positive revenue returns for the Council, however. These investments are intended to be longer term in nature and as such any rise or fall in capital value will not impact on the General Fund until units in the funds are sold, with any change in value (up or down) until that point held on the Balance Sheet in an unusable reserve.

5.3 The Council's debt position is in line with expectations set out in the Strategy.

5.4 The Council operated within approved Strategy Indicators over the course of the quarter, with no breaches on authorised limits. The Prudential Indicators are reviewed annually as part of the Treasury Strategy to ensure approved boundaries remain appropriate; activities during 2022/23 have not highlighted any concerns.

6. Background Documents

None.

7. Appendices

Appendix A – Prudential Indicators as at 31 March 2023

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SCARBOROUGH BOROUGH COUNCIL	

SUBJECT: TREASURY MANAGEMENT OUT-TURN FOR 2022/2023

RECOMMENDATION(S):

Cabinet is recommended to receive this report and note the out-turn position of the Council's Treasury Management function for the 2022/2023 financial year.

REASON FOR RECOMMENDATIONS:

(i) To comply with the CIPFA Code of Practice of Treasury Management in Local Authorities (the Code) by informing the relevant internal bodies of the Council's treasury management activities following the end of the financial year that the report relates;

(ii) To keep Members informed of Treasury Management activities and performance.

HIGHLIGHTED RISKS

The Council does not comply with the Code of Practice of Treasury Management in Local Authorities, which may result in adverse comment from both internal and external auditors.

1. INTRODUCTION

1.1 Treasury Management in Local Government is regulated by the CIPFA Code of Practice on Treasury Management in Local Authorities (the Code), which this Council formally adopted and complies with; together with the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2 The primary requirements of the Code are:

- The creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury activities;

- The creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives;

- Reporting to Cabinet and/or Council of both the expected treasury activities for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report);

- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions;

- Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Council is the Audit Committee.

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is therefore important in that respect, as it provides details of the out-turn position for treasury activities and highlights compliance with the Council's previously approved policies. It is accepted good practice for the out-turn report to be subject to Audit Committee scrutiny prior to being presented to Cabinet.

1.4 Treasury Management in this context is defined as:

"The management of the Local Authority's investments and cash flows; its banking; money market and capital market transactions; the effective control of the risks associated with these activities; and the pursuit of the optimum performance or return consistent with those risks."

2. CORPORATE AIMS AND PRIORITIES

2.1 This report potentially affects all of the Council's Corporate Aims and Priorities as treasury management activities, especially capital borrowing, underpin the financial affordability in meeting these objectives.

3. BACKGROUND AND ISSUES

3.1 Investment and Borrowing Portfolios as at 31 March 2023

3.1.1 The Council's investment and borrowing position at the beginning and end of the financial year was as follows:

	31 March 23 Principal	Rate %	31 March 22 Principal	Rate %
Borrowings				
Fixed Rate Funding	34,370,639	2.71	34,759,519	2.70
Variable Rate Funding	0	0	0	0

Total Borrowing	**34,370,639**	**2.71**	**34,759,519**	**2.70**
Investments				
In-house	42,000,000	3.875	53,500,000	0.5513
Total Investments	**42,000,000**	**3.875**	**53,500,000**	**0.5513**

3.1.2 The level of external borrowing is within the Authorised Limits established by the Treasury Management Prudential Indicators reported to Full Council on 25 February 2022 as part of the Financial Strategy for the 2022/2023 financial year.

4. CONSULTATION

4.1 In accordance with best practice and internal governance arrangements the treasury out-turn position was presented to the Audit Committee on 21 July 2022 (22/177) for scrutiny. Following this scrutiny, the Audit Committee resolved that the report be presented to Cabinet to comply with the CIPFA Code of Practice.

4.1 Investment Out-turn for 2022/2023

5.2.1 The Council's investment policy is governed by the Department of Levelling UP, Housing and Communities guidance, which has been implemented in the Annual Investment Strategy approved by Full Council on 25 February 2022 as part of the Financial Strategy. This policy sets out the approach for selecting counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks and credit default swaps).

5.2.2 The Council manages its investments in-house and invests with the institutions that meet the minimum creditworthiness criteria approved by Full Council. In addition to making investments to generate interest the in-house team must also ensure that the Council's day-to-day cashflow requirements are aligned to support the Capital Strategy and revenue expenditure.

5.2.3 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally which would have incurred an additional cost, due to the differential between borrowing and investment rates. Such an approach has also provided benefits in terms of reducing the counterparty risk exposure, by having fewer investments placed in the financial markets.

5.2.4 During the year, as well as using short-term instruments with Local Authorities, the Council invested in notice accounts ranging from 32 days to 6 month notice with strong rated financial institutions. The selection of period and type of instrument is dependent on the Council's cashflows, its interest rate view and the interest rates on offer.

5.2.5 The investment activity during the year conformed to the approved Strategy, and the Council had no liquidity difficulties.

5.2.6 As a result of increasing inflationary pressures across the economy the Bank of England Base Rate has risen from 0.50% in March 2022 to a current rate of 4.25%. The base budget is established based on average cash balances of £15m returning a rate of 0.95%.

5.2.7 The Council achieved an investment income returns of £1.1m in the year against a budget of £0.1m with average cash balances of £50m generating a return in excess of 2% over the year.

5.2.8 No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year. The list of institutions in which the Council invests was kept under continuous review throughout the year.

5.3 Borrowing Out-turn for 2022/2023

5.3.1 At the beginning of the financial year the Council had £34,739,519 in external borrowing spread over five loans as detailed beneath:

Principal £	Lender	Date Taken	Type of Loan	Rate %	Loan Period (Years)
4,000,000	Barclays	15 Sept 2003	Maturity	4.45	40
4,000,000	PWLB	2 February 2015	Maturity	2.59	15
3,607,287	PWLB	2 March 2015	Annuity	3.15	40
13,599,641	PWLB	9 October 2018	Annuity	2.83	50
9,552,591	PWLB	5 Sept 2019	Annuity	1.69	40

5.3.2 Four of the loans are with the PWLB, with the other being a £4.00 million fixed rate maturity with Barclays.

5.3.3 The annuity loans have a fixed annual repayment amount over the duration of the loan which incorporates an amount for principal as well as interest. Over the course of the 2022/2023 financial year £388,881 of principal has been repaid. As an element of principal is being repaid with each instalment the interest payable on debt outstanding reduces annually throughout the loan term.

5.3.4 No opportunities of rescheduling any of the existing loans arose during the financial year.

5.3.5 The Council has not borrowed more than, or in advance of its need, purely in order to profit from the investment of the extra sums borrowed.

6. RISK MANAGEMENT.

6.1 To mitigate the possibility of erroneous judgement the Council employs Link Group (Link) to provide specialist advice to support such decisions. Link's contract was due to expire on 30 September 2022; however, with Local Government Reform on the horizon Link's contract was until 31 March 2023.

7. IMPLICATIONS

7.1 Policy

7.1.1 The content of this report is within the Council's policy and financial framework.

7.2 Financial

7.2.1 This report does not have any financial implications.

7.3 Legal

7.3.1 This report fulfils the requirement to inform Members of the Council's treasury management activities in accordance with the CIPFA Code of Practice on Treasury Management in Local Authorities.

7.4 Risk

7.4.1 A risk matrix is attached as Appendix A.

7.5 Local Government Reorganisation and Communications

7.5.1 The above two implication headings have been considered and am satisfied that there is no identified implication that will arise from this decision.

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Background Papers:
CIPFA Code of Practice on Treasury Management in Local Authorities
Prudential Code for Capital Finance in Local Authorities

APPENDIX A

Risk Matrix

Risk Ref	Date	Risk	Consequences	Mitigation	Current Risk Score	Target Score	Service Unit Manager/ Responsible Officer	Action Plan
1	October 2022	The Council does not comply with the Code of Practice of Treasury Management in Local Authorities.	It may lead to a detrimental comment from the external auditors.	The report has been presented to the Audit Committee for scrutiny.	B2	A1	Asset & Risk Manager	This report is to be presented to Cabinet.