# City Council

PLYMOUTH CITY COUNCIL

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| Date of meeting: | 18 September 2023 |
| Title of Report: | **Annual Report on Treasury Management Activities for 2022/23** |
| Lead Member: | Councillor Mark Lowry (Cabinet Member for Finance) |
| Lead Strategic Director: | David Northey (Interim Service Director for Finance) |
| Author: | Wendy Eldridge |
| Contact Email: | Wendy.eldridge@plymouth.gov.uk |
| Your Reference: | TM 2022/23 Outturn |
| Key Decision: | No |
| Confidentiality: | Part I - Official |

**Purpose of Report**

In order to comply with the Code of Practice for Treasury Management, the Council is required to formally report on its treasury management activities for the year, providing information on the progress and outcomes against the Treasury Management Strategy. This report covers the Treasury Management activities for financial year 2022/23 including the final position on the statutory Prudential Indicators.

This report:

a) is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
b) confirms capital financing, borrowing, debt rescheduling and investment transactions for the year 2022/23;
c) provides an update on the risk inherent in the portfolio and outlines actions taken by the Council during the year to minimise risk;
d) gives details of the outturn position on Treasury Management transactions in 2022/23;
e) Details compliance with treasury limits and Prudential Indicators (PIs) and the outlines the final position on the PI's for the year. Noting that compliance to level of fixed rate exposure for borrowing was exceeded to mitigate against interest rate risk to temporary borrowing through other local authorities.

**Recommendations and Reasons**

1. To approve the Treasury Management Annual Report 2022/23

*This is to comply with the CIPFA Code of Practice and discharge our statutory requirement.*

**Alternative options considered and rejected**

None - it is requirement to report to Council on the treasury management activities for the year.

**Relevance to the Corporate Plan and/or the Plymouth Plan**

Effective financial management is fundamental to the delivery of corporate improvement priorities. Treasury Management activity has a significant impact on the Council's activity both in revenue budget terms and capital investment and is a key factor in facilitating the delivery against a number of corporate priorities.

**Implications for the Medium Term Financial Plan and Resource Implications:**
Into the medium and longer term the Council is facing significant pressures due to the national economic situation, which has led to a reduction in resources for local authorities over the Government's latest spending period. Effective Treasury Management will be essential in ensuring the Council's cash flows are used to effectively support the challenges ahead.

**Financial Risks**
There is an inherent risk to any Treasury Management activity. The Council continues to manage this risk by ensuring all investments are undertaken in accordance with the approved investment strategy, and keeping the counterparty list under constant review.

**Carbon Footprint (Environmental) Implications:**

In 2022/23 the Council invested £5m into the Public Sector Social Impact Fund to invest in carbon reduction projects.

**Other Implications: e.g. Health and Safety, Risk Management, Child Poverty:**
** When considering these proposals members have a responsibility to ensure they give due regard to the Council's duty to promote equality of opportunity, eliminate unlawful discrimination and promote good relations between people who share protected characteristics under the Equalities Act and those who do not.*
Click here to enter text.

**Appendices**
**Add rows as required to box below*

| **Ref.** | **Title of Appendix** | **Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.* | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| A | Briefing report title | | | | | | | |
| B | Equalities Impact Assessment (if applicable) | | | | | | | |

**Background papers:**

**Add rows as required to box below*

*Please list all unpublished, background papers relevant to the decision in the table below. Background papers are unpublished works, relied on to a material extent in preparing the report, which disclose facts or matters on which the report or an important part of the work is based.*

| **Title of any background paper(s)** | **Exemption Paragraph Number** (if applicable) *If some/all of the information is confidential, you must indicate why it is not for publication by virtue of Part 1of Schedule 12A of the Local Government Act 1972 by ticking the relevant box.* | | | | | | |
|---|---|---|---|---|---|---|---|
| | **1** | **2** | **3** | **4** | **5** | **6** | **7** |
| Treasury Management Strategy report to Council 28 February 2022 | | | | | | | |

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**Sign off:**

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| Fin | CH 11.07.23 1901 | Leg | LS/ 00001075/ AC/11/7/23 | Mon Off | Click here to enter text. | HR | Click here to enter text. | Assets | Click here to enter text. | Strat Proc | Click here to enter text. |
| Originating Senior Leadership Team member: David Northey | | | | | | | | | | | |
| Please confirm the Strategic Director(s) has agreed the report? Yes<br>Date agreed: 03/07/2023 | | | | | | | | | | | |
| Cabinet Member approval: Cllr Mark Lowry *approved by email*<br>Date approved: 11/07/2023 | | | | | | | | | | | |

# Annual Report on Treasury Management Activities for 2022/23

## Introduction

1. Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code). This requires the Council to approve a Treasury Management Strategy before the start of each financial year and, as a minimum, a half-year and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

2. The approval of this report has been delegated to the Governance and Audit Committee to approve.

3. The 2017 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 28 February 2022.

## Treasury Management Position

4. On 31st March 2023, the Authority had net borrowing of £565m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

**Table 1: Balance Sheet Summary**

| | 31/03/22 Actual £m | 2022/23 Movement £m | 31/03/23 Actual £m |
|---|---|---|---|
| General Fund CFR | 833 | 46 | 879 |
| Less: Other debt liabilities * | -113 | -56 | -169 |
| **Borrowing CFR** | **720** | **-10** | **710** |
| Less: Usable reserves | -124 | 9 | -115 |
| Less: Working capital | -42 | 12 | -30 |
| **Net borrowing** | **554** | **11** | **565** |

* *finance leases, PFI liabilities and transferred debt that form part of the Council's total debt.*

5. The Council has increasing CFR due to the capital programme and an increasing borrowing requirement to £879m. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels (sometimes known as internal borrowing) in order to reduce risk and keep interest costs low.

## Borrowing and Investment Activity

6. As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing

7. The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March around 2% - 4% higher than those at the beginning of April. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September which saw some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

8. At 31 March 2023, the Council held £565m of loans, an increase of £11m on 31/03/2022 as part of its strategy for funding previous years' capital programmes.

The treasury management position at 31st March 2023 and the change during the year is shown in table 2 and table 3 below.

**Table 2: Borrowing Activity**

| | Balance on 01/04/2022 £m | Movement £m | Balance on 31/03/2023 £m | Avg Rate % |
|---|---|---|---|---|
| Public Works Loan Board | 231 | 165 | 396 | 2.73 |
| Banks - LOBOs | 65 | -1 | 64 | 4.34 |
| Other Loans | 30 | -6 | 24 | 4.37 |
| Short Term Borrowing | 228 | -147 | 81 | 0.97 |
| **TOTAL BORROWING** | 554 | 11 | 565 | 2.73 |
| Other Long Term Liabilities | 124 | -5 | 119 | - |
| **TOTAL EXTERNAL DEBT** | 678 | 6 | 684 | - |
| **Less Total Investments (see table 3)** | -101 | 15 | -86 | 3.93 |
| **Net Borrowing** | 577 | 21 | 598 | |

9. Short term borrowing includes £75m the Council borrows from other local authorities at lower rates on 3-12 month terms. The Council holds an Interest Rates Risk (the risk that interest rates may go up).

10. To Hedge against this risk the Council took out an Interest Rate Swap in April 2020 for £75m at a fixed rate of 0.56% for 20 years using the SONIA (Sterling Over Night Index Average). The Sterling Overnight Interest Rate (SONIA) averaged 2.263% over 2022/23 therefore receiving a drawdown from the hedge arrangement.

11. The Council continues to hold £64m of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

12. Although not classified as borrowing, the Council has other capital finance from Private Finance Initiatives and Finance Leases etc. and as at 31st March 2023 this amounted to £119m. PFI and finance leases are other ways of financing capital. However, this is quite often more expensive and is paid over a number of years. The Council's current PFI debt will be repaid by 2040.

13. Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

14. At 31 March 2023 the Council held £86m of cash and investments (see table 3) which was a decrease of £15m on 2021/22.

**Table 3: Investment Activity in 2022/23**

| Investments | Balance on 01/04/2022 £m | Movement £m | Balance on 31/03/2023 £m | Avg Rate/Yield (%) |
|---|---|---|---|---|
| Short term Investments (Banks and call accounts) | -17 | 14 | -3 | 1.50 |
| Covered Bonds and Loans | 0 | 0 | 0 | - |
| Money Market Funds | -23 | -5 | -28 | 4.10 |
| Other Pooled Funds | -61 | 6 | -55 | 5.28 |
| **TOTAL INVESTMENTS** | **-101** | **15** | **-86** | |

15. Investment activity included pooled investments with a value of £55.301m (nominal value £55.000m). The growth in Fair Value reported in 2022/23 has reduced notably with one property

fund investment. However, this still exceeds its amortised cost. In addition to the capital value of investment generally being maintained at investment cost. The externally managed Pooled Funds (bond, equity, multi-asset and property) with the CCLA, Schroder and Fidelity has generated a total return for the year of £2.886m (2021/22 £1.976m). Investment income has been used to support services in year.

16. It should be noted that the capital value of the Council's Pooled Investment will fluctuate dependent on market conditions. Any unrealised capital losses will not have an impact on the revenue budget or General Fund. The capital value would only be realised if the funds were sold. The Pooled investments have no defined maturity date, but are available for withdrawal after a notice period. The Council continues to review regularly its investment in these funds together with advice from its Treasury Management advisors.

**Treasury Management Outturn 2022/23**

17. The Treasury Management budget is held as a separate budget under the Finance Department within the Council's General Fund. Whilst interest costs are less than the budget there are a number of factors that contribute to the final position. Whilst the Council not only borrows to finance capital expenditure, it also has to maintain a daily net cash surplus position.

18. The Council's Treasury Management Outturn for the year delivered a £0.960m underspend compared to the approved budget, detail is shown in table 4 below. Additional income was received through a significant increase with dividends/interest received from investments. Higher fixed rate interest costs were incurred in 2022/23 as the Council switched part of its borrowing from short term to longer term PWLB borrowing with fixed rates to limit exposure to the risk of higher interest rates.

19. Provision continued to be made in 2022/23 to fund any financial adjustments required to the 2019/20 accounts as a result of the external audit which is still ongoing.

20. Further provision was made following accounting adjustments for rate swap ineffectiveness

21. The Treasury Management Outturn does not include the returns from the Council's investments in the purchasing of its commercial assets, as this is included in the Place revenue outturn and referred to in the Other Non-Treasury Holdings and Activity section below.

22. Minimum Revenue Provision charges are posted the year after expenditure has been incurred or the year when an asset becomes operational (whichever is the latter). The budget for Minimum Revenue Provision (MRP) charges for 2022/23 was based on the forecast 2021/22 capital programme outturn at the end of December 2021. As at 31 March 2022 there was a significant underspend due to the continuing impact from the pandemic both on workforce adhering to Covid working restrictions and supply chain issues from the Ukrainian conflict which slowed the Council's capital programme. This resulted in actual MRP charges being lower than the budget set.

**Table 4. Treasury Management Outturn Position 2022/23**

| | 2022/23 Budget | 2022/23 Outturn | Year End Variance |
|---|---|---|---|
| | £m | £m | £m |
| Interest Payable | 12.024 | | |
| LOBO and other long term loans | | 3.562 | |
| PWLB (Public Works Loan Board) | | 8.422 | |
| Temporary loans | | 0.033 | |
| Other Interest and charges | | 0.699 | |
| Recharge to Departments for Unsupported Borrowing (in accordance with business cases) | (17.000) | (16122) | |
| **Total Interest Payable** | **(4.976)** | **(3.406)** | **1.570** |
| Interest Receivable | (2.608) | | |
| Pool Funds | | (2.886) | |
| Money Market Fund | | (0.787) | |
| Other Interest | | (0.387) | |
| **Total Interest Receivable** | **(2.608)** | **(4.060)** | **(1.452)** |
| **Rate Swap – Surplus** | **0** | **(1.638)** | **(1.638)** |
| Other Payments | 0.318 | 0.238 | |
| Debt Management | 0.500 | 0.158 | |
| Transfer to Reserves - Miel | 2.008 | 2.026 | |
| Transfer to Rate Swap Reserve | 0 | 1.638 | |
| Amortised Premiums | 0.500 | 0.544 | |
| **Total Other Charges** | **3.326** | **4.604** | **1.278** |
| **Minimum Revenue Provision** | **18.501** | **17.784** | **(0.717)** |
| **TOTAL** | **14.243** | **13.283** | **(0.960)** |

23. By the end of March 2023, the rates on the Debt Management Account Deposit Facility (DMADF) deposits ranged between 4.05% and 4.15%. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds (MMF) have increased as a result of Bank of England increases. There has been increased use of MMF for investing monies for the short-term when the Council entered into new PWLB long term fixed borrowing arrangements to meet maturing short term borrowing repayments and its cashflow requirements.

24. The costs of borrowing to finance 'invest to save' capital schemes is charged to departments. The figures above include the borrowing implications of decisions to utilise the Property Regeneration Fund, previously known as Asset Investment Fund to acquire assets to earn a revenue return which is accounted for in directorate's budgets.

25. Minimum Revenue Provision (MRP) is a charge to the revenue budget that is made each year for monies to repay the Council's borrowing.

Under regulation 27 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 SI 2003/146, as amended, local authorities are required to charge to their revenue account, for each financial year, MRP for the cost of their unfinanced capital expenditure.

26. The Council uses the annuity method to calculate its MRP and spreads the cost of the borrowing over the economic life of the assets and this takes into account the time value of money.

## **External Context affecting 2022/23Treasury Management activities**

27. The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

28. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

29. Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

30. The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%. There was further impact to the capital programme with skills shortages in certain work areas.

31. The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report. The February vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

32. Financial markets: Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

33. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose

from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

34. During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

35. Credit Default Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

36. On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

37. As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

38. Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

**Revised CIPFA Codes, Updated PWLB Lending Facility Guidance**

39. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

40. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments. Plymouth applied the principles of the Prudential Code which took immediate effect.

41. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

42. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

**Other Non-Treasury Holdings and Activity**

43. The Council held £279m of direct property investment under its Property Regeneration Fund. These non-treasury investments generated £3.154m of investment income for the Council after taking account of direct costs, representing a net revenue return of 1.13% after allowing for payment to a void reserve and payment to a lifecycle maintenance reserve. The gross return is higher than the return earned on treasury investments but reflects the additional risks to the Council of holding such investments.

**Prudential Indicators 2022/23**

44. The Local Government Act 2003 requires the Council to have regard to CIPFA's *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

45. This report compares the approved indicators with the outturn position for 2022/23. Actual figures have been taken from or prepared on a basis consistent with, the Council's statement of accounts.

The Council measures and manages its exposures to treasury management risks using the following indicators.

The Section 151 Officer confirms compliance with its Prudential Indicators for 2022/23, which were set in the Treasury Management Strategy 2022/23.

The Following indicators are set and monitored each year:

- Estimates of Capital Expenditure;
- Estimates of Capital Financing Requirement;
- Gross Debt and the Capital Financing Requirement;
- Operation Boundary for External Debt;
- Authorised Limit for External Debt;
- Ratio of Financing Costs to Net Revenue Stream ;
- Incremental Impact of Capital Investment Decisions.

46. Interest Rate Exposures: This indicator is set to control the Council's exposure to interest rate risk. The upper limits on fixed and variable rate interest rate exposures, expressed as the proportion of net principal borrowed will be:

| | 2022/23 Limit | 2022/23 Actual | Complied |
|---|---|---|---|
| Upper limit on fixed interest rate exposure | 60% | 86% | x |
| Upper limit on variable interest rate exposure | 80% | 14% | ✓ |

Fixed rate borrowings are those where the rate of interest is fixed for the whole financial year or more. Instruments that mature during the financial year are classed as variable rate.

Action taken during 2021/22 to review interest rates and mitigate against interest rate risk by transferring short term borrowing to PWLB fixed across 50 years continued in 2022/23 to respond to the rate risk held from short term borrowing (see table 2). A range of PWLB borrowing was taken out during 2022/23 (see table below) to mitigate against the interest rate risk and the refinancing risk whilst still maintaining the £75m required as part of the rate swap arrangement. Short term interest costs for PWLB beyond 1 year * would now have exceeded the short term rates being secured in April 2023 which are still increasing.

| 2022/23 PWLB New borrowing Repayment date | Borrowing £m | Interest rate % |
|---|---|---|
| 24/04/2072 * | 75 | 2.54 |
| 7/11/2023 | 5 | 3.88 |
| 4/11/2028 * | 50 | 3.77 |
| 10/11/2023 | 35 | 4.21 |
| Total | 165 | 3.31 |

47. Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

| | Upper Limit | Lower Limit | 31.03.2022 Actual | Complied |
|---|---|---|---|---|
| Under 12 months | 50% | 20% | 23% | ✓ |
| 12 months and within 24 months | 25% | 0% | 0% | ✓ |
| 24 months and within 5 years | 25% | 0% | 1% | ✓ |
| 5 years and within 10 years | 25% | 0% | 12% | ✓ |
| 10 years and above | 80% | 5% | 64% | ✓ |

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

48. Principal Sums Invested for Periods Longer than 365 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the total principal sum invested to final maturities beyond the period end were:

| | 2022/23 | 2023/24 | 2024/25 |
|---|---|---|---|
| Limit on principal invested beyond year | £10m | £10m | £10m |
| Actual | £0m | £0m | £0m |
| Complied | ✓ | ✓ | ✓ |

49. Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

| | Target | Actual | Complied |
|---|---|---|---|
| Portfolio average credit rating | A | AA | ✓ |

50. Liquidity: The Council does not keep large amounts of cash in call accounts so that it reduces the cost of carrying excess cash. To mitigate the liquidity risk of not having cash available to meet unexpected payments the Council has access to borrow additional, same day, cash from other local authorities.

51. Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

| **Capital Financing Requirement** | **31.03.2023 Actual £m** |
|---|---|
| General Fund | **879** |
| **Total CFR** | **879** |

The CFR increased by £46m to £879m (2022 £833m) from capital expenditure financed by debt outweighs resources put aside for debt repayment. The increase in CFR shows that the Council is increasing its borrowing to pay for capital expenditure in the city.

52. Gross Debt and the Capital Financing Requirement**:** In order to ensure that over the medium term debt will only be for a capital purpose, the Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

53.The Council's actual debt at 31 March 2023 was as follows:

| | 31.03.23 Estimate £m | 31.03.23 Actual £m | Difference £m |
|---|---|---|---|
| Borrowing | 861 | 565 | -296 |
| PFI liabilities & other Finance leases | 225 | 119 | -106 |
| **Total Debt** | **1086** | **684** | **-402** |

The actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt below.

54. The operational boundary is based on the Council's estimate of most likely (i.e.prudent, but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring.  Other long-term liabilities comprise finance lease, Private Finance Initiative and other liabilities that are not borrowing but form part of the Council's debt.

| Operational Boundary | 31.03.23 Boundary £m | 31.03.23 Actual Debt £m | Complied |
|---|---|---|---|
| Borrowing | 900 | 565 | ✓ |
| Other long-term liabilities | 235 | 119 | ✓ |
| **Total Debt** | **1135** | **684** | ✓ |

55.Authorised Limit for External Debt: The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003.

It is the maximum amount of debt that the Council can legally owe.  The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

| Authorised Limit | 31.03.23 Limit £m | 31.03.23 Actual Debt £m | Complied |
|---|---|---|---|
| Borrowing | 935 | 565 | ✓ |
| Other long-term liabilities | 245 | 119 | ✓ |
| **Total Debt** | **1180** | **684** | ✓ |

**Other**

56. IFRS 9: DLUHC launched an 8-week consultation on the future of the IFRS 9 statutory override from 11 August to 7 October 2022. The aim of this consultation was to collect the views of authorities and other stakeholders, and to collect additional information needed to understand the financial risks associated with both continuing the statutory override and allowing reversion to the Code of practice on local authority accounting. Government has now published its response to the consultation with ministers deciding to **extend the existing IFRS 9 statutory accounting override for a further 2 years until 31 March 2025** as previously confirmed in the note from December 2022
57. CIPFA/LASAAC confirmed in April 2022 that there will be a deferral of the implementation of IFRS 16 Leases to 1 April 2024, however early adoption is permitted for 1 April 2022.

**Investment Training**

58. Officers have undergone the following training during the year all of which have been online and provided by Arlingclose.

**Outlook for the remainder of 2023/24**

59. Inflationary pressure persisted in May 2023, with CPI remaining at 8.7% on the year and core CPI rising to 7.1%. Both readings were ahead of forecasts. The core CPI figure is at a 31-year high, which will drive the Monetary Policy Committee (MPC) into a more hawkish discussion. The inflationary pressure combines the energy price pressures felt by other European countries following the invasion of Ukraine, and the labour market shortages as seen in the US. However, in both scenarios the UK seems to have fared worse than its peers. The energy price shock may be fading; however, the tight labour market certainly isn't showing any signs of movement.

60. Arlingclose expects Bank Rate to rise at August 2023 MPC following the 50 basis points increase to 5.0% at June 2023 meeting.

2023/24 Revenue Treasury Management budget provision for borrowing will require prudent monitoring as fixed and temporary borrowing matures in year and further borrowing needs to support the capital programme are required.

**Recommendations**

1. To approve the Treasury Management Annual Report 2022/23.