Quarter 3 Review 2022/23: Treasury Management and Annual Investment Strategy

Governance & Audit Committee	8 March 2023
Report Author	Chris Blundell, Acting Deputy Chief Executive and Section 151 Officer
Portfolio Holder	Councillor David Saunders, Cabinet Member for Finance
Status	For Decision
Classification	Unrestricted
Previously Considered by	N/A
Ward	Thanet Wide

Executive Summary:

This report summarises treasury management activity and prudential/ treasury indicators for the third quarter of 2022/23.

The Chartered Institute of Public Finance and Accountancy (CIPFA) defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions;*
>
> *the effective control of the risks associated with those activities; and*
>
> *the pursuit of optimum performance consistent with those risks."*

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 2022/23 third quarter position for treasury activities.

Key reporting items to consider include:

- 2022/23 nine months capital expenditure on long term assets was £10.5m (2021/22 nine months: £8.4m), against a full-year budget of £49.8m.
- The council's gross debt, also called the borrowing position, at 31 December 2022 was £19.9m (31 December 2021: £20.2m).
- The council's underlying need to borrow to finance its capital expenditure, also called the Capital Financing Requirement (CFR), is estimated to be £54.8m at 31 March 2023 as per the 2023/24 Treasury Management Strategy Statement (TMSS) (31 March 2022: £51.7m).

- The council has held less gross debt than its CFR and accordingly has complied with the requirement not to exceed its authorised borrowing limit of £81m.
- As at 31 December 2022 the council's investment balance was £55.4m (31 December 2021: £57.7m).

Recommendation(s):

That the Governance & Audit Committee notes, and makes comments on as appropriate, this report.

Corporate Implications

Financial and Value for Money

The financial implications are highlighted in this report.

Legal

Section 151 of the 1972 Local Government Act requires a suitably qualified named officer to keep control of the council's finances. For this council, this is the Acting Deputy Chief Executive, and this report is helping to carry out that function.

Risk Management

Risk management is as per the provisions of the annual TMSS, Minimum Revenue Provision Policy Statement and Annual Investment Strategy.

Corporate

Failure to undertake this process will impact on the council's compliance with the Treasury Management Code of Practice.

Equalities Act 2010 & Public Sector Equality Duty

There are no equity and equalities implications arising directly from this report, but the council needs to retain a strong focus and understanding on issues of diversity amongst the local community and ensure service delivery matches these.

It is important to be aware of the council's responsibility under the Public Sector Equality Duty (PSED) and show evidence that due consideration had been given to the equalities impact that may be brought upon communities by the decisions made by council.

CORPORATE PRIORITIES

This report relates to the following corporate priorities: -

- Growth
- Environment
- Communities.

1 Background

1.1 Treasury management

CIPFA defines treasury management as:

> *"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions;*
>
> *the effective control of the risks associated with those activities; and*
>
> *the pursuit of optimum performance consistent with those risks."*

The council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the council's capital plans. These capital plans provide a guide to the borrowing need of the council, essentially the longer term cash flow planning to ensure the council can meet its capital spending operations. This management of longer term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet council risk or cost objectives.

2 Introduction

2.1 The CIPFA Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year and quarterly reports). This report, therefore, ensures this council is implementing best practice in accordance with the Code.

3 Treasury Management Strategy Statement and Annual Investment Strategy Update

3.1 The TMSS for 2022/23, which includes the Annual Investment Strategy, Capital Strategy and Non-Treasury Investment Report, was approved by the council on 10 February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

3.2 The council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the council's risk appetite. In the current economic climate it is considered appropriate to keep investments short-term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

3.3 **Creditworthiness**
There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness, to ensure that only appropriate counterparties are considered for investment purposes.

3.4 **Investment counterparty criteria**
The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

3.5 **CDS prices**
Credit Default Swap (CDS) prices (these are market indicators of credit risk) for UK banks have retreated from the spikes caused by the Truss / Kwarteng policy approach in September. Even so, as wider market rates have increased and concerns over the economic outlook (both domestic and international) have grown, so prices in general are now higher than they were at the start of the financial year. However, the changes do not leave prices misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

3.6 **Investment balances**
The average level of funds available for investment purposes during the quarter was £59.598m. The level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

3.7 The yield on deposits for the first 9 months of the financial year is 1.74% against a benchmark 7 day SONIA compounded rate of 1.68%.

The Council's budgeted investment return for 2022/23 is £167k (£125k for 9 months) and performance for the first 9 months of the financial year is above budget at £739k.

3.8 **Approved limits**
Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 31 December 2022.

4 Borrowing

4.1 No new external borrowing was undertaken from the PWLB during the quarter ended 31 December 2022.

4.2 **PWLB maturity certainty rates year to date to 31 December 2022**
Gilt yields and PWLB rates were on a rising trend between 1st April and 30th September but have fallen back from their September peaks in Q3.

The 50-year PWLB target certainty rate for new long-term borrowing started 2022/23 at 2.20% before increasing to a peak of 4.80% in September and then latterly reducing to 4.30% in November.

4.3 **Debt rescheduling**

Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised of any rescheduling or part repayment of the debt portfolio.

5 Compliance with Treasury and Prudential Limits

5.1 Prudential and treasury Indicators are shown below

It is a statutory duty for the council to determine and keep under review the affordable borrowing limits. During the quarter ended 31 December 2022, the council operated within the treasury and prudential indicators set out in the council's TMSS for 2022/23. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

5.2 Indicator for Capital Expenditure

The revised GF budget includes net reprofiling of £22.498m (£42.478m unspent budgets from 2021/22 that have been rolled into 2022/23 less £19.980m subsequently transferred to future years). The revised HRA budget reflects the reprofiling of £15.279m budget from 2022/23 to future years.

Capital Expenditure	2022/23 Original Budget £m	Actual spend as at 31/12/22 £m	2022/23 Revised Budget £m
General Fund	18.710	7.838	41.658
HRA	21.998	2.661	8.140
Total	**40.708**	**10.499**	**49.798**

Monitoring information on the capital programme at scheme level, including forecasts to the end of the financial year, is included in the regular Cabinet Budget Monitoring Reports.

5.3 Indicators for Borrowing Activity

5.3.1 A key control over the treasury activity is a prudential indicator to ensure that over the medium term, borrowing will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years, but ensures that borrowing is not undertaken for revenue or speculative purposes.

5.3.2 **Operational boundary:** This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources.

5.3.3 **Authorised Limit:** This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

	£m
Gross external debt as at 31 December 2022	19.882
CFR as at 31 March 2022	51.679
CFR as at 31 March 2023 (estimate as per 2023/24 TMSS)	54.800
Operational Boundary (debt) 2022/23	76.000
Authorised Limit (debt) 2022/23	81.000

The Section 151 Officer reports that no difficulties are envisaged for the current or future years in complying with these prudential indicators.

5.3.4 **Maturity Structures of Borrowing:** These gross limits are set to reduce the council's exposure to large fixed rate sums falling due for refinancing.

	2022/23 Original Upper Limit	**Current Position – Actual at 31/12/22**	**2022/23 Revised Upper Limit**
Maturity structure of fixed rate borrowing			
Under 12 months	50%	23.9%	50%
1 year to under 2 years	50%	12.5%	50%
2 years to under 5 years	50%	1.3%	50%
5 years to under 10 years	50%	11.9%	50%
10 years to under 20 years	50%	35.7%	50%
20 years to under 30 years	50%	9.7%	50%
30 years to under 40 years	50%	0.0%	50%
40 years to under 50 years	50%	5.0%	50%
50 years and above	50%	0.0%	50%

The current position shows the actual percentage of fixed rate debt the authority has within each maturity span. None of the upper limits have been breached.

5.4 **Indicator for Investments**

The council held £55.428m of investments as at 31 December 2022, with maturities all under one year (£57.697m at 31 December 2021). The constituent investments are:

Sector	Total £m
Banks	6.544
Money Market Funds	47.884
Bond Funds	1.000
Total	**55.428**

6 Options

6.1 The recommended option (to ensure regulatory compliance as set out in section 1 of this report) is that the Governance & Audit Committee notes, and makes comments on as appropriate, this report.

6.2 Alternatively, the Governance & Audit Committee may decide not to do this and advise the reason(s) why.

7 Disclaimer

7.1 This report (including annexes) is a technical document focussing on public sector investments and borrowings and, as such, readers should not use the information contained within the report to inform personal investment or borrowing decisions. Neither Thanet District Council nor any of its officers or employees makes any representation or warranty, express or implied, as to the accuracy or completeness of the information contained herein (such information being subject to change without notice) and shall not be in any way responsible or liable for the contents hereof and no reliance should be placed on the accuracy, fairness or completeness of the information contained in this document. Any opinions, forecasts or estimates herein constitute a judgement and there can be no assurance that they will be consistent with future results or events. No person accepts any liability whatsoever for any loss howsoever arising from any use of this document or its contents or otherwise in connection therewith.

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Annex List

Annex 1: Treasury Investments and Debt as at 31 December 2022

Corporate Consultation Undertaken

Finance: N/A
Legal: Sameera Khan, Interim Head of Legal & Monitoring Officer