



ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY 2022/23

Presented by the Head of Finance

EXECUTIVE SUMMARY

This report provides a summary of treasury management investment and borrowing activity during 2022/23.

RECOMMENDATION

Members Note: (1) treasury management activity during 2022/23.

BACKGROUND

- 1 Treasury management is the management of the Authority's cash flows, banking, investment, and borrowing decisions and the effective control of the risks associated with those activities, with the aim of optimising performance/returns whilst minimising the associated risks.
- 2 This report looks at the Authority's performance over the past year.

ANNUAL PERFORMANCE

- 3 Treasury management activity is governed by the Authority's Treasury Management Policy, which has the aim of managing risk, avoiding volatility and optimising returns, while maintaining a high degree of accessibility from the accounts to enable the cash requirements of the Authority to be met. Members of the Authority last reviewed and approved the Treasury Management Policy in April 2021 (Paper A/4297/21).
- 4 Capital investment in 2022/23 on the Ice Centre Redevelopment has been funded from short-term borrowing; loans repayable within 12 months. The remainder of the capital programme has been funded from the Authority's accumulated cash balances.
- 5 The Authority's cash position is reviewed on a daily basis and funds are invested or withdrawn as necessary in order to minimise the level of un-invested cash/bank overdraft.

- 6 During the course of this year around 260 transactions have been completed, mainly through the Special Interest Bearing Account (SIBA) of the Authority's current bankers (Nat West).
- 7 Short term investments have ranged in size from £10,000 to £5 million; and from periods of one day to six months. Interest earned in 2022/23 will total £107,214.

2022/23 INVESTMENT PORTFOLIO

8 Short to Medium Term Investments

The Authority uses an investment firm (Tullet Prebon) to invest funds, in line with the Treasury Management Policy in the short to medium term (up to 2 years) at the best achievable rate. The sums invested during 2022/23 were:

Investment	Amount	Interest Rate	Comments
Principality BS	£5.0m	0.37%	Matured April 2022
Principality BS	£2.5m	0.52%	April 2022
Principality BS	£2.5m	0.70%	May 2022
Principality BS	£2.5m	0.89%	Three months to August 2022
Principality BS	£1.0m	0.86%	June 2022
Principality BS	£2.5m	1.50%	August 2022
Principality BS	£4.0m	1.90%	October 2022
Principality BS	£3.0m	3.17%	January 2023
Principality BS	£2.0m	3.30%	Two months to March 2023
Principality BS	£2.0m	3.67%	Two months to April 2023
Principality BS	£2.0m	3.80%	March 2023
West Brom BS	£2.5m	0.80%	Two months to July 2022
West Brom BS	£2.5m	0.95%	July 2022
West Brom BS	£2.0m	3.20%	Two months to March 2023
West Brom BS	£3.0m	3.31%	Three months to April 2023

At 31 March 2023 the balance with Principality was £4million and West Brom £3million.

9 Day to Day Investments

These are managed on a day to day basis with the Authority's bankers, Nat West. Surplus funds are moved on a day to day basis between the current account and a SIBA, currently achieving a rate of up to 1.40%. The balance on the account at 31 March 2023 was £3.7million.

- 10 On twelve occasions during 2022/23 the Authority breached its limit of £5million held at any one institution. On these occasions this was due to cash flow timing, where cash was held overnight at Nat West either awaiting payment of invoices relating to the Ice Centre, or monies awaiting re-investment.

INVESTMENT PERFORMANCE 2022/23

- 11 During 2022/23, the Authority's bank accounts and investments achieved the following average interest rates.

Account	Period of Investment	Average Interest Rate Achieved During 2021/22	Average Interest Rate Achieved During 2022/23
		%	%
Nat West SIBA	On-Call	0.01	0.48
Santander	On-Call	0.14	1.22
Principality BS	1-2 months	0.14	1.88
West Bromwich BS	1-6 months	0.13	2.31
Weighted Average		0.08	1.31

- 12 The Authority's weighted average rate of investment return for 2022/23 was 1.31% (0.50% target rate). The annual return was higher than target due to the significant increases in interest rates throughout the year. However, it is not proposed to set a target rate of return for future years, but for officers to continue to utilise cash reserves and manage cash flow with regard to reducing costs related to borrowing, rather than looking to maximise investment returns.
- 13 The Bank of England base rate has increased a number of times throughout 2022/23 in response to the increase in inflation. At 1 April 2022 it was 0.75%, but this was increased at every Monetary Policy Committee (MPC) meeting throughout the year, and at 31 March 2023 was 4.25%. The MPC met again on 11 May 2023 and increased the rate by a further 0.25% to 4.50%.

In their May 2023 Monetary Policy Report the Bank of England stated that whilst inflation is higher than anticipated in their February report, due to the higher increases in core goods and food prices, they are expecting to see a sharp fall from April as past year price rises drop out of the annual comparison. In addition the extension of the Energy Price Guarantee and decline in wholesale energy prices will lower CPI. However, the model predicts a slower decline with expectations of inflation at around 5% by the end of 2023.

BORROWING PERFORMANCE 2022/23

- 14 Members agreed the redevelopment of the Ice Centre would be funded from external borrowing. The approved strategy is for a mix of short-term, up to 24 months, and longer term borrowing with the focus currently only on short-term borrowing due to the high interest rates that are associated with long term loans, and the impact of that on future revenue budgets.
- 15 During the initial build period from 2021 the Authority utilised its own cash reserves to reduce the borrowing costs. We have since been able to access Local Authority lending, and during the first year, 2021/22, we borrowed £10million in short term cash. We have since borrowed a further £25million during 2022/23 with another £10million in early April 2023, and repaid £10million to leave us with a total borrowing liability of £25million at 31 March 2023.
- 16 The borrowing during 2022/23 is profiled below.

Loans Repaid

Lender	Amount	Rate	Loan Period
Cambridge & Peterborough CA	£5m	0.45%	Repaid Dec 2022
Gloucestershire CC	£5m	0.70%	Repaid Dec 2022

New Borrowing

Lender	Amount	Rate	Loan Period
Gloucestershire CC	£5m	1.50%	10/05/22 – 09/05/23
Cambridge & Peterborough CA	£5m	4.40%	03/10/22 – 02/10/23
Gloucestershire CC	£5m	4.50%	21/12/22 – 20/12/23
Public Works Loans Board	£5m	4.22%	21/12/22 – 20/12/24
Gloucestershire CC	£5m	4.10%	05/01/23 – 05/07/23

- 17 The total borrowing costs accrued in 2022/23, including both interest payable and brokerage costs are £402,798. During the construction stage of the Ice Centre, we are able to charge these directly to the capital project, rather than financing them from revenue. We are also required to charge any interest received on borrowing in advance of need to the capital project. Due to our cash flow use of our own cash reserves, only £446 of investment income relates to excess borrowing. The remaining £106,768 is now included in the revenue outturn for the year.

The borrowing costs of £402,798, less £446 investment income has been included in the Capital Outturn for the Ice Centre (Executive E/810/23).

Investment income of £106,768 has been included in the Revenue Outturn (Executive E/812/23)

OUTLOOK FOR 2023/24

- 18 The increase in inflation, and the responding increases to interest rates, presents a number of challenges and uncertainties over the coming year.

We continue to see an increase in general costs, and whilst we do have certainties in some areas through fixed contract prices (Grounds Maintenance, Utilities to October 2022), there are increases elsewhere.

Coupled with a slowdown in economic growth and increase in costs of all commodities, this may result in less income flow to the Authority. This will continue to be reported to Members on a regular basis at the quarterly Revenue and Capital Outturn reporting cycle.

- 19 From a Treasury Management perspective, there are both pros and cons to this. On the positive side, we have seen increases in borrowing rates which in turn has resulted in an increase in investment income. However, with potentially less cash to invest, the monetary value will be reduced.
- 20 The increase in rates also impact the lending rates and the Authority is in a position where it currently needs to borrow £25m to fund the Ice Centre redevelopment. Current Public Works Loans Board (PWLB) long-term interest rates have increased to around 5.00% for a 40 year Equal Instalment of Principal (EIP) loan. This increase has had an impact on the interest costs repayable, which will in turn result in less cash available to invest.
- 21 The financial budget for 2023/24 which was approved by Members in January (Paper A/4329/23) set an investment income budget of £30,000. With the increase in interest rates since January, coupled with cash holdings in excess of initial cashflow forecasts, it is likely that we will be able to achieve returns in excess of this.

The budget for interest costs in relation to borrowing was set at £822,000. Whilst

this did reflect a reduction due to the reduced borrowing need because for the Capital Receipt for disposal of Mile and Langley Nursery, as we are seeing higher than forecast interest rates, we predict that the total interest costs will be £1.1m. Of this, £120,000 can be capitalised based on the handover date of 10 May 2023 for the ice Centre. The remaining increase of £180,000 within the Revenue account will be partially offset by increased investment income.

- 22 Officers continue to monitor both short and long-term lending rates to be able to make the best Treasury decisions for the Authority.

ENVIRONMENTAL IMPLICATIONS

- 23 There are no environmental implications arising directly from the recommendations in this report.

FINANCIAL IMPLICATIONS

- 24 These are dealt with in the main body of the report.
- 25 The Annual Investment Strategy forms one part of the wider Capital Strategy, along with the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision Statement, as well as the Revenue and Capital Budgets. These were approved by Members at Authority in January 2023 (Paper A/4331/22).

HUMAN RESOURCE IMPLICATIONS

- 26 There are no human resource implications arising directly from the recommendations in this report.

LEGAL IMPLICATIONS

- 27 There are no legal implications arising directly from the recommendations in this report.

RISK MANAGEMENT IMPLICATIONS

- 28 The risk of investment is considered within the existing Treasury Management Policy. The Authority tries to minimise risk by capping the total investment with any one financial institution to £5million, subject to allowance to exceed this limit for cashflow purposes, and limiting investments to UK clearing banks and the top seven building societies or where the building society assets exceed £10 billion.
- 29 Treasury Management is audited by the internal auditors to ensure procedures and investment decisions comply with the Policy and Investment Strategy approved by Members. The audit was last conducted in January 2021, and the internal auditors provided a "substantial assurance" rating to the Authority, with one recommendation to review the Treasury Management policy following the retirement of the Director of Finance. This was done in April 2021 and approved by Members (Paper A/4297/21).

The work carried out by the internal auditors is also tested by the external auditors.

EQUALITY IMPLICATIONS

- 30 There are no equality implications arising directly from the recommendations in this report.

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BACKGROUND REPORTS

CIPFA "Treasury Management in the Public Services Code of Practice & 2021 Cross Sectoral Guidance Notes"

PREVIOUS COMMITTEE REPORTS

Authority	A/4331/23	Capital Strategy 2022/23 to 2026/27	19 January 2023
Executive	E/765/22	Annual Report on Treasury Management Activity 2021/22	26 May 2022
Executive	E/725/21	Annual Report on Treasury Management Activity 2020/21 & Annual Investment Strategy 2021/22	27 May 2021
Authority	A/4297/21	Treasury Management Policy	29 April 2021
Executive	E/671/20	Annual Report on Treasury Management Activity 2019/20 & Annual Investment Strategy 2020/21	21 May 2020

LIST OF ABBREVIATIONS

CIPFA	Chartered Institute of Public Finance and Accountancy
SIBA	Special Interest Bearing Account
PWLB	Public Works Loans Board
MPC	Bank of England Monetary Policy Committee