

Report to: **Audit Committee**

Date: **24 November 2023**

By: **Chief Finance Officer**

Title of report: **Treasury Management – Stewardship Report 2022/23**

Purpose of report: **To present a review of the Council’s performance on Treasury Management for the year 2022/23 and Mid-Year Review for 2023/24.**

RECOMMENDATION: Audit Committee is recommended to note the Treasury Management performance in 2022/23, incorporating the Mid-Year Review for the first half of 2023/24.

1. Background

1.1 The annual stewardship report presents the Council’s treasury management performance for 2022/23 and Mid-Year performance for 2023/24, as required by the Code of Practice for Treasury Management.

2. Supporting Information

2.1 The Council’s treasury management activities are regulated by a variety of professional codes, statutes and guidance. The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector and operates the treasury management function in compliance with this Code. These require that the prime objective of the treasury management activity is the effective management of risk, and that its borrowing activities are undertaken in a prudent, affordable and sustainable basis and treasury management practices demonstrate a low risk approach. The Code requires the regular reporting of treasury management activities to:

- Forecast the likely activity for the forthcoming year (in the Annual Treasury Strategy Report); and
- Review actual activity for the preceding year (this Stewardship Report).
- A mid-year performance review (this Stewardship Report).

2.2 This report sets out:

- A summary of the original strategy agreed for 2022/23 and the economic factors affecting this strategy (Appendix A).
- The treasury management activity during the year 2022/23 (Appendix B);
- The treasury management midyear activity for 2023/24 (Appendix C);
- The Prudential Indicators, which relate to the Treasury Management function and compliance with limits (Appendix D).

3. The economic conditions compared to our Strategy for 2022/23

3.1 The original 2022/23 strategy was set against a backdrop of low Bank of England (BoE) interest rates and modest increases to that rate over the medium term.

3.2 The economic situation since the original strategy formulation has seen heightened uncertainties in the UK economy, particularly from inflationary, geopolitical and domestic political factors. Inflationary pressure has been driven by the price of fuel and the fallout from the conflict in the Ukraine. Energy security has put further pressure on inflationary concerns across Europe since January 2022.

3.3 As a result, The BoE Base rate increased on eight consecutive occasions during 2022/23. From 0.75% in April 2022 to a closing rate of 4.25% by March 2023.

3.4 The strategy and the economic conditions prevailing in 2022/23 are set out in Appendix A with an updated economic summary set out in Appendix C.

4. Treasury Management activity during 2022/23

The Treasury Management Strategy

4.1 The strategy for 2022/23, agreed in February 2022, continued the prudent approach and ensured that all investments were only to the highest quality rated institutions with regard to security, liquidity and yield. Treasury Management officers have explored ways in which the Council's cash balances can be utilised to support Environmental, Social and Governance (ESG) factors.

Investments

4.2 The total amount received in short term interest for 2022/23 was £5.5m at an average rate of 1.89%. The average Bank of England Bank Rate during the same period was 2.30%. The Council's average return was above the average returns achieved with peer authorities from treasury advisors (Link Asset Services) investment benchmarking. The return for 2022/23 was against a backdrop of ensuring, as far as possible in the financial climate, the security of principal and the minimisation of risk about liquidity to support the Council's cashflow should it be required.

Borrowing

4.3 Details of long term borrowing are included in Appendix B of the report. The important points are:

- No new borrowing was undertaken in 2022/23.
- The average interest rate of all debt at 31 March 2023 (£220.9m) was 4.58%.
- Public Works Loan Board (PWLB) Debt maturing during 2022/23 totalled £5.6m and was at an average rate of 6.90%.
- Following a call option date in October 2022 an opportunity to repay a Lender Option Borrower Option (LOBO) loan with Commerzbank was taken. The Loan (£6.45m) was repaid at par value. The Council had the opportunity to accept an increased rate on the loan or repay early. This was the last LOBO loan in the wider debt portfolio.

5. Treasury Management 2023/24 Mid-Year Review.

5.1 The Treasury Management and Annual Investment Strategy for 2023/24 was approved by Full Council on 7 February 2023 and was prepared within the context of the financial challenge being faced by the County Council.

5.2 The Bank of England Base Rate as of 30 September 2023 is 5.25%. During the first 6 months of the year, it has increased four times. The latest economic commentary provided by Link Asset Services (LAS) is set out in Appendix C.

5.3 Opportunities to place fixed term deposits during the period have been undertaken to secure a fixed rate of return on a laddered maturity profile in a rising interest rate environment. During the period fixed term deposits totalling £170m were placed at rates between 4.36% and 6.20%.

5.4 The total amount received in short term interest for 6 months to 30 September 2023 was £6.6m at an average rate of 4.47%. This was below a newly implemented benchmark in the same period of 4.73% (SONIA - Standard Overnight Index Average; a rate administered by the BoE based on actual transactions of overnight borrowing by financial institutions). This is usual in a rising interest rate environment and the laddered approach to investment maturities will result in a pick up in return in the next 6-12 months.

5.5 No PWLB borrowing was undertaken in the period, with the Council's long-term debt at 30 September 2023 being £216.6m.

5.6 Opportunities for cost effective repayment of existing debt and restructuring opportunities are constantly monitored but none emerged in the first six months of the year.

6. Prudential Indicators which relate to the Treasury function and compliance with limits

6.1 The Council is required by the CIPFA Prudential Code to report the actual prudential indicators after the end of each year. There are eight indicators which relate to treasury management and they are set out in Appendix D, the Council is fully compliant with these indicators.

7. Conclusion and reason for recommendation

7.1 This report updates the Committee and will be reported to Cabinet in December, and fulfils the requirement to submit an annual/half yearly report in the form prescribed in the Treasury Management Code of Practice. The key principles of security, liquidity and yield are still relevant. Officers are currently investigating further opportunities within the strategy to increase investment income whilst minimising costs and maintaining security.

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BACKGROUND DOCUMENTS

None