TREASURY MANAGEMENT ANNUAL REPORT 2022/23

1. INTRODUCTION AND BACKGROUND

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 the financial year 2022/23. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

The Council's Treasury Management Strategy for 2022/23 was approved at a meeting on 23 February 2022. The Council has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

The CIPFA Code of Practice on Treasury Management was adopted by this Council on 24 February 2010; this was updated in November 2011 and updated further in December 2017.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the Council of an annual Treasury Management Strategy Report (including the annual Investment Strategy) for the year ahead and an annual review report of the previous year.
4. 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.
5. Delegation by the Council of the role of scrutiny of the Treasury Management Strategy to a specific named body which in this Council is the Finance, Assets and Performance Scrutiny Committee.
6. Delegation by the Council of the role of scrutiny of treasury management performance to a specific named body which in this Council is the Audit and Standards Committee, a midyear and year-end review report is received by this Committee.

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 those activities; and the pursuit of optimum performance consistent with those risks."

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review report of Treasury Management activities, for the financial year 2022/23.

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 has complied with the requirement under the Code to give prior scrutiny to the annual review report by reporting this to the Audit and Standards Committee prior to it being reported to Council.

2. THIS ANNUAL TREASURY REPORT COVERS

- The Council’s treasury position as at 31 March 2023;
- The strategy for 2022/23;
- The economy in 2022/23;
- Investment rates in 2022/23;
- Compliance with treasury limits and Prudential Indicators;
- Investment outturn for 2022/23;
- Involvement of Elected Members;
- Other issues.

3. TREASURY POSITION AS AT 31 MARCH 2023

The Council’s investment position at the beginning and the end of the year was as follows:

	At 31/03/23	Average Return	Average Life (Days)	At 31/03/22	Average Return	Average Life (Days)
Total Debt	£0m	0.00%	0	£0m	0.00%	0
Total Investments	£17m	4.05%	14	£14m	0.5%	1

It should be noted that the above table is only a snapshot of the total Investments as at 31 March 2023. Large fluctuations in cash inflows and outflows that occur throughout the month can have an impact on the figure reported.

4. THE STRATEGY FOR 2022/23

The strategy agreed by Council on 23 February 2022 (including related items included in the Capital Strategy) was that:

- The Council may be required to borrow during 2022/23;

- All borrowing would be kept absolutely within the Authorised Limit of £85m and would not normally exceed the Operational Boundary of £75m (although it could for short periods of time be permitted to rise to a figure between £75m and £85m due to variations in cash flow);

- Temporary surpluses which might arise would be invested, either in short term deposits with the Council’s various deposit accounts or in money market investments (cash deposits) if the size warranted this and for an appropriate period in order that these sums would be available for use when required;

- The proportions of loans and investments to be at fixed or variable rates were: fixed rate loans to be between 0% and 100% of the total and variable rate to be between 0% and 100% of the total, thus enabling maximum flexibility to take advantage of interest rate trends;

- Long term investments to be permitted as follows: maturing beyond 31 March 2023 £25m, maturing beyond 31 March 2024 £25m, maturing beyond 31 March 2025, £25m;

- The overriding consideration is safeguarding the Council's capital. At all times the risk to the Council will be minimised. Within these constraints, the aim will be to maximise the return on investments; and,

- Forward commitment of funds for investment is permitted in respect of in-house investments, in instances where market conditions warrant it.

5. THE ECONOMY AND INTEREST RATES - narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

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.

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.

Starting the financial year at 5.5%, the annual Consumer Price Index (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 the Retail Price Index (RPI) measure of UK inflation reached 13.8%, up from 13.4% in the previous month.

Following the decision by the UK government under Rishi Sunak and Jeremy Hunt to reverse some of the support to household energy bills announced under Liz Truss, further support in the form of a cap on what energy suppliers could charge household was announced in the March Budget to run from April until end June 2023. Before the announcement, typical household bills had been due to rise to £3,000 a year from April.

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%.

The inactivity rate was 21.3% in the December-February quarter, slightly down from the 21.4% in the first quarter of the financial year. Nominal earnings were robust throughout the year, with earnings growth in December-February at 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Despite household budgets remaining under pressure, consumer confidence rose to -36 in March, following readings of -38 and -45 in the previous two months, and much improved compared to the record-low of -49 in September. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

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.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

6. INVESTMENT RATES IN 2022/23 – narrative supplied by the Council's Treasury Management Advisors – Arlingclose Limited

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.

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.

7. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Annex 1.

8. INVESTMENT OUTTURN FOR 2022/23

Internally Managed Investments

The Council manages its investments in-house and during 2022/23 invested with institutions in compliance with the credit worthiness service of the Council's treasury management advisors, Arlingclose Limited.

The Council invested for a range of periods from overnight to up to 66 days during 2022/23, dependent on the Council's cash flows, its interest rate view and the interest rates on offer. 29 of 70 investments made in 2022/23 were for a period of 2 weeks or less. 2 investments were made with the Public Sector Deposit Fund. The remaining 68 investments were deposited in the Debt Management Account Deposit Facility.

In addition, funds were held in the general fund account that the Council has with Lloyds Bank.

Investment Outturn for 2022/23

During 2022/23 an average rate of return of 2.32% was achieved on an average individual investment of £2.369m due to the receipt in advance of Government Grants and the interest rate rises referred to in section 5. No target was set for 2022/23 as it was assumed that a net interest payable amount would be required to meet the Council's capital programme. Actual interest income from investment activity amounted to £0.578m for 2022/23.

9. INVOLVEMENT OF ELECTED MEMBERS

Elected members have been involved in the treasury management process during 2022/23 including:

- Scrutiny of the Treasury Management Strategy by the Finance, Assets & Performance Scrutiny Committee prior to being submitted for approval by the Council.
- Scrutiny of treasury management performance by the Audit and Standards Committee through the receipt of a half yearly treasury management report.
- A quarterly budget monitoring and performance report is reported to Cabinet, this contains details of Treasury Management activity undertaken during the quarter.

ANNEX 1: PRUDENTIAL INDICATORS

Position/Prudential Indicator		2021/22 Actual	2022/23 Indicator	2022/23 Actual
1	Capital Expenditure	£14.730m	£33.588m	£7.545m
2	Capital Financing Requirement at 31 March *	£10.649m	£17.348m	£10.682m
3	Treasury Position at 31 March: Borrowing Other long term liabilities Total Debt Investments Net Borrowing	 £0 £0 £0 £0 £0	 N/A N/A N/A N/A N/A	 £0 £0 £0 £0 £0
4	Authorised Limit (against maximum position)	£0	£85.0m	£0
5	Operational Boundary (against maximum position)	£0	£75.0m	£0
6	Ratio of Financing Costs to Net Revenue Stream	(0.22%)	1.10%	(3.97%)
7	Upper Limits on Variable Interest Rates (against maximum position) Loans Investments	 0% 0%	 100% 100%	 0% 0%
8	Actual External Debt	£0	N/A	£0
9	Principal Funds Invested for Periods Longer than 365 days (against maximum position)	£0	£25.0m	£0

GLOSSARY

CFR – Capital Financing Requirement

The Capital Financing Requirement is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources.

CIPFA – The Chartered Institute of Public Finance and Accountancy

The Chartered Institute of Public Finance and Accountancy, is the professional body for accountants working in Local Government and other public sector organisations.

CPI – Consumer Price Index

A measure that examines the weighted average of prices of a basket of consumer goods and services. The Consumer Price Index is calculated by taking price changes for each item in the predetermined basket of goods/services and averaging them; the goods are weighted according to their importance. Changes in CPI are used to assess price changes associated with the cost of living.

GDP – Gross Domestic Product

Gross Domestic Product is the market value of all officially recognised final goods and services produced within a country in a given period of time.