

Treasury Outturn Financial Year 2022/23

Committee considering report:	Governance Committee
Date of Committee:	26 June 2023
Portfolio Member:	Councillor Iain Cottingham
Date Portfolio Member agreed/sent report:	9 June 2023
Report Author:	Shannon Coleman-Slaughter
Forward Plan Ref:	EX4385

1 Purpose of the Report

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve both mid-year and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2022/23 as at 31st March 2023.

2 Recommendation

The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve both mid-year and annual treasury management reports. This report provides an overview of the treasury management activity for financial year 2022/23 as at 31st March 2023 and is deemed the Council's annual treasury report.

3 Implications and Impact Assessment

Implication	Commentary
Financial:	The Treasury function is responsible for the daily cash flow management of the Council. Income from investments contributes to the Council's annual budget. The Council did not take on new external borrowing in the reporting period and focused on utilising internal resources and cash flows in order to mitigate interest rate risk due to the rising interest rate environment.
Human Resource:	Not applicable

Legal:	The Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA TM Code) requires the Council to approve an annual treasury management strategy, a mid-year and outturn review. This report satisfies the requirement.			
Risk Management:	All investments are undertaken with a view to minimising the risk of financial loss. The Investment and Borrowing Strategy approved by the Council sets parameters to ensure this. Key treasury indicators are adopted as part of the annual strategy and compliance with these indicators is detailed in section 7 of this report.			
Property:	Not applicable			
Policy:	Not applicable			
	Positive	Neutral	Negative	Commentary
Equalities Impact:				
A Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?		X		
B Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?		X		
Environmental Impact:		X		

Health Impact:		X		
ICT Impact:		X		
Digital Services Impact:		X		
Council Strategy Priorities:	X			The treasury function supports the delivery of the Council Strategy through the financing of the Council's approved Capital Programme and monitoring of Council cash flows.
Core Business:		X		
Data Impact:		X		
Consultation and Engagement:	Joseph Holmes, Executive Director for Resources and s151 Officer.			

4 Executive Summary

- 4.1 The Council's Investment and Borrowing Strategy for 2022/23 was approved by Council on 3 March 2022. The Council has borrowed and 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.
- 4.2 During 2022/23 inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, has resulted in UK interest rates having been volatile right across the curve, from Bank Rate through to 50-year gilt yields. CPI inflation picked up to what should be a peak reading of 11.1% in October 2022, although hopes for significant falls from this level are dependent on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. The expectation was the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%. Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%. The economic environment during 2022/23 has presented a significant number of financial challenges for the Council, in respect of capital financing and treasury management
- 4.3 The capital programme approved by Council Committee in March 2022 was set with the expectation to undertake £14.5 million of new long term borrowing alongside £8.1 million of short term borrowing during 2022/23. Recent economic instability has been reflected in significant increases to Local Government borrowing from the PWLB (Public Works and Loans Board), with rates for a 25 year annuity loan now on average at between 4%

- 5% compared to a historic average of 2.5%. In a rising interest environment, the Council will face risks of increased cost on any new external borrowing undertaken to support delivery of planned capital works, in addition to general cost inflationary pressures. The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. During the current financial year officers have sought to mitigate risk through a strategy of not undertaking long term borrowing in respect of PWLB financing and, instead focusing on supporting delivery of the capital programme through short term borrowing and cash balances. The strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, has reduced risk and keep interest costs low.

- 4.4 On 31 March 2023, the Council had a Capital Financing Requirement (CFR) of £279.5 million (i.e. the underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment). At 31st March 2023, the Council held £186.3 million of long term loans, a reduction of £4.7 million compared to 31st March 2022. Included within the borrowing portfolio is the community bond which was issued in 2020/21 in order to assist the financing of the Council's net zero agenda. The Council's borrowing position is summarised in the table below.

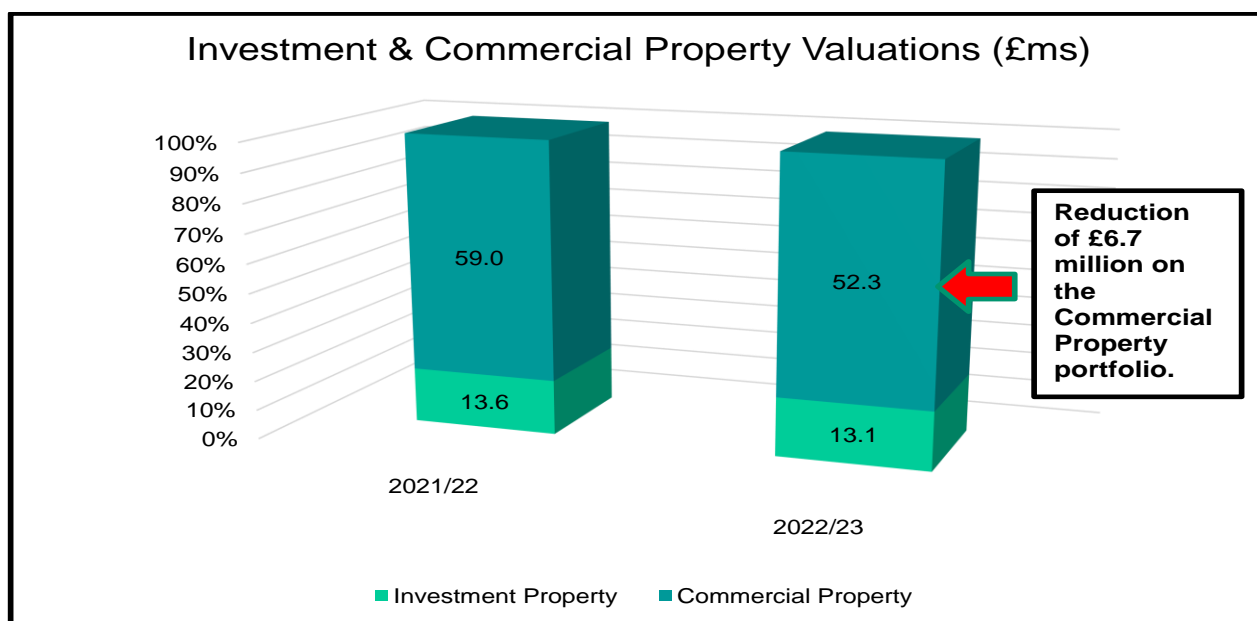
Borrowing position as at 31 March 2023	31/03/2022	Net movement	31/03/2023
	Balance		Balance
	£m	£m	£m
Public Works Loan Board	(191.0)	4.7	(186.3)
Community Bond	(0.8)	0.2	(0.6)
Short term borrowing from local authorities		(3.0)	(3.0)
Total borrowing	-191.8	1.9	-189.9

- 4.5 The strategy of keeping borrowing and investments below their underlying levels, has reduced risk and keep interest costs low. The impact of the strategy has been a reduction in the level of investments held over the reporting period. The investment position as at 31st March 2023 compared to 31st March 2022 is shown in the table below.

Investment Summary	31/03/2022	Net movement	31/03/2023
	Balance		Balance
	£m	£m	£m
Banks & Building Societies (Unsecured)	5.0	0.3	5.3
Government (Incl. Local Authorities)	18.0	-17.0	1.0
Money Market Funds	14.8	-0.4	14.4
Total Investments	37.8	-17.1	20.7

- 4.6 The Council also holds a portfolio of non-treasury investment assets, at the 31st March 2023 (based on 31st December 2022 valuations), the Council held £65.4 million of investments in directly owned property categorised as, commercial property of £52.3 million (i.e. property that the Council has borrowed specifically to fund the purchase), and investment property of £13.1 million (i.e. this is property that the Council holds as an investment property but the purchase has not been funded by borrowing). In most

cases the property categorised as investment property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998. The valuation of the asset base decreased over the reporting period, primarily in respect of the commercial property portfolio.



4.7 In financial year 2022/23, the commercial property portfolio has seen a net decrease in value over the reporting period, driven by downturns on valuations for retail warehousing and office space. However, the commercial property portfolio provides annually, an approximate net income stream of £3.3 million (prior to financing costs including MRP), contributing to the cost of delivery core Council services. Further details showing the rates of return across the portfolio is held in sections 5.10 and 5.11 of this report. A high level summary of overall returns is detailed below:

Directly Owned Property: 'Commercial' and 'Investment Property', Combined	£'000
Valuation at 31 March 2022	72,556
Valuation at 31 March 2023	65,415
Loss on change in market value during 2022/23	-7,141
22/23 net income	-3,928
22/23 rate of return excluding MRP and interest	-4.4%
MRP costs 22/23	666
Interest costs 22/23	1,529
Outturn, net of MRP and interest	-1,733
22/23 rate of return, after MRP and interest	-7.5%

4.8 The Council monitors the Treasury management performance through a number of adopted indicators, compliance against these indicators is detailed in section 7 of this report. The Section 151 Officer overall is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

5 Supporting Information

Introduction

- 5.1 This 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 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
- 5.2 The Council's treasury management strategy (known as the Investment & Borrowing Strategy), for 2022/23 was approved by Council on 3 March 2022. The Council has borrowed and 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 Investment and Borrowing Strategy.

Background

- 5.3 **Economic background:** During 2022/23 inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, has resulted in UK interest rates having been volatile right across the curve, from Bank Rate through to 50-year gilt yields. CPI inflation picked up to what should be a peak reading of 11.1% in October 2022, although hopes for significant falls from this level are dependent on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. The expectation was the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%. Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%. At the time of writing this report Bank Rate is currently 4.5%.
- 5.4 **Local Context:** On 31st March 2023, the Council had net borrowing (i.e. gross external borrowing less net investments) of £169.2 million arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the CFR, while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in the table below which is based on the Council's 2022/23 draft financial statements.

Balance Sheet Summary	31/03/2023
	Actual
	£m
General Fund CFR	279.5
Less: Other Debt Liabilities: Waste Private Finance Initiative	(10.7)
Loans CFR	268.8
External Borrowing	(189.9)
Internal Borrowing	78.9
Less: Usable Reserves	(47.2)
Less: Working Capital	(52.4)
Net Investments	(20.7)

Borrowing Position as at 31st March 2023

5.5 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. In keeping with these objectives no new borrowing was undertaken. This strategy enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. At 31st March 2023 the Council held £189.3 million of loans, a decrease of £1.9 million from 31 March 2022 due to annuity payments made in the period. Outstanding loans on 31st March are summarised in the table below.

Borrowing position at 31 March 2023	31/03/2022	Net Movement	31/03/2023	31/03/2023	31/03/2023
	Balance		Balance	Weighted Average	Weighted Average
	£m	£m	£m	Rate	Maturity
				%	(years)
Public Works Loan Board	(191.0)	4.7	(186.3)	3.36	30.19
Community Bond	(0.8)	0.2	(0.6)	1.20	2.55
Local Authorities (Short-Term)		(3.0)	(3.0)	4.00	0.32
Total Borrowing	(191.8)	1.9	(189.9)	3.36	29.63

Other Debt Activity as at 31st March 2023

5.6 Although not classified as borrowing, the Council also has a Private Finance Initiative (PFI) liability in respect of the Padworth Waste Recycling Facility. This debt, which is included in the total borrowing shown on the Council's balance sheet, stood at £10.7 million as at 31.3.2023 compared to £11.5 million as at 31st March 2022. (Repayments of this debt are included in the monthly waste contract charges, which are paid from the revenue budget for waste management).

Investment Activity as at 31st March 2023

5.7 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year to date, the Council's investment balances vary due to timing differences between income and expenditure, as detailed in the table below.

Investment Summary	31/03/2022	Net	31/03/2023	31/03/2023	31/03/2023
	Balance	Movement	Balance	Income Return	Weighted Average Maturity
	£m	£m	£m	%	Days
Banks & Building Societies (Unsecured)	5.0	0.3	5.3	0.42	1
Government (Incl. Local Authorities)	18.0	(17.0)	1.0	1.75	19
Money Market Funds	14.8	(0.4)	14.4	2.18	1
Total Investments	37.8	(17.1)	20.7	1.71	2

5.8 Both the CIPFA TM 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 optimum 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.

Non Treasury Investments as at 31st March 2023

5.9 The definition of investments in the CIPFA TM Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. This is replicated in the Investment Guidance issued by the Department for Levelling Up, Housing and Communities, in which the definition of investments is further broadened to also include all such assets held partially for financial return. At the 31 March 2023 the Council held £65.4 million of such investments in directly owned property categorised as follows:

- (a) Directly owned property (commercial property) £52.3 million. This is property that the Council has borrowed specifically to fund the purchase.

Names and address of property	Property type	Valuation at 31 March 2021 £'000	Valuation at 31 Dec 2022 £'000	Movement £'000
Dudley Port Petrol Filling Station, Tipton	Petrol Filling Station	3765	4,155	390
79 Bath Road, Chippenham	Retail Warehouse	11775	9,250	-2,525
Lloyds Bank, 104 Terminus Road, Eastbourne	Retail	1800	1,675	-125
Aldi/Iceland, Cleveland Gate Retail Park, Gainsborough	Retail Warehouse	6300	5,825	-475
303 High Street and 2 Waterside South, Lincoln	Retail	2950	2,900	-50
3&4 The Sector, Newbury Business Park	Office	18010	14,950	-3,060
Sainsbury's, High Street, North Allerton	Retail	7185	6,835	-350
Ruddington Fields Business Park, Mere Way, Nottingham	Office	7200	6,700	-500
Valuation per draft 2022/23 Statement of Accounts		58,985	52,290	-6,695

- (b) Directly owned property (investment property) £13.1 million. This is property that the Council holds as an investment property but the purchase has not been funded by borrowing. In most cases the property has been inherited from Berkshire County Council or Newbury District Council upon the formation of West Berkshire Council in 1998.

Names and address of property	Property type	Valuation at 31 March 2021 £'000	Valuation at 31 Dec 2022 £'000	Movement £'000
The Stone Building, The Wharf, Newbury	Café	31	25	-6
Rainbow Nursery, Priory Road, Hungerford	Children's Nursery	40	35	-5
Clappers Farm/Beech Hill Farm, Grazely	Tenanted Smallholding	1800	1,750	-50
Bloomfield Hatch Farm, Grazely	Tenanted Smallholding	1100	1,000	-100
Shaw Social Club, Almond Avenue, Shaw	Community Centre	70	70	0
Swings n Smiles, Lower Way, Thatcham	Children's Day Centre	400	375	-25
Units 1 to 7, Kennet Enterprise Centre, Hungerford	Industrial	565	520	-45
London Road Industrial Estate, Newbury	Industrial	9565	9,350	-215
Valuation per draft 2022/23 Statement of Accounts		13,571	13,125	-446

5.10 The estimated rate of return on these investments for 2022/23 is summarised in the tables below. The rate of return is based on the latest valuation of the properties at the 31st December 2022. The estimated net income for 2022/23 is based on the revenue outturn as at 31st March 2023.

(a) Directly owned property (commercial property):

Directly Owned Property: 'Commercial Property'	£'000
Valuation at 31 March 2022	58,985
Valuation at 31 March 2023	52,290
Loss on change in market value during 2022/23	-6,695
22/23 net income	-3,383
22/23 rate of return excluding MRP and interest	-5.6%
MRP costs 22/23	666
Interest costs 22/23	1,529
Outturn, net of MRP and interest	-1,188
22/23 rate of return, after MRP and interest	-9.3%

(b) Directly owned property (investment property):

Directly Owned Property: 'Investment Property'	£'000
Valuation at 31 March 2022	13,571
Valuation at 31 March 2023	13,125
Loss on change in market value during 2022/23	-446
22/23 net income	-545
22/23 rate of return excluding MRP and interest	0.7%

5.11 The rate of return shown in tables above does not include any change in value of the properties during the period. Due to the nature of direct investment in property there is additional risk (upside and downside) that the value of the investment may change. In respect of commercial property, this risk is carried alongside the risk of voids and no rental income being recovered adversely impacting on achievable rates of return. These risks have historically been managed through allocation of General Fund Reserve to Earmarked Reserves as part of annual budget setting processes. However, for financial year 2023/24 no such provision has been made due to pressure on the Council's overall reserve position. In financial year 2022/23, the commercial property portfolio has seen a net decrease in value over the reporting period, driven by downturns on valuations for retail warehousing and office space. The commercial property portfolio provides annually, an approximate net income stream of £3.3 million (prior to financing costs including MRP), contributing to the cost of delivery core Council services.

Proposals

There are no proposals made within this report, the report is to note only.

6 Other options considered

Not applicable.

7 Conclusion

7.1 The Council measures the financial performance of its treasury management activities the tables below show the overall performance of borrowing and investments over the reporting period:

Borrowing Performance	Actual Interest Cost 01/04/22- 31/03/23	Budgeted Interest Cost 01/04/22- 31/03/23	(Over)/Under	Actual Interest Rate @ 31/03/2023
	£'000	£'000	£'000	%
Short term borrowing	(12)	(9)	(3)	4.00
Public Works Loan Board	(6,366)	(6,198)	(168)	3.36
Community Bond	(9)	0	(9)	1.20
Total Borrowing	(6,387)	(6,207)	(180)	3.36
PFI Debt	(701)	(731)	30	6.10
Total Debt	(7,088)	(6,938)	(150)	

Investment Performance	Actual Interest Received 01/04/22- 31/03/23	Budgeted Interest Income 01/04/22- 31/03/23	Over/(Under)	Actual Interest Rate YTD
	£'000	£'000	£'000	%
Short-Term Investments	544	113	431	1.75
Cash and Cash Equivalents	379	5	374	1.96
Total Treasury Investments	923	118	805	0.00
Pre-paid pension contributions	144	0	144	2.55
Total Treasury Investments (inc. Pre-paid pension contributions)	1,068	118	950	

7.2 Compliance: The S151 Officer is required to report on compliance against the adopted CIPFA TM Code and the Council's approved Investment and Borrowing Strategy. The Council's performance against adopted benchmarks is as follows:

- (a) Compliance with the authorised limit and operational boundary for external debt. The Council is required to ensure that capital financing is reasonable and affordable in the long term. The Council is legally obliged to set an affordable borrowing limit (also termed the authorised limit for external debt) each year. In line with statutory guidance, a lower "operational boundary" is also set as a warning level should debt approach the limit. Within the operational boundary and authorised limit allowance was made to allow to debt financing of the planned capital programme, existing financing, PFI liabilities and anticipated further lease financing with the adoption of IFRS 16 Leases. The Council remained compliant with the operational boundary and authorised limit during the reporting period.

Debt limits	Maximum during period	31/03/2023	2022/23 Operational Boundary	2022/23 Authorised Limit	Complied?
	£m	Actual	£m	£m	Yes/No
		£m			
Borrowing	(191.8)	(189.9)	(338.7)	(352.7)	Yes
PFI and Finance Leases	(11.5)	(10.7)	(12.0)	(14.4)	Yes
Total Debt	(203.3)	(200.6)	(350.7)	(367.1)	Yes

- (b) Compliance with approved Investment Counter Party Limits. The Council may invest its surplus funds with any of the counterparty types detailed in the approved Investment & Borrowing Strategy, subject to specified limits. During the reporting period the Council has not breached the approved counter party limits. Should a limit be breached it is reported to the Council's Treasury Management Group as part of monthly performance reporting.

Counterparty Limits		31/03/2023	2022/23	Complied?
	Maximum Invested	Actual Invested	Individual Counterparty Limit	Yes/No
	£m	£m	£m	
Debt Management Office (DMO)	39.5	1.0	Unlimited	Yes
UK Local Authorities (including Police, Fire Authorities and similar bodies)	10.0	0.0	8.0	Yes - Individual Limit per counterparty has not been exceeded
UK Building Societies (ranked 1-11 by asset size)	0.0	0.0	8.0	Yes
UK Building Societies (ranked 12-21 by asset size)	0.0	0.0	6.5	Yes
UK Building Societies (ranked 22-25 by asset size)	0.0	0.0	5.0	Yes
UK Banks and other financial institutions with Moody's short term rating P1 or equivalent	7.3	3.8	8.0	Yes
UK Banks and other financial institutions with Moody's short term rating P2 or equivalent	0.0	0.0	6.5	Yes
UK Banks and other financial institutions with Moody's short term rating P3 or equivalent	0.0	0.0	5.0	Yes
UK based money market funds rated AAAmf	23.0	14.4	8.0	Yes - Individual Limit per counterparty has not been exceeded
Registered Charities, Public Sector Bodies and Council owned companies, joint ventures	0.0	0.0	8.0	Yes

- 7.3 The Council measures and manages its exposures to treasury management risks using the Maturity Structure of Borrowing. This indicator is set to control the Council's exposure to refinancing risk.

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Maturity Structure	31/03/23 Actual	Upper Limit	Lower Limit	Complied?
Under 12 Months	2.63%	30%	0%	Yes
12 Months and within 24 Months	2.53%	30%	0%	Yes
24 Months and within 5 Years	6.96%	30%	0%	Yes
5 Years and within 10 Years	14.64%	30%	0%	Yes
10 Years and within 15 Years	15.39%	30%	0%	Yes
15 Years and within 20 Years	6.83%	30%	0%	Yes
20 Years and within 25 Years	7.31%	30%	0%	Yes
25 Years and within 30 Years	4.39%	30%	0%	Yes
30 Years and within 35 Years	3.86%	30%	0%	Yes
35 Years and within 40 Years	1.09%	30%	0%	Yes
40 Years and within 45 Years	12.86%	30%	0%	Yes
45 Years and within 50 Years	21.49%	30%	0%	No*

- 7.4 The actual maturity position for the 45 year to 50 year banding was complied with as at 31st March 2023, however it was breached earlier in the financial year due to the initial aging of debt during the financial year. The 45 – 50 year debt relates primarily to borrowing to finance the commercial property portfolio.
- 7.5 In conclusion the Section 151 Officer is satisfied that treasury management practices in year have operated in accordance with the approved performance management criteria.

8 Appendices

There are no appendices to this report.

Subject to Call-In:

Yes: No: X

- The item is due to be referred to Council for final approval
- Delays in implementation could have serious financial implications for the Council
- Delays in implementation could compromise the Council's position
- Considered or reviewed by Scrutiny Commission or associated Committees, Task Groups within preceding six months
- Item is Urgent Key Decision
- Report is to note only

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