

Report for: Corporate Committee – 28 March 2023

Item number: 12

Title: Treasury Management Update Report Quarter 3 – 2022/23

Report authorised by: Josephine Lyseight, Assistant Director of Finance (Deputy S151 Officer)

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) requires the Council to approve reports on the performance of the treasury management function at least twice yearly (mid-year and at year end). This quarterly report provides an additional update.
- 1.2. The Council's Treasury Management Strategy for 2022/23 was approved by Full Council on 1 March 2022.
- 1.3. This report provides an update to the Corporate Committee on the Council's treasury management activities and performance for the first three quarters of the financial year to 31 December 2022 in accordance with the CIPFA Treasury Management Code of Practice.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

The Corporate Committee is requested:

- 3.1. To note the Treasury Management activity undertaken during the first three quarters of the financial year to 31 December 2022 and the performance achieved which is attached as Appendix 1 to this report.
- 3.2. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

4. Reason for Decision

4.1. Not applicable.

5. Other options considered

5.1. Not applicable.

6. Background information

6.1. The Council's treasury management activity is underpinned by CIPFA's Treasury Management in Public Services: Code of Practice (the CIPFA Code), which requires local authorities to produce annually, Prudential Indicators and a Treasury Management Strategy Statement. CIPFA has defined Treasury management 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."

6.2. The CIPFA Code recommends that members are informed of treasury management activities at least twice a year. Formulation of treasury policy, strategy and activity is delegated to the Corporate Committee and this Committee receives update reports quarterly.

6.3. However, overall responsibility for treasury management remains with Full Council, and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2022/23 on 1 March 2022. The Corporate Committee is responsible for monitoring treasury management activity, and this is achieved through the receipt of the quarterly, mid-year and annual reports.

6.4. Government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security - Liquidity - Yield

6.5. The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.

Economic Background

6.6. The economic backdrop during the first three quarters of the financial year was characterised by high energy and commodity prices which resulted in sustained higher levels of inflation. Central banks, including the Bank of England, increased interest rates and committed to fighting inflation, despite the potential for recessions in their respective regions.

6.7. As a result, the Bank of England raised the Bank Rate from 0.75% in March 2022 to 3.50% in December 2022. At the time of writing the Bank Rate was currently at 4.0%.

6.8. Further details on the implications of this can be found in section 2 and 7 of Appendix 1 to this report.

Borrowing Update

- 6.9. The Council's primary object when borrowing is to balance low interest costs with cost certainty over the period for which funds are required. In keeping with this objective, the Council has undertaken £130m of new borrowing to date. This amount was reduced by £6.9m in repayments on existing loans which were allowed to mature without immediate replacement.
- 6.10. The cost of borrowing has increased significantly for both short-term and long-term debt. The table below shows the increase in the benchmark gilt yields during the period.

Benchmark Gilt Yield	Apr 2022	Jun 2022	Sep 2022	Dec 2022
5 year	1.41%	1.89%	4.70%	3.62%
10 year	1.61%	2.35%	4.51%	3.67%
20 year	1.82%	2.60%	4.86%	4.03%

- 6.11. Further details on the borrowing activity of the Council over the period can be found in section 4 of Appendix 1 to this report.

Treasury Investment Update

- 6.12. In accordance with the CIPFA Code and government guidance, the Council aims to strike an appropriate balance between risk and return, when making treasury investments. The aim is to prioritise the security and liquidity of its investments before seeking the optimum rate of return or yield.
- 6.13. During the period, the overnight deposit rates from both, the Debt Management Account Deposit Facility and Money Market Funds, increased from around 1% in April to 3.2% by the end of December. The table below shows how the Council's current Treasury investments compare with other local authorities.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Ave. Maturity (Days)	Rate of Return
31.03.2022	4.46	AA-	44%	110	0.06%
31.12.2022	3.52	AA-	38%	34	3.16%
Similar Local Authorities	4.45	AA-	64%	33	2.96%
All Local Authorities	4.41	AA-	60%	14	2.93%

- 6.14. Further details on the Council's treasury investment activity over the period can be found in section 5 of Appendix 1 to this report.

Treasury Management Prudential Indicators

- 6.15. The Council measures and manages its exposures to treasury management risks using several indicators that are set when the Treasury Management Strategy is approved in advance of the new financial year.
- 6.16. The Chief Finance Officer report that all treasury management activities carried out during the year were full compliant with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

6.17. A more detailed assessment of the Council's compliance with the agreed upon Treasury Management Indicators can be found in section 6 of Appendix 1 to this report.

7. Contribution to Strategic Outcomes

7.1. None.

8. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

8.1. Finance Comments are included throughout the attached report.

Legal

8.2. The Head of Legal Services has been consulted on the content of this report which is consistent with legislation governing the financial affairs of the Council. In particular, the Council must comply with the requirements of the Local Government Act 2003, the Local Authorities (Capital Financing & Accounting – England) Regulations 2003 and the CIPFA Treasury Management code.

8.3. In considering the report Members must take into account the expert financial advice available to it and any further oral advice given at the meeting of the Committee.

Equalities

8.4. There are no equalities issues arising from this report.

9. Use of Appendices

9.1. Appendix 1 – Treasury Management Update Report Quarter 3 2022/23

10. Local Government (Access to Information) Act 1985

10.1. Not applicable