Lincolnshire COUNTY COUNCIL Working for a better future

**Open Report on behalf of Andrew Crookham, Executive Director - Resources**

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| Report to: | **Overview and Scrutiny Management Board** |
| Date: | **29 June 2023** |
| Subject: | **Treasury Management Annual Report 2022/23** |

**Summary:**

This report has been prepared in accordance with the reporting recommendations of the CIPFA Code of Practice for Treasury Management and details the results of the Council's treasury management activities for the financial year 2022/23. The report compares this activity to the Treasury Management Strategy for 2022/23, approved by the Executive Councillor for Resources, Communications, and Commissioning on 14 March 2022. It will also detail any issues arising in treasury management during this period.

**Actions Required:**

The Board is invited to review and endorse the Treasury Management Annual Report for 2022/23.

**1. Background**

1. <u>Introduction and Background</u>

1.1. Treasury Management relates to the policies, strategies and processes associated with managing the cash and debt of the Council through appropriate borrowing and lending activity. It includes the effective control of the risks associated with the lending and borrowing activity and the pursuit of optimum performance consistent with the risks.

1.2. This Annual Treasury Report will cover the following matters for the year 2022/23:

- **Economic overview and interest rate review**.
- **Treasury Investments** - Treasury investment policy, risk appetite, treasury activity and return, comparing this with treasury strategy.
- **Long Term Borrowing** - Capital expenditure plans, borrowing requirement and activity, control of interest rate risk, debt rescheduling activity and internal borrowing position, comparing this with treasury strategy.

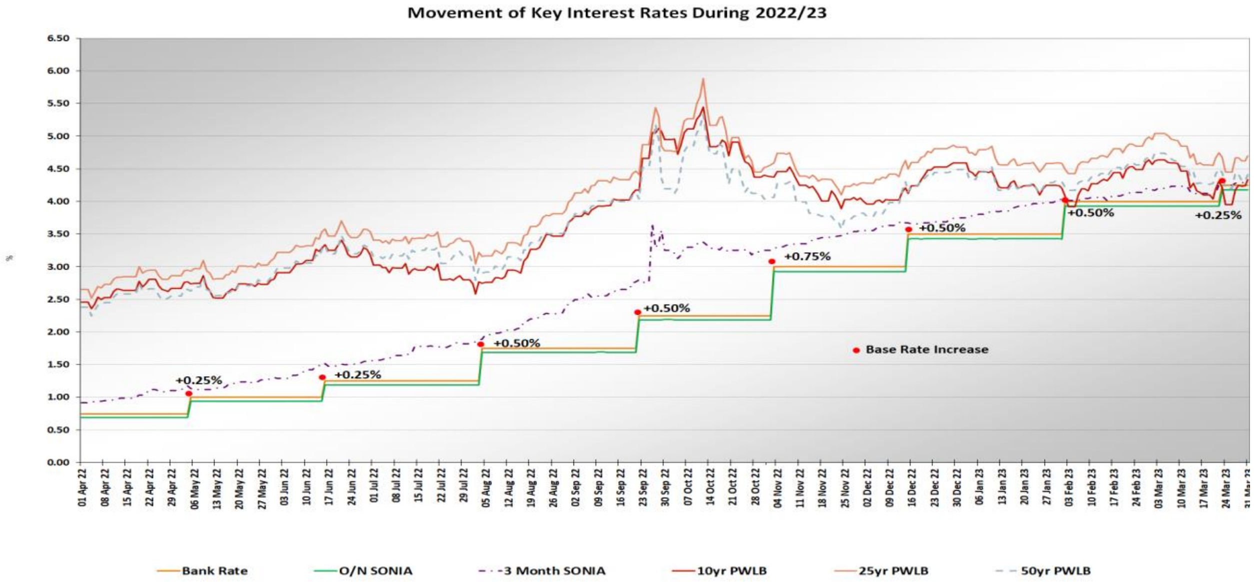
1.3. For reference, a **Key Points Summary** arising from this report has been included in the Conclusion in Section 5 of this report.

1.4. For further reference, a list of abbreviations used throughout this report is shown in **Appendix A**.

2. Economic Overview and Interest Rate Review 2022/23

2.1. At the time of setting the Strategy in March 2022, Base Rate had already been increased from the ultra-low base of 0.10% to 0.75% and markets expected further increases over the year to 1.25% as the Monetary Policy Committee (MPC) started to focus on combating the spike in inflation which was predicted to peak at 7.25% at this time. Long term rates had already increased to around 2.50% across all periods as a consequence of the increase in Base Rate, inflation expectations and movements in US Treasury yields, but little further increase was expected over the year.

2.2. The graph below shows the actual movement in rates during the year and shows that 2022/23 was a year dominated by the high inflation phenomenon caused by various factors such as the war in Ukraine leading to a spike in energy costs, Brexit induced supply side shortages leading to spikes in food inflation and a general cost of living crisis. Inflation peaked at 11.1% during the year and resulted in a series of increases in Base Rate by the MPC to attempt to bring inflation down. Base Rate ended the year at 4.25% and was predicted to peak at 4.50% in 2023, however this forecast peak has now also risen to 5.5% as inflation, although reduced, remains stubbornly higher than expected. Long term rates increased in line with the increases in Base Rate over the year but spiked in September/October 2022 as markets reacted with uncertainty to changing Government policy. Long term rates fell again following further changes in Government policy and ended the year around 4.50%, some 2% higher than the start of the year.




2.3. **UK Economy:** GDP has been tepid throughout 2022/23 starting Quarter (Qtr) 2 2022 (Apr-Jun) at +0.1% which was reversed in the following Qtr 3 2022 (Jul-Sep). Qtr 4 2022 (Oct-Dec) saw a +0.1% increase in GDP again. The UK avoided recession and this resilience was in part due to a rise in real household disposable income as a consequence of the £5.7bn payments received by households from Government in the Energy Bills Support Scheme. Recent indicators worldwide have indicated a mild expansion of economies. The MPC will want to see material evidence of a reduction in inflationary pressures and loosening in labour markets before it relaxes monetary measures. Some economic analysts are expecting Qtr 1 2023 GDP to contract by -0.2% and are forecasting a recession in 2023/24.

2.4. **USA:** Markets are pricing in further interest rate increases of 0.25% to 0.50%, on top of the current interest rate range of 4.75% to 5%. The Federal Reserve is also expected to run down its balance sheet during the year. Inflation is currently around 6% but the economy is expected to weaken during 2023 and wage data is falling back. There is scope for rate cuts at the back end of 2023 should the US economy slide into recession.

2.5. **Eurozone:** Although the Euro-zone inflation rate has fallen below 7%, the ECB will still be mindful that it has further work to do to dampen inflation expectations and it seems destined to raise rates to 4% in order to do so. Like the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely.

## 3. Treasury Investments 2022/23

### Treasury Investment Policy

3.1. The Council's treasury investment policy, governed by the Department for Levelling Up, Housing and Communities (DLUHC), is implemented in the Council's

Annual Investment Strategy for Treasury Investments 2022/23, that was approved by the Executive Councillor for Resources, Communications and Commissioning on 14 March 2022, after being scrutinised by the Overview and Scrutiny Management Board on 24 February 2022.

3.2. The policy sets out the Council's approach for choosing authorised investment counterparties with appropriate limits (amount and maturity) that meet the risk appetite set by the Council. This selection is based on credit ratings issued by the three main credit rating agencies, supplemented by additional market data such as rating outlooks, credit default swaps and bank share prices. The Council's treasury advisors, Link Asset Services (LAS), provide the Council this data in the form of a creditworthiness matrix of suggested counterparties and limits, which the Council follows. **Appendix B** shows the Council's Authorised Lending List on 31 March 2023, based on this creditworthiness approach, together with a key explaining the credit rating scores.

3.3. **Note**: **The treasury investment policy relates to treasury investments only. The policy relating to non-treasury investments, held for service or commercial reasons, is covered in the Council's Capital Strategy.**

Treasury Investment Risk Appetite

3.4. The Council prioritises the **security of capital** and the **liquidity of investments**, over and above the **return** achieved on its treasury investments and hence the risk appetite set for its treasury investments is **low.**

3.5. As such, in addition to LAS's credit methodology, the Council also maintains a minimum limit of **A Long Term Rating (for two out of three agencies)** for all its Counterparties, excluding part-nationalised UK banks and a **minimum limit AA- Sovereign Rating (for two out of three agencies)** for any Country in which a Counterparty is based to ensure investments are only placed with highly credit rated financial institutions and hence the return achieved is commensurate with this level of risk taken. For information, the UK Sovereign Rating is currently AA-.

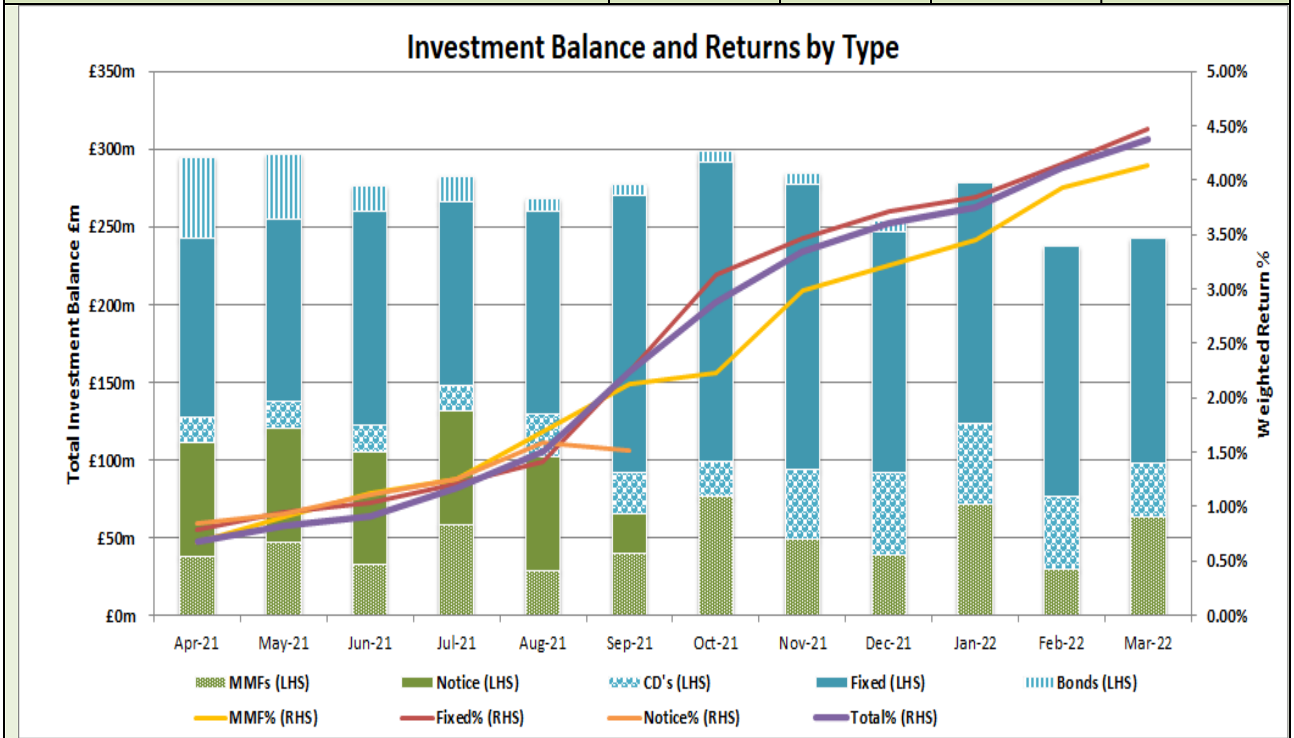
3.6. There have been no significant credit rating changes to Counterparties on the Authorised Lending List during the year and no breaches of lending policy.

Treasury Investment Activity 2022/23

3.7. The Council's treasury investment position and movement in activity during 2022/23 is shown as follows:

| INVESTMENT PORTFOLIO | 31.3.2022 £m | Annual Return % | 31.3.2023 £m | Annual Return % |
|---|---|---|---|---|

| Treasury Investments: | | | | |
|---|---|---|---|---|
| Money Market Liquidity Funds | 25.325 | 0.09% | 62.850 | 2.26% |
| Notice Accounts | 73.100 | 0.35% | 0.000 | 1.22% |
| Fixed Deposits, CD's & Bonds | 189.011 | 0.32% | 179.930 | 2.32% |
| **Total Treasury Investments** | **287.436** | **0.28%** | **242.780** | **2.32%** |




| Maturity Structure | 31.3.2022 | | 31.3.2023 | |
|---|---|---|---|---|
| **Weighted Average Maturity (WAM)** | **119 Days** | | **145 Days** | |
| Liquidity < 1 Month | £103.425m | 35.98% | £92.850m | 38.24% |
| 1-6 Months | £140.511m | 48.88% | £84.930m | 22.63% |
| 6-12 Months | £37.000m | 12.87% | £95.000m | 39.13% |
| 1-2 Years | £6.500m | 2.26% | £0.000m | 0.00% |
| **Total** | **£287.436m** | **100.00%** | **£242.780m** | **100.00%** |

3.8. The investment balances shown above are made up of general and earmarked reserves, Pension Fund cash (£80.4m – 31 March 2023 / £67.7m - 31 March 2022), income received but not yet used/spent and general movement of working capital. The data shows that the investment balance on 31 March 2023 fell by £44.7m from the previous year. This is predominantly due to internal cash balances being used to fund capital expenditure in 2022/23, as no external borrowing was undertaken, and is despite the Pension Fund Balance held within the total balance increasing over the year by £12.7m.

3.9. The average value of investments during 2022/23 was £281m, some £75m lower than the average in the previous year. The graph at 3.7 above shows that the balance of investments (bars on graph) shows this gradual fall over the year, especially in the last two months of the year as capital expenditure peaked at this time.

3.10. The graph at 3.7 also shows how these funds were invested by type of investment, split between investments held for liquidity (Money Market Funds and Notice accounts) (green bars) as opposed to fixed term investments (blue bars) held for return. In a reversal from the previous year, Notice Account returns failed to keep pace with the rapid increase in market investment rates and hence Notice Account balances (solid green bars), were withdrawn by September 2022 in favour of Fixed Deposits and Certificates of Deposit (CDs) (blue bars). The graph also shows the rapid increase in investment returns over the year (RHS lines all colours), in line with the increases in Base Rate and the Table at 3.7 shows the average annual return for 2022/23 was 2.32% compared to 0.28% the previous year.

3.11. All investments made during the year were in line with the strategy, including making some one year investments where possible to lock into higher rates above benchmark levels at the time taken when yields were close to the forecast peak, lengthening the Weighted Average Maturity (WAM) of the fund which ended the year at 145 days. The table above shows the maturity profile of the investments made in light of this strategy and shows that the proportion of investments over six months have increased resulting in the increased WAM.

3.12. No temporary borrowing was required during the year to cover liquidity shortfalls and hence the balance was nil at 31 March 2023.

3.13. A full list of the investments held on 31 March 2023, compared to Link's creditworthiness list, and changes to credit rating of counterparties during March 2023 are shown in **Appendix C**.

Treasury Investment Return and Benchmarking Results

3.14. The table below shows the Council's annualised investment return for 2022/23 based on the above activity against the benchmark return for internal investments (weighted market rate to reflect low risk appetite taken), compared to the previous year, and the actual versus budgeted investment income earned as a result.

| | 2021/22 | 2022/23 |
|---|---|---|
| Annualised Investment Return | 0.28% | 2.32% |
| Annualised Benchmark Rate | 0.13% | 2.50% |
| **Outperformance** | **0.15%** | **-0.18%** |
| Total Investment Return Income | £0.65m | £3.80m |
| Budgeted Investment Return Income | £0.50m | £0.30m |

| | | |
|---|---|---|
| **Surplus Investment Return Income** | **£0.15m** | **£3.50m** |

3.15. The table highlights how the investment return has increased rapidly in 2022/23 following the increase in Short Term Rates resulting in £3.5m compared to only £0.15m the previous year. The investment benchmark was not exceeded this year by -0.18%. The was because we moved to the Overnight/3Month SONIA (Sterling Overnight Index Average) as our benchmark in 2022/23 from LIBID which was withdrawn on 31 December 2021.

3.16. SONIA is the risk-free rate for sterling markets administered by the Bank of England. It represents the average overnight rate that banks and financial institutions will lend overnight to each other during Sterling Clearing Operations. This is a relative benchmark which moves with the markets, however the rate is not representative of what general Money Market participants, such as the Council, can achieve, due to size and available counterparties. It is also just an average rate with no Bid/Offer spread. (The LIBOR/LIBID spread was around 0.12%). To make the SONIA rate into a more relevant benchmark, we used **SONIA less 0.10% in 2022/23,** but this is still a higher rate to benchmark against than LIBID, hence the underperformance in 2022/23 of -0.18%. The result mainly reflected the time lag effect that it took existing investments in the portfolio at lower rates to drop out of the return compared to the immediate change in SONIA as Base Rate was increased this year. In 2023/24, to account for this time lag we will be adjusting the SONIA rate by the difference in our MMF return compared to SONIA. MMF's performance is also affected by this time lag problem, so by adjusting for their difference we are hopefully discounting this when looking at the performance. This will be reviewed over 2023/24.

3.17. The level of return achieved directly correlates with the level of risk taken with investments. To demonstrate this, Appendix D shows the performance of a variety of major asset classes over several years ranked by riskier assets first (risk to capital loss). The Council has set its risk appetite at the bottom of this spectrum, including Money Market Funds held for liquidity and 3 – 12-month money market deposits.

3.18. The Council's investment return was also benchmarked against analysis as at 31 March 2023, provided by LAS, which comprised a mixture of 13 other Councils in the East Midlands area and 17 English Counties. The results of this benchmarking are detailed below.

| **Link Benchmarking – Position at 31/3/2023** | | | |
|---|---|---|---|
| | **LCC** | **Benchmark Group(13)** | **English Counties (17)** |
| **31 March Return %** | 4.42% | 3.93% | 3.68% |
| **Risk Banding** | 3.37% -3.80% | 3.44% - 3.87% | 3.36% -3.78% |
| **Performance** | Above | Above | Inline |
| **Risk Weighted Score (Duration/Credit Quality)** | 2.90 | 2.89 | 2.36 |
| **WAM (days)** | 145 | 68 | 102 |

3.19. The benchmarking results show that the Council has outperformed the investment returns achieved by its LAS comparators in 2022/23, mainly because of having a slightly longer WAM (duration of investments). This is a good result given the low-risk nature of the Counterparties allowed on the Council's Lending List (restricted to a Long-Term minimum rating of A), which does not apply to the other comparators. LAS calculate a risk banding return that should be achievable for the level of risk being taken on investments and the Council has also performed above this banding for a second year.

## 4. Long-Term Borrowing 2022/23

Capital Expenditure Plans and Borrowing Requirement 2022/23

4.1. The Council's capital expenditure plans are the key driver of treasury management activity, as they set the long-term borrowing requirement plans for the Council.

4.2. The Council is required by regulation to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities (referred to as the 'Prudential Code') when assessing the **affordability**, **prudence** and **sustainability** of its capital investment plans. It does this by setting a series of **Prudential Indicators** that ensure and demonstrate the Council's capital expenditure plans remain affordable, prudent, and sustainable.

4.3. **Appendix E** shows a summary of the actual Prudential Indicators for 2022/23, compared to those estimated and approved by the County Council at its meeting on 18 February 2022, along with the Council Budget 2022/23. It can be confirmed that no Prudential Indicators were breached during 2022/23.

4.4. Extracted from these Prudential Indicators, shown in the table below, is the Council's **net capital expenditure** for 2022/23 (PI 1) and the resulting **borrowing requirement** for 2022/23 (the element of this expenditure which is not to be financed straight away from cash resource or grants, hence, to be financed at a future date by borrowing). Plans were revised during 2022/23 from that agreed by the County Council and both actual spending and borrowing requirement were under budget for the year.

| | Original Budget at 1/4/2022 £m | Final Budget at 31/3/2023 £m | Actual at 31/3/2023 £m | Underspend £m |
|---|---|---|---|---|
| Net Capital Expenditure Programme 2022/23 | 114.437 | 151.385 | **101.566** | 49.819 |
| Borrowing Requirement | 114.612 | 115.467 | **61.316** | 54.151 |

| | | | | |
|---|---|---|---|---|
| 2022/23 | | | | |

<u>Capital Financing Requirement, Borrowing Strategy and Control of Interest Rate Risk 2022/23</u>

4.5. **The Capital Financing Requirement** (CFR) is another Prudential Indicator shown in Appendix E (PI 2). It is a measure of the amount of capital expenditure that the Council has already spent that has yet to be funded from cash resources, or the Council's total indebtedness or **need to borrow for capital financing purposes**. Credit arrangements (finance leases and PFI) are also included in the CFR as they have the same practical impact as borrowing. The CFR is increased each year by the **new borrowing / credit arrangement** requirement, as highlighted in the table above, and reduced each year by the **Minimum Revenue Provision (MRP)**, a provision the Council must set aside to repay its debt each year and any **Voluntary Revenue Provision (VRP)** made over and above the MRP level.

4.6. In fulfilling the underlying need to borrow to finance its capital expenditure plans, the Council has flexibility when it takes external borrowing to ensure borrowing is taken at a time when interest rates are at their lowest (thereby controlling interest rate risk) and to minimise cost of carry (where borrowing costs exceed investment return, until utilised by capital expenditure). The Council can also utilise its own internal cash resource to finance borrowing requirement not taken externally and this is known as **Internal Borrowing**.

4.7. A benefit of internal borrowing is the reduction of Counterparty risk as a reduced cash balance leads to reduced investments made and in times when investment returns are low this is a prudent strategy. Cash resource is depleted by internal borrowing and therefore there is an ultimate limit as to how much internal borrowing can be done before cash resource is put at risk. The **level of internal borrowing on 31 March 2023 was £201.8m or 29.8% of CFR.** This was increased from the previous year by £40.6m to lower the excess cash balance held in the year as explained in 3.8 and 3.9 above.

4.8. Another Prudential Limit (PI 5) states that external borrowing should not exceed the CFR two years hence in order to ensure that borrowing remains prudent and affordable and not undertaken for revenue purposes. Appendix E shows that the Council has maintained this limit.

4.9. The table below shows the final CFR position for 2022/23 and how this is split between External and Internal Borrowing.

| CFR 2022/23 | | £m | £m | % |
|---|---|---|---|---|
| Opening CFR Balance at 1.4.2022 | | | 645.920 | |
| Net Capital Expenditure 2022/23 | | 101.566 | | |
| Financed by Cash Resource: | Grants | (2.519) | | |
| | Capital Receipts | (4.332) | | |
| | Reserves | (18.843) | | |
| | Revenue | (14.556) | | |
| Add: Borrowing Requirement 2022/23 | | | 61.316 | |
| Less: Minimum Revenue Provision 2022/23 | | | (20.694) | |
| Less: Voluntary Revenue Provision 2022/23 | | | (9.343) | |
| **Closing CFR Balance at 31.3.2023** | | | **677.199** | **100.0%** |
| **Represented By:** | | | | |
| **External Borrowing (Including Credit Arrangements)** | | | **475.396** | **70.2%** |
| **Internal Borrowing** | | | **201.803** | **29.8%** |

Voluntary Revenue Provision

4.10. In 2022/23, the table 4.9 above shows that the Council made a Voluntary Revenue Provision (VRP) of £9.343m, in addition to its Minimum Revenue Provision of £20.694m for the year. Both these amounts had the effect of reducing the Council's CFR. A VRP was also made in 2021/22 and the Council can offset the total amount of VRP it has made against any future amount of MRP should it be deemed necessary to do so, allowing some flexibility to Capital Financing Budget levels in future years. The total amount of VRP held at 31 March 2023 is shown in the table below.

| | 2021/22 £m | 2022/23 £m | Total £m |
|---|---|---|---|
| Voluntary Revenue Provision | 26.177 | 9.343 | **35.520** |

External Borrowing Activity 2022/23

4.11. The Strategy for 2022/23 stated that '*new external borrowing would be undertaken in all periods with the aim of achieving an even spread of maturity profile and keeping an* *increase in the average cost of the Council's debt to a minimum. Borrowing would be undertaken at a time appropriate to coincide with an identified dip in borrowing rates available.'*

4.12. The Council's actual borrowing position on 31 March 2023 and activity during 2022/23, is detailed in the table below:

| Borrowing Activity 2022/23 | Market Debt (LOBO) £m | PWLB Debt £m | Total £m | % Cost |
|---|---|---|---|---|
| Opening Balance at 1.4.2022 | 20.000 | 456.122 | 476.122 | 3.733% |
| New Borrowing in 2022/23 | 0.000 | 0.000 | 0.000 | |
| Borrowing Matured/Repaid in 2022/23 | 0.000 | (8.354) | (8.354) | |
| Debt Rescheduling: -<br>Borrowing Repaid in 2022/23<br>Borrowing Replaced in 2022/23 | <br>(0.000)<br>0.000 | <br>0.000<br>0.000 | <br>(0.000)<br>0.000 | |
| **Closing Balance at 31.3.2023** | **20.000** | **447.768** | **467.768** | **3.725%** |
| **Authorised Limit For External Debt 2022/23** | | | **670.529** | |

4.13. The table above shows that no new external borrowing was taken during the year with the Borrowing Requirement for 2022/23 met in full, from internal borrowing, to reduce surplus cash balances held in the year and to save on borrowing costs (see 4.17). This Strategy was also in line with the **Debt Liability Benchmark**, a new Prudential Indicator for 2022/23 (PI 9). **Appendix E** shows that the Debt Liability Benchmark showed the Council in an overborrowed position in 2022/23 by £143.6m indicating that there was no need to borrow externally to leave cash at a target level of around £100.0m. The level of cash/investments and internal borrowing at 31 March 2023 has validated the strategy of no external borrowing in 2022/23, as has the increase in long terms rates over the year.

4.14. **Appendix F** shows the external borrowing maturity profile on 31 March 2023, including the variability effect of the £20m LOBO debt held. The graph shows that no debt maturing in any one year exceeds 10.24% of the total debt portfolio.

4.15. The table also shows that no debt rescheduling was undertaken in 2022/23 and the balance of LOBO debt remains at £20m, all held with BAE Systems Pension Fund. This is well within the LOBO limit set in the Strategy of 10% of total external debt (equating to £46.8m). A limit is set on this type of borrowing to limit the amount of variability within the debt portfolio for debt repayment.

4.16. Total long-term debt outstanding at 31 March 2023 fell to £467.7682m and is well within the Council's Authorised Limit for External Debt of £670.529m. This is the

Council's statutory 'Affordable Borrowing Limit' as per the Local Government Act 2003, which should not be breached and is also another Prudential Indicator (PI 3).

External Borrowing Cost and Benchmarking Position

4.17. The table below shows the interest cost of the Council's total external debt. New borrowing is benchmarked against the average cost of debt that was available from the PWLB in the year. No new borrowing was undertaken in 2022/23 and the reduction in the % Cost of the total borrowing portfolio was due to the debt repayment in the year.

| | 2021/22 | | 2022/23 | |
|---|---|---|---|---|
| | % Cost | £m | % Cost | £m |
| Long-Term Borrowing Outstanding at 31 March. | - | 476.122 | - | 467.768 |
| Actual Interest Cost of External Debt | 3.733% | 17.886 | 3.725% | 17.566 |
| Budgeted Cost of External Debt | - | 17.745 | - | 19.632 |
| **(Underspend)/Overspend** | | **£0.140m** | | **(£2.066m)** |
| New Borrowing Taken and Average Cost | - | 0.000 | - | 0.000 |
| Benchmark Cost of Borrowing Available in Year (50 Year PWLB) | 1.850% | - | 3.740% | - |
| **Outperformance/(Underperformance)** | **0.000%** | **£0.000m** | **0.0%** | **£0.000m** |

Internal Borrowing Activity 2022/23

4.18. The borrowing requirement (CFR) not taken externally is known as 'internal borrowing' and this utilises the internal balances of the Council to finance the capital spend. The level of internal borrowing is adjusted for amounts carried forward along with any capital programme underspends each year and for adjustment to borrowing taken for any voluntary repayment of debt or excess borrowing taken for maturing debt more than the MRP level. The balance of internal borrowing on 31 March 2023 stood at £201.8035m and the table below shows how this balance has been derived.

| Internal Borrowing 2022/23 | £m | £m |
|---|---|---|
| **Internal Borrowing Balance BF** | | 161.395 |
| **Original Borrowing Requirement 2022/23** | 115.467 | |
| **Less Underspend Carried Forward** | (54.151) | |
| **Adjustment for Voluntary /Maturing Debt/VRP** | (20.684) | |
| **Final Borrowing Requirement 2022/23** | | 40.632 |
| **Actual External Borrowing Undertaken (Salix)** | | (0.224) |

| | | |
|---|---|---|
| **Internal Borrowing Balance CF** | | **201.803** |

4.19. The £54.151m carry forward of internal borrowing for 2022/23 will be carried forward to 2023/24, along with the Capital Programme and Borrowing Requirement underspends. The Council will take external borrowing in 2023/24, after adjusting for debt repayments and underspends, to ensure the level of debt remains within the new **Debt Liability Benchmark Indicator** and at a time appropriate to market conditions in accordance with the Borrowing Strategy agreed. This strategy will be monitored throughout 2023/24.

**5. Conclusion**

**Key Points Summary**:

- This report relates to Treasury Investments only. Non-Treasury Investments made for service reasons are covered in the Council's Capital Strategy.

- Bank Base rate was increased eight times over 2022/23 to reach 4.25% at the year end, as part of the MPC strategy to combat the increase in inflation. Both short term and long term rates increased in line with this rapid increase in Base Rate. Increase in rates is set to continue in 2023/24, with a peak of 5.50% the latest forecast in Short Term Rates by markets as inflation continues to be sticky in coming down from peaks of 11.1% during the year.

- GDP has suffered in 2022/23 as a consequence of the rising interest rate environment, Growth being tepid at best, and whist avoiding a recession in 2022/23, some market analysts are forecasting a recession in 2023/24. This economic environment is the same worldwide as countries are struggling to come out of the effects of the Covid pandemic and War.

- Investment balances have fallen over 2022/23, the average balance being £281m, some £75m lower than the average in the previous year. This was predominantly due to internal cash balances being used to fund capital expenditure in 2022/23, as no external borrowing was undertaken.

- The Council's risk appetite for its treasury investments remains low, as it prioritises security of capital and liquidity over return. The investment return rose to £3.5m in 2022/23 as a consequence of the rapid increase in market rates available, in contrast to £0.15m in the previous year. The Council underperformed against the SONIA benchmark set for this low risk level, by -0.18% due to the time lag factor of investments in the portfolio dropping out of the return compared to benchmark rates rising immediately when Base Rate was increased. The methodology for the benchmark is being reviewed in 2023/24 to compensate for this issue. The Council did however outperformed benchmarking comparators by some margin, whilst having a lower risk profile, primarily by having a slightly longer weighted average maturity of investments.

- No short-term borrowing was necessary during 2022/23 to support predicted liquidity shortfalls.

- The Council adheres to the CIPFA Prudential Code for Capital Finance by setting Prudential Indicators to ensure its capital plans are affordable, prudent and sustainable. All prudential limits have been adhered to with no breaches in 2022/23.

- Both capital expenditure and hence its borrowing requirement for 2022/23 were significantly underspent in the region of £50/55m. This will be carried forward into 2023/24.

- The Council's CFR on 31 March 2023 (or underlying need to finance its capital expenditure plans by borrowing) has been met by a combination of both external and internal borrowing as follows:

| | | |
|---|---|---|
| External Borrowing | £475.4m | 70.2% |
| Internal Borrowing | £201.8m | 29.8% |
| CFR | £677.2m | |

- Voluntary Revenue Provision (VRP) was made in addition to MRP for the second time in 2022/23. This has the result of lowering the CFR balance. Total VRP now stands at £35.5m and this can be used to offset MRP in future years if required.

- No new external borrowing was taken in 2022/23. £8.4m of debt was repaid which has reduced the total cost of the Council's external debt to 3.725%, equating to £17.6m borrowing interest paid in 2022/23.

- No debt rescheduling was undertaken in 2022/23.

- Internal borrowing was increased in 2022/23 by £40.6m leaving the balance of internal borrowing at £201.8m which is considered in line with the Council's borrowing strategy, general level of cash balance available and the Debt Liability Benchmark Prudential Indicator for 2022/23.

**6. Consultation**

**a) Risks and Impact Analysis**

Risk and Impact Analysis for Treasury Management forms TMP1 of the Treasury Management Practices, as required by the CIPFA Code of Practice 2017. A Risk Register which details the main risks for Treasury Management has been completed and is reviewed annually. Both the TMPs and the Risk Register are held in the Treasury Files held on IMP at County Offices.

## 7. Appendices

| These are listed below and attached at the back of the report | |
|---|---|
| Appendix A | Glossary of Abbreviations Used in this Report |
| Appendix B | Authorised Lending List on 31 March 2023 and Credit Rating Key |
| Appendix C | Investment Analysis Review on 31 March 2023 - Link Asset Services Ltd |
| Appendix D | Risk and Reward per Asset Class 2022/23 and Comparative Years |
| Appendix E | Prudential Indicators - Actuals Compared to Estimate 2022/23 |
| Appendix F | LCC Long-Term Borrowing Maturity Profile as at 31 March 2022 |

## 8. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

| Document title | Where the document can be viewed |
|---|---|
| Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 - 14/3/2022 | Decision - Treasury Management Strategy Statement and Annual Investment Strategy 2022/23 (moderngov.co.uk) |
| Council Budget 2022/23 - 18/2/2022 | Agenda for Council on Friday, 18th February, 2022, 10.00 am (moderngov.co.uk) |

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