Melton Borough Council

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Cabinet

19 July 2023

Treasury Management Annual Report 2022-23

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Lead Member/Relevant Portfolio Holder	Sarah Cox, Portfolio Holder for Corporate Finance, Property and Resources

Corporate Priority:	Ensuring the right conditions to support delivery (inward)
Relevant Ward Member(s):	N/A
Date of consultation with Ward Member(s):	N/A
Exempt Information:	No
Key Decision:	No
Subject to call-in:	No Not key decision

Summary

1.1 The report provides a summary of the Treasury activities in 2022-23. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code

2 Recommendations

That Cabinet recommends to Council:

1. **Approve the Treasury Management Annual Report for 2022-23**

2. **Note the actual position on Prudential Indicators for 2022-23**

3 Reason for Recommendations

3.1 It is important that Cabinet are aware of the Council's Treasury Management performance to ensure they can make informed decisions that protect the Council's financial assets while taking regard of financial stability and potential returns.

3.2 The Annual Treasury Report is a requirement of the Council's reporting procedures.

3.3 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

4 Background

4.1 The Treasury Management Code of Practice is reviewed and the Strategy is approved at the start of each financial year. The following documents in respect of the 2022-23 financial year were approved by the Council as part of the budget setting process on 24 February 2022:

- Borrowing and Investment Objectives
- Capital Finance Objectives
- Investment and Borrowing Strategies
- Borrowing Limits

4.2 Updates have been provided to Members during the year through the portfolio holder updates alongside the mid-year reporting process.

4.3 Continued changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the year end position for treasury activities and highlights compliance with the Council's policies previously approved by members. The Council has complied with the requirement of the Code to give prior scrutiny to all of the above treasury management reports by this meeting before they are reported to the Council.

4.4 During 2022-23 the Council complied with the legislation and regulatory requirements which limit the levels of risk associated with its Treasury Management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure was prudent, affordable and sustainable and its treasury practices demonstrated a low risk approach.

4.5 The key prudential indicators for the year, with comparators, are as follows:

Prudential and treasury indicators	2021/22 Actual £'000	2022/23 Latest Budget £'000	2022/23 Actual £'000
Capital expenditure	2,916	8,510	4,314
Capital Financing Requirement: • Non-HRA • HRA • Total	 77 31,484 31,561	 304 31,484 31,778	 54 31,484 31,538
Gross borrowing Debt Total	31,413 77 31,490	31,663 54 31,717	31,413 54 31,467
Investments: Less than 1 year Longer than1 year	 20,900 2,000 (Property Fund)	 17,500 2,000 (Property Fund)	 17,620 2,000 (Property Fund)

4.6 No borrowing was undertaken for any further purpose and the Council's maximum actual borrowing position of £31.413m was within its Statutory Borrowing Limit and the Authorised Limit of £46m. At 31 March 2023, the Council's external debt was £31.467m (£31.490m at 31 March 2022) and its investments totalled £19.6 (£26.5m at 31 March 2022).

4.7 The anticipated level of investments in 2022-23 was forecast at £19.5m in February 2022 which is in line with the actual year end balance as at 31 March 23.

4.8 The Annual Report provides comprehensive detail of the activities undertaken on treasury management during the last financial year. It provides, at Appendix A, the performance of the prudential indicators against the indices set by the Council as part of the budget setting process.

4.9 The key areas to note are:

a) The ratio of the financing costs to the net revenue stream has increased in respect of the General Fund (-6.61% in 2022-23 compared to -6.41% in 2021-22) and decreased marginally in respect of HRA (31.02% in 2022-23 compared to 33.42% in 2021-22 as per Appendix A), which is mainly down to the increase income from investment returns. On the general fund there are no financing costs (i.e. no debt) therefore the financing ratio is shown as negative figure with no debt to be serviced but income generated from reserve balances.

b) The gross borrowing, except in the short term, should not exceed the CFR. This is to ensure that borrowing levels are prudent and, over the medium term, the Council's external borrowing, net of investments, is only utilised for a capital purpose. As at 31 March 2023 gross borrowing was below the CFR, primarily due to a small amount of internal borrowing on the HRA.

c) The overall investment rate of return was 2.19% compared to 0.47% in 2021-22.

d) The level of balances available for investment were broadly in line with those anticipated but due to the emerging and rapid increase of interest and investment rates in year, above the budget assumption of 0.74%, a significant amount of additional income was achieved. The overall rate of return for 2022/23 was 2.19% which generated additional income of £419k over the original budget. This is across both the General Fund and HRA.

4.10 The 2022-23 financial year has continued to be a testing and difficult economic environment with the cost-of-living crisis which has seen the cost of delivering services, pay, utilities etc increasing significantly but from a treasury perspective the rise in inflation has seen an associated increase in the bank interest rate as a mechanism to try and slow down / reduce inflation has been positive. This has led to interest rates increasing rapidly and as outlined above resulting in additional income being generated which has helped offset some of the additional costs the council has faced.

4.11 The investment portfolio has continued to incorporate more diversification in terms of both counterparty and maturity. As interest rates continued to rise the council will continue to monitor its investment options and maturity length. In order to maximise investment returns the Council continues to hold £2m in a CCLA property fund which has generated positive returns for the Council.

Implementation of IFRS9

4.12 The implementation of IFRS9 has resulted in a change in the treatment of the £2m investment in the CCLA property fund, such that fluctuations in the value of the fund now impact on the Surplus or Deficit on the Provision of Services.

4.13 Following consultation, the MHLG have introduced a mandatory statutory override to mitigate any effect on the General Fund which has recently been extended for a further 2 years until 2025 to allow councils time to adjust their portfolio of investments, if that is felt necessary.

4.14 In previous years there was a fluctuation in the valuation of the property fund and as the market has reacted to the cost of living and inflationary pressures there has been a downturn in property rates resulting in a decrease in the valuation of the property fund resulting in a notional loss in the fund of £152k. If it were not for the statutory override this loss would have needed to be recognised in the income and expenditure account and would have impact on the overall net cost of the Council. There have been signs in recent months the markets are starting to recover as inflation starts to reduce and therefore the notional loss should improve. Due to the risks around this type of investment the Council has previously approved the establishment of a reserve in order to help offset any potential deficits that might arise in future should the statutory override be removed. At the end of 2022-23 the balance in this reserve stood at £120k, which can be called on in the future if required. In light of the recent downturn in the value of the fund this reserve will be reviewed.

4.15 A property fund by its very nature is a long-term investment in terms of potential fluctuations in asset values but since the initial investment was made in 2017 the council has received investment income of just under £500k which has supported the revenue budget.

5 Main Considerations

5.1 Considerations have been addressed in paragraph 4 to this report.

6 Options Considered

6.1 No other options considered. If the report was not provided councillors would not be aware of ongoing developments and therefore would not be able to represent their residents effectively.

7 Consultation

7.1 Consultation has been undertaken with the portfolio holder regarding the position for the 2022-23 financial year

8 Next Steps – Implementation and Communication

8.1 This report will be submitted to the Council meeting on 27th July 2023.

9 Financial Implications

9.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

9.2 Following a period of suppressed interest rates there has been a period of positivity with rates unexpectedly increasing significantly in early 2022 after the budget was set with 12 month rates now up to over 5%. It is still early in the financial year but interest rates have continued to increase and with the recent base rate change there is likely to be a gain on investment income over the level budgeted. This will be helpful to support some of the other in year pressures the Council is facing and therefore officers will continue to maximise returns (in accordance with the strategy) over the course of the current financial year. The downturn to this is that borrowing rates have also increased and should the Council look to borrow the costs of burrowing will of course be much higher than it was.

Financial Implications reviewed by: Director for Corporate Services

10 Legal and Governance Implications

10.1 The Local Government Act 2003, section 15(1), requires a local authority "…to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify…".

10.2 The guidance on investments in the main part of this document is issued under section 15(1) of the 2003 Act and authorities are therefore required to have regard to it.

10.3 Two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) contain investment guidance which complements Ministry for Housing, Communities and Local Government (now Department for Levelling Up, Housing and Communities) guidance. These publications are:

- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes
- The Prudential Code for Capital Finance in Local Authorities

Local authorities are required to have regard to the current editions of the CIPFA codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 [SI 3146]

Legal Implications reviewed by: Natasha Taylor, Deputy Monitoring Officer 23.06.23

11 Equality and Safeguarding Implications

11.1 There are no direct equality or safeguarding issues arising from this report.

12 Community Safety Implications

12.1 There are no direct links to community safety arising from this report.

13 Environmental and Climate Change Implications

13.1 No implications have been identified but members may wish to note the council has an investment in a green and sustainable product that is focused around sustainable economic growth investment.

14 Other Implications (where significant)

14.1 No other implications have been identified.

15 Risk & Mitigation

15.1 These are assessed as part of the Corporate Services Risk Register

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of investment income during 2023-24 as result of change in interest rates	Low	Marginal	Low Risk
2	Reduction in the valuation of the Councils Property Fund investment resulting. The Treasury Management Policy has various limits in place in order to mitigate any likelihood of loss to the Council. A fund has	Low	Marginal	Low Risk

	been established to mitigate any losses in the property fund			

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High				
	4 Significant				
	3 Low		**1, 2**		
	2 Very Low				
	1 Almost impossible				

Risk No	Mitigation
1	Continue to maximise returns in line with the Treasury management investment strategy
2	Establishment of a property fund reserve to help mitigate any losses in the future should they need to be charged direct to the revenue account in line with any change in accounting rules.

16 Background Papers

16.1 Treasury Management Strategy Statement 2022/23 (Minute CO66 – Appendix A)

17 Appendices

17.1 Appendix A – Annual Treasury Management Review 2022-23