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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>15 August 2023</b>
<b>Report By:</b>	<b>Chief Financial Officer</b>	<b>Report No:</b>	<b>FIN/44/23/AP/KJ</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>Treasury Management – Annual Report 2022/23</b>		

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## **1.0 PURPOSE AND SUMMARY**

- 1.1  For Decision  For Information/Noting
- 1.2 The purpose of this report is:
- To advise the Committee of the operation of the treasury function and its activities for 2022/23 as required under the terms of Treasury Management Practice 6 (“TMP6”) on “Reporting Requirements and Management Information Arrangements”.
  - To request that the Committee remits the report to the Full Council for their approval.
- 1.3 As at 31 March 2023 the Council had gross external debt (including PPP) of £239,408,384 and investments of £26,127,010. This compares to gross external debt (including PPP) of £246,163,995 and investments of £34,338,655 at 31 March 2022.
- 1.4 The Council operated within the required treasury limits and Prudential Indicators for the year set out in the Council’s Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.
- 1.5 At its meeting on 16 February 2023 the Policy & Resources Committee agreed to a change in the accounting treatment of the Council’s Service Concession (PPP) contract from 2023/24. This generated a one-off increase in reserves of £14.748m on 1 April 2023 by extending the period over which PPP debt will be charged to the Revenue budget. Decisions on the use of the increase in reserves (which will be funded from further borrowing) were taken by the Council on 2 March 2023.

## **2.0 RECOMMENDATIONS**

- 2.1 It is recommended that the Committee notes the contents of the annual report on Treasury Management for 2022/23 and the ongoing work to seek to ensure the delivery of financial benefits for the Council during the current uncertainty and beyond.
- 2.2 It is requested that the Committee remits the report to the Full Council for approval.

**Alan Puckrin**  
**Chief Financial Officer**

### 3.0 BACKGROUND AND CONTEXT

- 3.1 The Council is required by regulations issued under the Local Government in Scotland Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23.
- 3.2 Treasury Management in this context is defined as: “The management of the local authority’s 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.”
- 3.3 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). Paragraphs 3.16 to 3.18 of the report include information on Loan Fund Advances required by regulations that came into effect on 1 April 2016.
- 3.4 The treasury management issues arising during the year were:
- a. The Council’s debt (including PPP) reduced during the year by £6.756m whilst Council investments reduced by £8.212m. The reduction in debt was due largely to repaying £7m of PWLB debt (and receiving a £62,205 discount), repaying £7.5m of maturing PWLB debt, and subsequently borrowing £5m from the PWLB and £5m of temporary borrowing.
  - b. The Council remained within its Prudential Indicator and Treasury Management limits during 2022/23.
  - c. As at 31 March 2023 the Council had under borrowed against its capital financing requirement by £44.369m. This under borrowing is £5.353m higher than at the end of 2021/22.
  - d. In February 2022 the Treasury Consultants forecast that the Bank Rate would increase from 0.50% to 0.75% in March 2022 then to 1.00% in May 2022 and to 1.25% in November 2022 and stay at that rate until March 2025. Inflation concerns during 2022/23 saw rates rise in March 2022 as forecast and at each meeting of the Bank of England’s Monetary Policy Committee in 2022/23 to end the year at 4.25% (with further increases to 4.50% in May and 5.00% in June 2023 and with increases to 5.50% currently forecast by the Treasury Consultants).
  - e. PWLB rates for new borrowing were expected to increase by up to 0.20% during the year to 2.30% for 5 years, 2.40% for 10 years, 2.60% for 25 years and 2.40% for 50 years. Inflation concerns through the year meant that rates ended the year at around 2% higher than forecast. In addition, there was volatility during the year and PWLB rate spikes in September and October 2022 that resulted in spreads in rates for new loans of over 3% between their lowest and highest levels e.g. 25-year loans were 2.52% on 4 April but 5.88% on 12 October and ended the year at 4.70%.
  - f. Rates for investments increased due to increases in the Bank Rate.
  - g. The Council’s investments earned a rate of return of 2.044% during the year and outperformed the benchmark return of 1.842% resulting in additional income to the Council of £81,900.
  - h. All investments were in accordance with the Council’s investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the year.
  - i. The Council’s investment performance is due to undertaking fixed term investments at interest rates that were above the benchmark with counterparties which have high creditworthiness (the Bank of Scotland and NatWest Bank PLC) and in accordance with the Council’s investment strategy.
- 3.5 The main economic uncertainty in the UK and around the world during the year came from inflation concerns, the continuing impact of the conflict in Ukraine, and the likely level of interest rates and impact of those rates on the economy.

The economic situation continues to be closely monitored with inflation and interest rates projected to be well above levels previously experienced in the short/medium term.

3.6 The Council's Year End debt position was as follows:

	At 31 March 2022	At 31 March 2023
	£	£
Total Excluding PPP	188,748,995	184,132,384
PPP Debt	57,415,000	55,276,000
Total Including PPP	246,163,995	239,408,384

Further detail is given in the following table:

	At 31 March 2022		At 31 March 2023		Movement 2022/23
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	89,029		79,414		(9,615)
- Market *	71,000		40,000		(31,000)
- Temporary	0		5,000		5,000
	160,029	3.84%	124,414	3.67%	(35,615)
Variable Rate Funding:					
- PWLB	0		0		0
- Market *	28,400		59,400		31,000
- Temporary #	320		318		(2)
	28,720	4.87%	59,718	4.90%	30,998
Total Debt (Excl PPP)	188,749	4.00%	184,132	4.07%	(4,617)
PPP Debt	57,415		55,276		(2,139)
Total Debt (Incl PPP)	246,164		239,408		(6,756)

\* - Market Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of Market Loans has not changed between financial years, just the split between fixed and variable.

# - Temporary Loans include funds held by the Council on behalf of the Common Good and Trust Funds and that are to be treated as borrowing for Treasury Management purposes under Scottish Government requirements.

3.7 The Council's cash balances investment position was as follows:

	At 31 March 2022		At 31 March 2023		Movement 2022/23
	Principal	Return	Principal	Return	Principal
	£000		£000		£000
Investments:					
- Fixed Term Deposits	0	0.00%	22,000	3.21%	22,000
- Notice Accounts	14,594	0.55%	50	3.74%	(14,544)
- Deposit Accounts	19,745	0.66%	4,077	4.15%	(15,668)
Totals	34,339	0.61%	26,127	3.36%	(8,212)

Investments as at 31 March 2023: £26,127,010  
 Maximum level of investments in 2022/23: £59,173,693 on 15 August 2022  
 Minimum level of investments in 2022/23: £22,683,510 on 20 March 2023  
 Daily average for the year 2022/23: £40,569,461

The Council's forecast and actual Investment Balances for 2022/23 for "investments" as defined in the Investment Regulations (including loans/holdings not managed under the treasury function) are shown in Appendix 1.

3.8 2022/23 Outturn Compared to Estimates in 2022/23 Strategy

The 2022/23 outturn compared to the estimates in the 2022/23 strategy:

	2022/23 Estimate	2022/23 Outturn
<u>Borrowing Requirement</u>	£000	£000
New borrowing (See Note below)	7,400	5,000
Alternative financing requirements	0	0
Replacement borrowing (See Note below)	7,600	5,000
TOTAL	15,000	10,000
<u>Prudential/Treasury Management Indicators</u>	£000	£000
Gross external debt including PPP (As at 31 March 2023)	251,581	239,408
Capital financing requirement (CFR) (As at 31 March 2023)	283,887	283,777
(Under)/over borrowing against CFR	(32,306)	(44,369)
	£000	£000
Gross capital expenditure	18,892	26,564
Ratio of financing costs (including PPP) to net revenue stream	10.49%	9.65%
Ratio of net debt (debt and PPP less investments) to net revenue stream	100.5%	94.9%

Note:

- The £5 million new borrowing was temporary borrowing from another Council as at 31 March 2023 (with the borrowing starting in March 2023). The Council also undertook 3 other temporary loans from Councils totalling £7.5 million for periods between February and March 2023, all of which were repaid before 31 March 2023.
- The £5m replacement borrowing was from the PWLB in March 2023 and was to partially fund £7m repaid in October 2022 (2 loans, one for £5m and one for £2m, the repayments for which resulted in a £62,205 discount) and £7.5m that matured in January 2023.

3.9 The table in paragraph 3.8 above shows that as at 31 March 2023 the Council had under borrowed against its capital financing requirement by £44.369m. Under borrowing means that the Council is using cash it already has (e.g. in earmarked reserves and other balances) to cash flow capital expenditure and maturing debt rather than bringing in new funds from borrowing. The level of under borrowing is kept under review in light of Council capital financing and other funding requirements.

3.10 2022/23 Outturn Compared to Limits in 2022/23 Strategy

The 2022/23 outturn compared to limits in the 2022/23 strategy:

Prudential/Treasury Management Indicators

Authorised limit for external debt

- Borrowing
- Other long-term liabilities

Operational boundary for external debt

- Borrowing
- Other long-term liabilities

Upper limit on sums invested for periods longer than 365 days (Actual is maximum in period)

Limits on fixed and variable rate borrowing maturing in each period at 31 March 2023 (LOBOs included based on call dates and not maturity dates)

- Under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and within 30 years
- 30 years and within 50 years
- 50 years and within 70 years

Council Policy Limits

Maximum Percentage of Debt Repayable In Any Year (Actual is as at 31 March 2023 and relates to Financial Year 2077/78)

Maximum Proportion of Debt At Variable Rates (Actual is as at 31 March 2023)

Maximum Percentage of Debt Restructured In Year (Actual is as at 31 March 2023)

2022/23 Limits		2022/23 Outturn	
£000		£000	
230,000		184,132	
58,000		55,276	
288,000		239,408	
£000		£000	
212,000		184,132	
58,000		55,276	
270,000		239,408	
£000		£000	
10,000		0	
Fixed	Var.	Fixed	Var.
45%	35%	9.5%	32.4%
45%	35%	0.0%	0%
45%	35%	0.7%	0%
45%	35%	10.9%	0%
45%	35%	4.1%	0%
45%	35%	20.7%	0%
45%	35%	21.7%	0%
25%		21.7%	
45%		32.4%	
30%		3.7%	

3.11 The Prudential Code requires that the Council states how interest rate exposure is managed and monitored.

The position in 2022/23 was that all of the Council's PWLB debt was at fixed rates. The Market debt contained some debt at fixed rates, some small elements at variable rates and some where the rates could change (but none did), and the temporary borrowing from other Councils was at fixed rates. The Council's investments, which were all for less than 1 year, were all variable or regarded as variable under the treasury management rules.

During 2022/23, these interest rate exposures were managed and monitored by the Council through management reports on treasury management that were received and reviewed by the Chief Financial Officer.

3.12 The forecast from the Treasury Consultants in the Strategy for the Bank Rate as at 31 March and the latest forecast (produced on 27 June 2023) are:

	Forecast Per 2022/23 Strategy	Actual/ Latest Forecast
2022/23	0.75%	4.25% (Actual)
2023/24	1.25%	5.50% (Forecast)
2024/25	1.25%	3.75% (Forecast)
2025/26	---	2.50% (Forecast)

3.13 The Council's Loans Fund Pool Rate for Interest is used to allocate interest charges to the General Fund and reflects the actual cost of the Council's Treasury activities. The rates for the last 5 years (excluding expenses) are as follows:

Year	Loans Fund Pool Rate
2018/19	3.608%
2019/20	3.436%
2020/21	3.362%
2021/22	3.363%
2022/23	3.776%

The Loans Fund pool rate includes an interest charge for using existing Council funds instead of borrowing, with that interest being paid to the Revenue budget as income. This is called Internal Resources Interest (IRI). The increase in the Bank Rate during the year has meant an increase in short-term borrowing rates on which the interest charge is based and resulted in the increase in Loans Fund pool rate between 2021/22 and 2022/23 but also increased IRI for the General Fund.

3.14 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was implemented in the annual investment strategy approved by the Council on 21 April 2022 (after review by the Policy & Resources Committee on 22 March 2022). The policy sets out the approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps, bank share prices etc.

All investments in 2022/23 and 2023/24 to date were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full.

3.15 The result of the investment strategy undertaken by the Council in 2022/23 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3-month SONIA compounded)
£40,569,461	2.044%	1.842%

The Council has outperformed the benchmark by 0.202% resulting in additional income to the Council of £82,000.

- 3.16 Where capital expenditure is funded by borrowing (referred to as loans fund advances), the debt financing costs are paid from the Revenue Budget as loan charges comprised of the repayments of debt along with interest and expenses costs on the borrowing.

The Council is required to set out its policy for the repayment of loans fund advances.

- a. For loans fund advances made before 1 April 2016 the policy will be to maintain the practice of previous years and use the Statutory Method (option 1) with annual principal repayments being calculated using the annuity method.
- b. The same method was used for loans fund advances made after 1 April 2016 for the permitted 5-year transitional period to the end of 2020/21. In applying the annuity method to new advances in any year, the interest rate used in the annuity calculation is the Council's loans fund pool rate for the year (including expenses) as rounded up to the nearest 0.01%.
- c. Of the options available for new capital expenditure from 1 April 2021 onwards, it was approved by the Full Council on 22 April 2021 to maintain the use of the annuity method as set out in option b. above.

- 3.17 The outstanding loans fund advances (representing capital expenditure still to be repaid from the Revenue Budget) are:

	2022/23
	Actual
	£000
Balance As At 1 April	227,029
Add: Advances For The Year	9,397
Less: Repayments For The Year	8,184
Balance As At 31 March	228,242

- 3.18 For the loans fund advances outstanding as at 31 March 2023, the liability to make future repayments (excluding debt interest and expenses) is as follows:

	£000
Year 1	8,102
Years 2-5	33,818
Years 6-10	42,959
Years 11-15	40,089
Years 16-20	36,275
Years 21-25	34,191
Years 26-30	18,947
Years 31-35	7,662
Years 36-40	2,333
Years 41-45	1,110
Years 46-50	1,137
Years 51-55	820
Years 56-60	115
Years 61-65	48
Years 66-70	58
Years 71-75	69
Years 76-80	83
Years 81-85	99
Years 86-90	118
Years 91-95	141
Years 96-100	68
TOTAL	228,242

3.19 Service Concession (PPP) Contract

At its meeting on 16 February 2023 the Policy & Resources Committee agreed to a change in the accounting treatment of the Council’s Service Concession (PPP) contract from 2023/24. This generated a one-off increase in reserves of £14.748m on 1 April 2023 by extending the period over which PPP debt will be charged to the Revenue budget. Decisions on the use of the increase in reserves (which will be funded from further borrowing) were taken by the Council on 2 March 2023.

**4.0 PROPOSALS**

4.1 It is proposed that the Committee consider the contents of Section 3 of the report, seek any assurances from Officers, and thereafter remit the Annual Report to the Council for approval.

**5.0 IMPLICATIONS**

5.1	SUBJECT	YES	NO
	Financial	X	
	Legal/Risk	X	
	Human Resources		X
	Strategic (Partnership Plan/Council Plan)		X
	Equalities, Fairer Scotland Duty & Children/Young People’s Rights & Wellbeing		X
	Environmental & Sustainability		X
	Data Protection		X

**5.2 Finance**

Treasury activity represents a significant aspect of the Revenue Budget and over 2022/23 both borrowing costs and investment income varied considerably from that included in the approved Strategy.

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					



**5.3 Legal/Risk**

The Council has complied with all treasury management statutory requirements over 2022/23. Treasury risks are identified in the Treasury Strategy and officers are supported in this regard by the Council's treasury consultants.

**5.4 Human Resources**

None.

**5.5 Strategic**

None

**6.0 CONSULTATION**

6.1 This report includes the latest advice from the Council's treasury consultants (Link Treasury Services Limited).

**7.0 BACKGROUND PAPERS**

7.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition  
Inverclyde Council – Treasury Management Strategy Statement and Annual Investment Strategy 2022/23-2025/26.

**FORECAST OF INVESTMENT BALANCES  
ESTIMATE FOR 2022/23 AND ACTUAL AT 31 MARCH 2023**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2022/23 and the actual as at 31 March 2023 are:

	<b>2022/23 Estimate</b>	<b>2022/23 Actual At 31 March 2023</b>
	£000	£000
Cash balances managed in-house		
- At 1 April 2022	35,000	34,339
- At 31 March 2023	32,151	26,127
- Change in year	(2,849)	(8,212)
- Average daily cash balances	33,576	40,569
Holdings of shares, bonds, units (includes local authority owned company)		
- At 1 April 2022	2	2
- Purchases	0	0
- Sales	0	0
- At 31 March 2023	2	2
Loans to local authority company or other entity to deliver services		
- At 1 April 2022	354	308
- Advances	235	0
- Repayments	58	56
- At 31 March 2023	531	252
Loans made to third parties		
- At 1 April 2022	113	120
- Advances	0	10
- Repayments	24	22
- At 31 March 2023	89	108
Total of all investments		
- At 1 April 2022	35,469	34,769
- At 31 March 2023	32,773	26,489
- Change in year	(2,696)	(8,280)

The movements in the forecast investment balances shown above are due largely to ongoing treasury management activity in accordance with the Council's treasury management strategy or, for loans made to third parties, in accordance with Council decisions made in respect of such loans.

All of the Council's cash balances are managed in-house with no funds managed by external fund managers.

The "holdings of shares, bonds, units (includes authority owned company)" are historic and relate to the Common Good.

The Loans made to third parties includes a £50,000 loan to Shared Interest Society Limited ("Shared Interest") as approved by the Policy & Resources Committee in August 2017, Shared Interest being a company that uses funds invested by individuals and organisations to allow it to provide loans to fair trade businesses around the world.