Appendix A – Treasury Management Outturn Report 2022/23

1. Introduction

1.1. In February 2021 the Authority adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

1.2. Authority's treasury management strategy for 2022/23 was approved at a meeting on 24th February 2022. The Authority has borrowed and/or 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 Authority's treasury management strategy.

1.3. The 2021 Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Authority's Capital Strategy, complying with CIPFA's requirement, was approved by full Council on 24th February 2022.

2. External Context

2.1. **Economic background:** The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending.

2.2. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

2.3. Starting the financial year at 5.5%, the annual CPI measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing. RPI followed a similar pattern during the year, hitting 14.2% in October. In February RPI measured 13.8%, up from 13.4% in the previous month.

2.4. The labour market remained tight albeit with some ongoing evidence of potential loosening at the end of the period. The unemployment rate 3mth/year eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

2.5. Quarterly GDP was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. For the October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

2.6. The Bank of England increased the official Bank Rate to 4.50% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March and May, taking Bank Rate to 4.50%. May's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.25%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the March Monetary Policy Report. The March vote was also 7-2 in favour of a hike, and again with two members preferring to keep Bank Rate on hold.

2.7. After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

2.8. From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

2.9. **Financial markets:** Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US and purchase of Credit Suisse by UBS caused further volatility.

2.10. Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

2.11. **Credit review:** In August 2022, Fitch revised the outlook on the UK sovereign to negative from stable. Moody's made the same revision to the UK sovereign, following swiftly after with a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank (and related entities) and Santander.

2.12. During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley

Bank (SVB) in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

2.13. On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks/institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

2.14. As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

2.15. Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree caution is merited with certain authorities.

Revised CIPFA Codes, Updated PWLB Lending Facility Guidance

2.16. In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

2.17. CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

2.18. The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wish. The Council has elected to defer the introduction of the revised reporting requirements of the Prudential Code until 2023/24 financial year.

2.19. To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the CFR unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

2.20. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

2.21. Unlike the Prudential Code, there is no mention of the date of initial application in the Treasury Management Code. The TM Code now includes extensive additional requirements for service and commercial investments, far beyond those in the 2017 version.

2.22. The Authority will follow the same process as the Prudential Code, i.e. delaying changes in reporting requirements to the 2023/24 financial year.

3. Local Context

3.1. On 31st March 2023, the Authority had net investments of £142.4m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	Estimate 31/03/23 £000
General Fund CFR	593,127
Housing Revenue Account CFR	116,859
Total CFR	**709,986**
Less other debt liabilities	104,219
External borrowing	463,372
Net borrowing/(investments)	**142,395**

* finance leases, PFI liabilities and transferred debt that form part of the Authority's total debt

3.2. The Authority pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low.

3.3. The treasury management position at 31st March 2023 and the change during the year is shown in Table 2 below.

3.4. Table 2: Treasury Management Summary

	31/03/22 Balance £000	Movement £000	31/03/23 Balance £000	31/03/23 Rate %
Long-term borrowing	459,710	-11,338	448,372	3.18%
Short-term borrowing	26,000	-11,000	15,000	4.55%
Total borrowing	**485,710**	**-22,338**	**463,372**	**3.22%**
Long-term investments	29,295	-2,439	26,856	3.50%
Short-term investments	5,485	-2,667	2,818	4.08%
Cash and cash equivalents	218,095	-61,517	156,578	3.89%
Total Investments	**252,875**	**-66,623**	**186,252**	**3.84%**
Net borrowing/(investments)	**232,835**	**44,285**	**277,120**	

3.5. The Council repaid approximately £18m to central government in lieu of payment for prior funding that had been provided to the Council. There was also an advance payment to a key partner of approximately £7m. These two payments along with an increased spend on capital expenditure relative to last year account for the decrease in cash balance for the year.

4. Borrowing

4.1. The Authority did not borrow to invest primarily for commercial return and so is unaffected by the changes to the Prudential Code.

Borrowing Update

4.2. CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

4.3. The Authority currently holds £19.2m in commercial investments that were purchased prior to the change in the CIPFA Prudential Code. Before undertaking further additional borrowing the Authority will review the options for exiting these investments.

4.4. Based on CIPFA's definition of a commercial property, the Council has determined that it inherited two commercial investment properties from one of its predecessor authorities. These properties are out of the Council's territory and therefore not linked to any related local authority services provided by the Council.

Borrowing strategy

4.5. As outlined in the treasury strategy, the Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

4.6. The cost of both long and short-term borrowing rose dramatically over the year, with rates at the end of March 2023 around 2% - 4% higher than those at the beginning of April 2022. Rate rises have been driven primarily by inflation and the need for central banks to control this by raising interest rates. Particularly dramatic rises were seen in September following the announcement of a 'mini-budget' which included unfunded tax cuts and additional borrowing to fund consumer energy price subsidies: over a twenty-four-hour period some PWLB rates increased to 6%. Rates have now fallen from September peaks but remain volatile and well above recent historical norms. The PWLB 10 year maturity certainty rate stood at 4.33% at 31st March 2023, 20 years at 4.70% and 30 years at 4.66%.

4.7. A new HRA PWLB rate of gilt yield plus 0.4% (0.4% below the currently available certainty rate) was announced on 15th March 2023. This discounted rate is to support local authorities borrowing for Housing Revenue Accounts and the delivery of social housing and is expected to be available from June 2023, initially for a period of one year.

4.8. At 31st March 2023 the Authority held £463.4m of loans. This represents a decrease of £22.3m from 31st March 2022 position. Outstanding loans on 31st March 2023 are summarised in Table 3 below.

4.9. The Council is currently in a position where it has surplus cash. This internally borrowed position means that the Council is not actively looking to borrow but would be open to refinance some of its higher rate loans, including its LOBO loans, if the opportunity arises.

4.10. Table 3: Borrowing Position

	31/03/22 Balance £000	Net Movement £000	31/03/23 Balance £000	31/03/23 Weighted Average Rate %	31/03/23 Weighted Average Maturity (years)
Public Works Loan Board	404,210	-7,838	396,372	3.00%	28.8
Banks (LOBO)	42,000	0	42,000	4.26%	42.0
Banks (fixed-term)	10,000	0	10,000	3.89%	43.2
Local authorities (short-term)	26,000	-11,000	15,000	4.55%	0.1
Local authorities (long-term)	3,500	-3,500	0	N/a	N/a
Total borrowing	**485,710**	**-22,338**	**463,372**	**3.19%**	**29.4**

4.11. No new loans were undertaken, while £3m of existing long term loans were allowed to mature without replacement in the financial year ending March 2023. This strategy enabled the Authority to reduce net borrowing costs and reduce overall treasury risk.

4.12. LOBO loans: The Authority continues to hold £42m of LOBO (Lender's Option Borrower's Option) loans where the lender has the option to propose an increase in the interest rate as set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year.

5. Treasury Investment Activity

5.1. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

5.2. The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £186.6m and £314.6m due to timing differences between income and expenditure. The investment position is shown in table 4 below.

5.3. Table 4: Treasury Investment Position

	31/03/22 Balance £000	Net Movement £000	31/03/23 Balance £000	31/03/23 Income Return %	31/03/23 Weighted Average Maturity Days
Banks & Building Societies (Unsecured)	53,857	-37,500	16,357	4.30%	61
Government (including local authorities)	169,723	-29,223	140,500	3.89%	106
Money Market Funds	0	2,539	2,539	4.09%	0
Real Estate Investment Trusts	29,295	-2,439	26,856	3.50%	N/A
Total Investments	**252,875**	**-66,623**	**186,252**	**3.87%**	

5.4. Both the CIPFA Code and government guidance require the Authority 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 Authority'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.

5.5. Bank Rate has increased from 0.75% at the beginning of the year to 4.25% at the end of March 2023. Short-dated cash rates, which had ranged between 0.7% - 1.5% at the beginning of April, rose by around 3.5% for overnight/7-day maturities and 3.3% for 6–12-month maturities.

5.6. By end March 2023, the rates on DMADF deposits ranged between 4.05% and 4.15%. The return on the Council's sterling Low Volatility Net Asset Value (LVNAV) Money Market Funds ranged between [0.9% - 1.1% p.a.] in early April and between [3.9% and 4.2%] at the end of March.

5.7. Given the risk of short-term unsecured bank investments, the Authority has invested more with local authorities which are more secure with similar yield rates as banks as shown in table 4 above.

5.8. The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury Investment managed in-house

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Rate of Return %
31.06.2022	4.00	AA-	26%	61	1.03
31.03.2023	5.13	A+	15%	97	3.78
Similar LAs	4.84	A+	60%	64	3.77
All LAs	4.71	A+	59%	12	3.66

5.9. **Externally Managed Pooled Funds**: £26.9m of the Authority's investments is invested in externally managed strategic pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an average total return of £0.9m.

5.10. Dividends continued to be received from the Authority's multi-asset and property funds.

5.11. The change in the Authority's funds' capital values and income earned over the 12-month period is shown in Table 4.

5.12. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Authority's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns should exceed cash interest rates.

5.13. The Authority had budgeted £0.963m income from these investments in 2022/23. Income received was £0.714m, whist a further £0.248m has been declared and is due to be paid by June 2023.

5.14. The DLUHC published a consultation on the IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds which was due to expire with effect from 2023/24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. The override will be extended for two years and therefore remain in place for the 2023/24 and 2024/25 financial years. Under the Regulations, gains and losses resulting from unrealised fair value movements relating to treasury pooled investment funds, that otherwise must be recognised in profit or loss under IFRS 9, are not charges to the revenue account, and must be taken into an unusable reserve account.

6. Non-Treasury Investments

6.1. The definition of investments in CIPFA's revised 2021 Treasury Management Code covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

6.2. Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also broadens the definition of investments to include all such assets held partially or wholly for financial return.

6.3. The Authority held £0.45m of such investments in Pathfinder Legal Services Limited

- shareholding in subsidiaries £0.225m
- loans to subsidiaries £0.225m

6.4. Northamptonshire County Council (NCC) was an original investor in the formation of LGSS Law Limited which has now been renamed Pathfinder Legal Services Limited. At the time, NCC invested £0.9m in the formation of the company. As one of the two successor authorities of NCC, North Northamptonshire Council inherited 50% (£0.45m) of this investment in April 2021. Also in April 2021, it was agreed that 50% of the shareholding be converted to a loan, hence the current split of £0.225m shareholdings and £0.225m loan.

6.5. The Authority held £19.2m of investments in directly owned properties made for commercial purpose as follows:

- Liniar House, Denby - £14m
- Kingfisher House, Wakefield - £5.2m

6.6. These investments were inherited from a predecessor authority prior to the release of the 2021 CIPFA Treasury Management Code and the new requirements attached to purchasing of assets primarily for returns. The investments generated £1.368m income for the Authority after taking account of direct costs, representing a rate of return of 5.07%. This compares favourably with the returns on the council's property fund investments which generated an annual return of 3.25%.

7. Treasury Performance

7.1. The Authority measures the financial performance of its treasury management activities in terms of its impact on the revenue budget as shown in table 6 below.

7.2. Table 6: Performance

	Actual	Budget	Variance	Actual
	£000	**£000**	**£000**	**%**
Interest Payable	10,803	11,383	-580	5%
Interest Receivable	-4,857	-2,331	-2,526	108%

Interest Payable saving has been achieved due to loans maturing and not being refinanced during the year, saving £0.58m.

Interest Receivable Income has increased during the financial year due to the significant interest rate rises of 3.5% in 2022/23, as highlighted in para 5.5, together with high cash balances held during the year as interest rates improved generating additional income of £2.5m.

8. Compliance

8.1. The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 7 below.

8.2. Compliance with the authorised limit and operational boundary for external debt is demonstrated in table 7 below.

Table 7: Debt Limits

	2022/23 Maximum	31/03/2023 Actual	2022/23 Operatonal Boundary	2022/23 Authorised Limit	Complied? Yes/No
Borrowing	485,710	463,372	614,234	686,469	Yes
PFI and Finance Leases	108,112	104,219	108,112	108,112	Yes
Total Debt	**593,822**	**567,591**	**722,346**	**794,581**	**Yes**

8.3. Since the operational boundary is a management tool for in-year monitoring, it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. In any case, borrowing in the financial year was below the operational boundary.

Table 8: Investment Limits

£'000	2022/23 Maximum	31/03/2023 Actual	2022/23 Limit	Complied? Yes/No
Any single organisation, except the UK Government	20,000	20,000	20,000	Yes
Any group of organisations under the same ownership	20,000	20,000	20,000	Yes
Any group of pooled funds under the same management	225	300	20,000	Yes
Limit per non-UK country	-	-	20,000	Yes
Registered provider and registered social landlord	-	-	10,000	Yes
Unsecured investments with building societies	-	-	10,000	Yes
Money Market Funds (Per Fund)	20,000	2,818	20,000	Yes
Real Estate Investment Trusts (Per Fund)	20,000	11,130	20,000	Yes

9. Treasury Management Indicators

9.1. The Authority measures and manages its exposures to treasury management risks using the following indicators.

9.2. **Maturity Structure of Borrowing:** This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

Table 9: Maturity structure of fix interest rate borrowing

£'000	31/03/23 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	15,950	139,012	0	Yes
12 months and within 24 months	12,674	139,012	0	Yes
24 months and within 5 years	15,000	139,012	0	Yes
5 years and within 10 years	33,638	162,180	0	Yes
10 years and within 20 years	84,609	162,180	0	Yes
20 years and within 30 years	36,401	185,349	0	Yes
30 years and within 40 years	113,750	208,517	0	Yes
40 years and within 50 years	134,350	231,686	0	Yes
50 years and above	17,000	92,674	0	Yes

9.3. **Principal Sums Invested for Periods Longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2022/23	2023/43	2024/25
Actual principal invested for more than 12 months	£0	£0	£0
Limit on principal invested for more than 12 months	£20m	£20m	£20m
Complied?	Yes	Yes	Yes