Report to:	Cabinet Council	**Date of Meeting:**	Thursday 27 July 2023 Thursday 14 September 2023
Subject:	Treasury Management Outturn 2022/23		
Report of:	Executive Director of Corporate Resources and Customer Services	**Wards Affected:**	All Wards
Portfolio:	Cabinet Member - Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	Yes	**Included in Forward Plan:**	Yes
Exempt / Confidential Report:	No		

Summary:

This outturn report provides Members with a review of the Treasury Management activities undertaken during 2022/23 and an update to 30 June 2023. Cabinet receives this outturn report to allow monitoring against the Treasury Management Policy & Strategy and Prudential Indicators approved by Cabinet and Council in March 2022. This report is also provided to Audit & Governance Committee, whose role it is to carry out scrutiny of treasury management policies and practices.

Recommendation(s):

Members are requested to note the Treasury Management position during 2022/23 and the update to 30 June 2023, to review the effects of decisions taken in pursuit of the Treasury Management Strategy and to consider the implications of changes resulting from regulatory, economic and market factors affecting the Council's treasury management activities.

Reasons for the Recommendation(s):

To ensure that Members are fully apprised of the treasury activity undertaken during 2022/23 and also to 30 June 2023 in order to meet the reporting requirements set out in Sefton's Treasury Management Practices and those recommended by the CIPFA code.

Alternative Options Considered and Rejected: (including any Risk Implications)

N/A

What will it cost and how will it be financed?

(A) Revenue Costs

None

(B) Capital Costs
None

Implications of the Proposals:

Resource Implications (Financial, IT, Staffing and Assets):
A surplus in investment income has been experienced for 2022/23 financial year.

Legal Implications:
The Council has a statutory duty under the Local Government Act 2003 to review its Prudential Indicators and Treasury Management Activities.

Equality Implications:
There are no equality implications.

Climate Emergency Implications:

The recommendations within this report will

Have a positive impact	No
Have a neutral impact	Yes
Have a negative impact	No
The Author has undertaken the Climate Emergency training for report authors	No

The Council has during 2022/23, invested its reserves and balances overnight with either banks or money market funds in order to maintain high security and liquidity of such balances. It has not had the opportunity to invest in longer term financial instruments or investment funds for which there may be a chance to consider the impact on the Council's Climate Emergency motion.

In the event that the Council has more surplus balances available in future that may lead to longer term investing, the Council will take account of the climate emergency when discussing the options available with the Treasury Management Advisors.

Contribution to the Council's Core Purpose:

Protect the most vulnerable: n/a

Facilitate confident and resilient communities: n/a

Commission, broker and provide core services: n/a

Place – leadership and influencer: Good treasury management supports strategic planning and promotes innovative, affordable and sustainable capital investment projects through application of the CIPFA Prudential Code.

Drivers of change and reform: The Treasury Management function ensures that cash flow is adequately planned, and cash is available when needed by the Council for

improvements to the borough through its service provision and the Capital Programme.
Facilitate sustainable economic prosperity: Pursuit of optimum performance on investments activities and minimising the cost of borrowing and the effective management of the associated risk continues to contribute to a balanced budget for the Council.
Greater income for social investment: n/a
Cleaner Greener: n/a

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The Executive Director of Corporate Resources and Customer Services (FD 7291/23) is the author of the report.

The Chief Legal and Democratic Officer (LD 5491/23) has been consulted and any comments have been incorporated into the report.

(B) External Consultations

The Council's external Treasury Management Advisors: Arlingclose have provided advice with regards to Treasury Management activities undertaken during the financial year.

Implementation Date for the Decision

Following the expiry of the "call-in" period for the Minutes of the Cabinet Meeting

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Appendices:

None

Background Papers:

There are no background papers available for inspection.

BACKGROUND:

1. Introduction

1.1. The CIPFA Prudential Code for Capital Finance in Local Authorities (The Prudential Code) was introduced following the Local Government Act 2003. The Prudential Code details a number of measures / limits / parameters (Prudential Indicators) that, to comply with legislation, must be set in respect of each financial year to ensure that the Council is acting prudently and that its capital expenditure proposals are affordable.

1.2. A requirement of the Prudential Code is the reporting to Cabinet and Full Council of the outturn position of indicators following the end of the financial year. In accordance with this requirement, this report outlines the 2022/23 outturn for the following Prudential Indicators:-

i. Capital Expenditure (Section 2);
ii. Capital Financing Requirement (Section 3.1);
iii. Gross Debt and the CFR (Section 3.2);
iv. Borrowing Limits (Section 3.3);
v. Financing Costs as a proportion of Net Revenue Stream (Section 3.4);
vi. Treasury Management Indicators (Section 6).

1.3. The Treasury Management Policy and Strategy Statements are agreed annually by the Council as part of the budget process. A requirement of the Policy Statement is the reporting to Cabinet and Full Council of the results of the Council's treasury management activities in the previous year. Treasury management in this context is defined as:

'The management of the 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.'

1.4. In accordance with the above this report outlines the results of treasury management activities undertaken in 2022/23 covering the following issues:

- borrowing strategy and practice
- compliance with Treasury Limits
- compliance with Prudential Indicators
- investment strategy and practice.

1.5. The results of treasury management activities in 2022/23 are reflected in the net expenditure on Capital Financing Costs included within the Council's Revenue Budget. The Capital Programme is also agreed annually as part of the budget process. It sets out the anticipated capital expenditure to be incurred within the year.

2. Capital Expenditure

2.1. The original estimate for 2022/23 expenditure together with the actual capital expenditure calculated on an accruals basis for the financial year is as follows:

	Estimate £m	Actual £m
Capital Expenditure	**47.015**	**38.705**

2.2. Capital expenditure in 2022/23 was £8.31m less than the original estimate reported in March 2022. The Council has therefore remained within the limits for expenditure set at the start of the year. The variation is due to the phasing of capital budgets and grant allocations to future years. These adjustments were approved by Cabinet and Council as part of the monthly budget monitoring for the capital programme during 2022/23.

2.3. A full report on capital expenditure and the out-turn position for 2022/23 can be found in the separate Financial and Corporate Performance report also presented at this meeting.

3. The Council's Overall Borrowing Need

3.1. Capital Financing Requirement

3.1.1. The Capital Financing Requirement (CFR) reflects the Authority's underlying need to borrow for capital purposes and is based on historic capital financing decisions and the borrowing requirement arising from the financing of actual capital expenditure incurred in 2022/23.

3.1.2. The Council is currently internally borrowed meaning it temporarily uses its own cash balances to fund some capital schemes instead of external borrowing, a strategy which saves the cost of interest payments on loans.

3.1.3. The actual level of Capital Financing Requirement as at 31 March 2023 compared to the initial estimate for 2022/23 is as follows:

	Estimate £m	Actual £m
Capital Financing Requirement	**235.437**	**232.445**

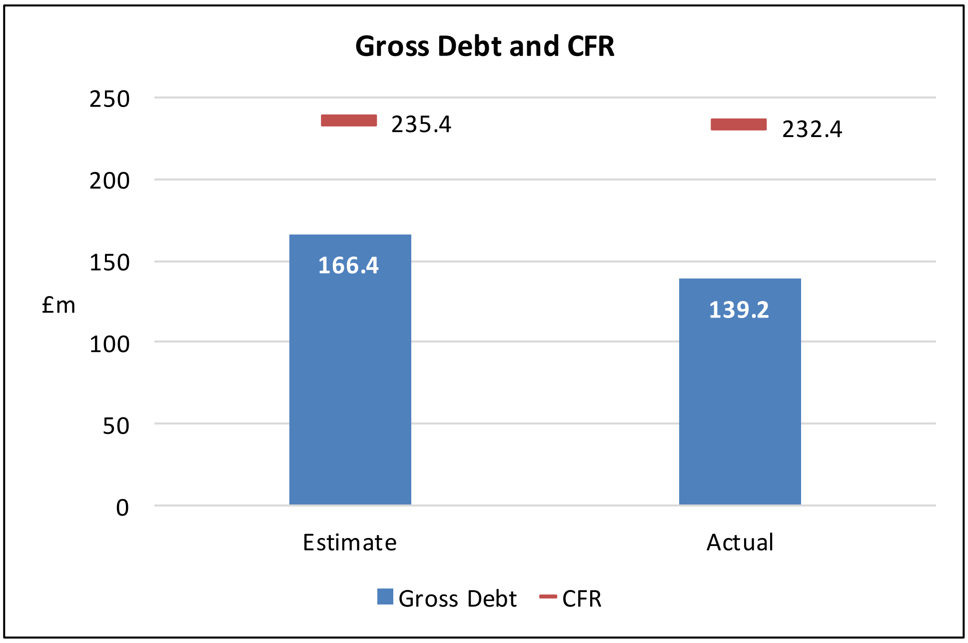
3.1.4. As mentioned in paragraph 2.2 (above), the level of capital expenditure for 2022/23 was less than anticipated and therefore the requirement for the financing of this expenditure from borrowing is also lower.

3.2. Gross Debt and the CFR

3.2.1. CIPFA's Prudential Code for Capital Finance in Local Authorities includes the following statement as a key factor of prudence:

"In order to ensure that over the medium-term debt will only be for a capital purpose, the local authority should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years."

3.2.2. In the report to Cabinet and Council in March 2022, it was stated that the Authority would comply with this requirement in 2022/23. During the financial year, gross external borrowing did not exceed the total of the Capital Financing Requirement. The chart below shows the out-turn position compared to the CFR and a comparison with the original estimate:



3.2.3. The actual level of borrowing at year end was significantly lower than anticipated compared to the original estimate for the year. As mentioned previously, the Council is currently internally borrowed meaning it will take the opportunity where prudent to use its own cash balances instead of external borrowing, a strategy which has continued throughout 2022/23 financial year.

3.3. Borrowing Limits

	2022/23 £m
Authorised limit	**220.000**
Operational boundary	**205.000**
Maximum Gross Borrowing Position	**173.686**

3.3.1. The Operational Boundary sets a boundary on the total amount of long-term borrowing that the Council is estimated to enter into. It reflects an estimate of the Authority's current commitments, existing capital expenditure plans, and is consistent with its approved Treasury Management Policy Statement and practices.

3.3.2. The Authorised Limit sets a limit on the amount of external borrowing (both short and long term) that the Council can enter into. It uses the Operational Boundary as its base but also includes additional headroom to allow for exceptional cash movements.

3.3.3. The Maximum Gross Borrowing Position shows the highest level of actual borrowing undertaken during 2022/23 financial year. This level remained within the Operational Boundary and did not exceed the Authorised limit.

3.4. Financing Costs as a Proportion of Net Revenue Stream

3.4.1. This indicator measures the financing costs of capital expenditure as a proportion of the net resource expenditure of the General Fund.

	Estimate 2022/23	**Actual 2022/23**
Financing Costs / Net Revenue	**3.8%**	**3.3%**

3.4.2. The overall ratio is lower than the original estimate by 0.5%. The financing costs for the repayment of debt incurred in previous years was lower than originally forecast. The net revenue stream for 2022/23 by comparison remained broadly on target hence the reduced ratio. The Council's debt therefore remained within affordable levels.

4. Borrowing Strategy and Practice

4.1. The Council's debt portfolio at the 31st March 2023 and a comparison to the position at the end of last financial year is summarised as follows:

Actual Debt Outstanding	**31st March 2022 £m**	**31st March 2023 £m**
Public Works Loans Board	167.205	133.694
Other Long-Term Liabilities	6.481	5.497
TOTAL	**173.686**	**139.191**

4.2. The category of other long-term liabilities represents transferred debt from the Merseyside Residuary Body (£0.875m) and finance lease liabilities (£4.622m).

4.3. The Council's PWLB debt activity during 2022/23 is summarised in the following table:

Movement in Year	**Actual £m**
PWLB opening debt 1st April 2022	167.205
Less principal repayments	(33.511)
Add new borrowing	-
Closing PWLB debt 31st March 2023	**133.694**

4.4. The policy of internally borrowing, running down the Authority's cash balances rather than taking out new borrowing, continued with regards to the Capital

Programme in 2022/23 as no new expenditure was financed from external borrowing.

4.5. The average rate of interest on Council loans with the Public Works Loans Board (PWLB) in 2022/23 and a comparison to the previous year is shown below:

	2021/22	2022/23
Average PWLB Interest Rate in Year	**3.74%**	**3.89%**

4.6. The average rate of interest is based upon the total interest amount paid as a proportion of loan principal held. The slight increase in the average rate of interest from 2021/22 to 2022/23 has resulted from maturing loans during the year reducing the balance of principal held, but interest payments remaining proportionally higher due to historic loans within the portfolio that were taken out when rates were higher.

5. Debt Maturity Profile

5.1. This is a profile measuring the amount of borrowing that is fixed rate maturing in each period as a percentage of total borrowing that is fixed rate:

Fixed Rate Debt Maturity	Upper Limit	Lower Limit	Actual 31st March 2023
Under 12 months	35%	0%	**8%**
12 months and within 24 months	40%	0%	**4%**
24 months and within 5 years	50%	0%	**11%**
5 years and within 10 years	50%	0%	**19%**
10 years and within 15 years	75%	0%	**18%**
15 years and above	90%	25%	**40%**

5.2. The spread of debt across the various maturity periods shows how the authority has acted prudently and controlled its exposure to refinancing risk by not having overly large amounts of debt concentrated in one period, especially those in the shorter term.

6. Compliance with Treasury Limits

6.1. The following Treasury Limits were approved by Council during the 2022/23 Budget Setting process:

6.1.1 Borrowing Limits

	Limit £m	Maximum Borrowing 2022/23 £m
Authorised Borrowing Limit	220.000	**173.686**
Short Term Borrowing Limit	30.000	**0**

6.1.2 Investment Limits

	Upper Limit £m	Maximum Invested 2022/23 £m
Principal sums invested for longer than 365 days	15	**5**

6.2. The amounts above show the maximum amounts borrowed or invested during the year compared to the limits set. The Council therefore remained within the limits for borrowing and investments set for the year and no short-term borrowing was undertaken.

7. Investment Strategy and Practice

7.1. The Council invests all available cash balances, which includes school balances and the insurance fund, following a policy of obtaining maximum returns whilst minimising risks.

i. **Externally Managed Investments**
No externally managed funds are held.

ii. **Internally Managed Investments**
The Council's available funds during the year averaged £91.10m and were managed internally with advice from our treasury consultants.

7.2. The level of the Council's investments during 2022/23 and comparable figures from the previous year are summarised in the following table:

	2021/22	2022/23
Total Investment of Cash Balances at year end	£98.69m	£31.11m
Average Investment Balance during the year	£104.98m	£91.10m
Average Return on Investments	0.27%	2.25%

7.3. In 2022/23 a weighted average return of 2.25% was achieved. The majority of the funds are invested with major banks and Money Market Funds (MMF's), with the remaining balance of £5m invested with the CCLA Property Fund. The return of 2.25% can be disaggregated into a return of 1.97% on bank and MMF investments, whilst 4.25% was returned by the CCLA investment.

7.4. The 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. The Council's investments have therefore significantly outperformed the target set in the budget as the majority of funds were invested in the short term and increased in line with short term money market rates. The table below shows the outturn position for 2022/23:

Budget Profile	**Budget £m**	**Actual £m**	**Variance £m**
Outturn 2022/23	0.789	1.917	1.128

8. Treasury Position for 2023/24 – Update to 30th June 2023

8.1. Investments held at the 30/06/2023 comprise the following:

Institution	Deposit £m	Rate %	Maturity	Rating
Money Market Funds:				
Aberdeen	4.11	4.78	01.07.23	AAA
Aviva	4.11	4.84	01.07.23	AAA
Blackrock	0.97	4.68	01.07.23	AAA
BNP Paribas	4.11	4.93	01.07.23	AAA
Goldman-Sachs	3.79	4.70	01.07.23	AAA
HSBC	3.97	4.72	01.07.23	AAA
Invesco	3.12	4.70	01.07.23	AAA
Morgan Stanley	3.79	4.76	01.07.23	AAA
Federated	4.11	4.73	01.07.23	AAA
Insight	4.11	4.78	01.07.23	AAA
Total	36.19			
Property Fund:				
CCLA	5.00	4.25	n/a	n/a
Total	5.00			
TOTAL INVESTMENTS	**41.19**			

8.2. The Authority holds significant invested funds, representing grant income received in advance of expenditure plus balances and reserves held. The cash is initially held in a number of highly liquid Money Market Funds to ensure security of the funds until they are required to be paid out. This approach is consistent with the Council's approved Treasury Management Policy and Strategy for 2023/24. The balance of investments is therefore expected to fall over the coming months as the income is fully expended.

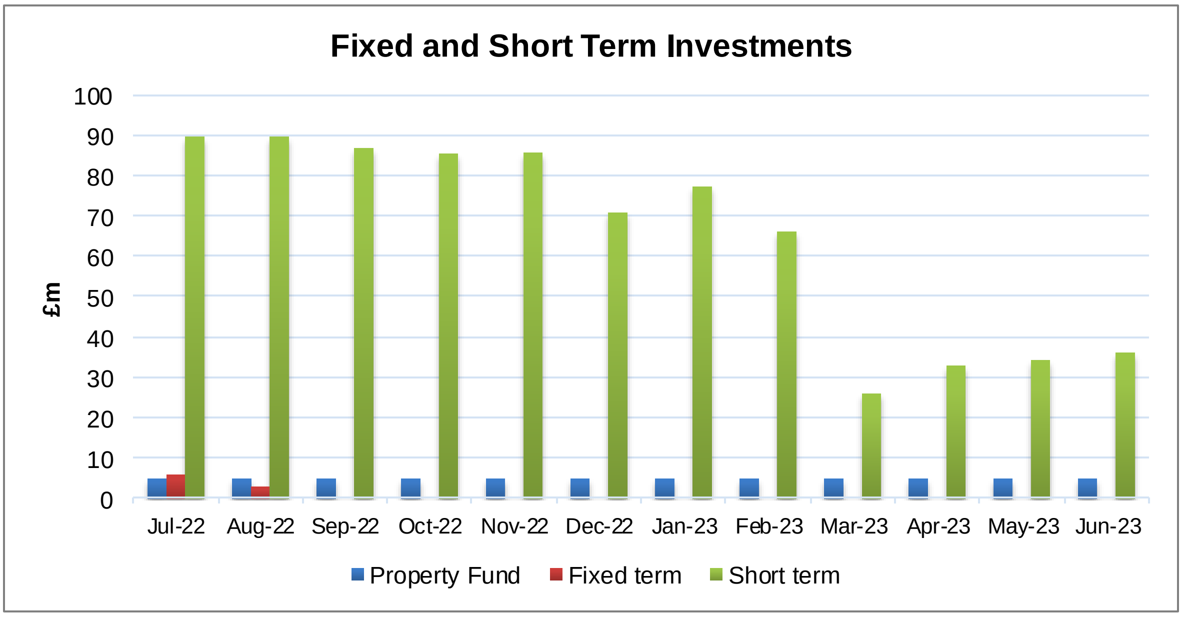
8.3. All of the investments made since April 2023 have been with organisations on the current counterparty list. The maximum level of investment permitted in the Treasury Management Strategy in any one institution, or banking group, is currently £15m. Whilst the maximum should be retained, in light of current economic conditions, a day-to-day operational maximum of 10% of the total portfolio is currently being imposed for investments. This will spread the risk for the Council but will have a small detrimental impact on the returns the Council will receive in the future. The Council has remained within that boundary during the year. At present, it is not expected that there will be any need to review this limit.

8.4. The Council will only invest in institutions that hold a minimum Fitch rating of A- for banking institutions, or AAA for money market funds. The ratings applied to investment grade institutions, and the much riskier speculative grade institutions, as defined by Fitch, have been placed into a risk matrix (paragraph 8.8).

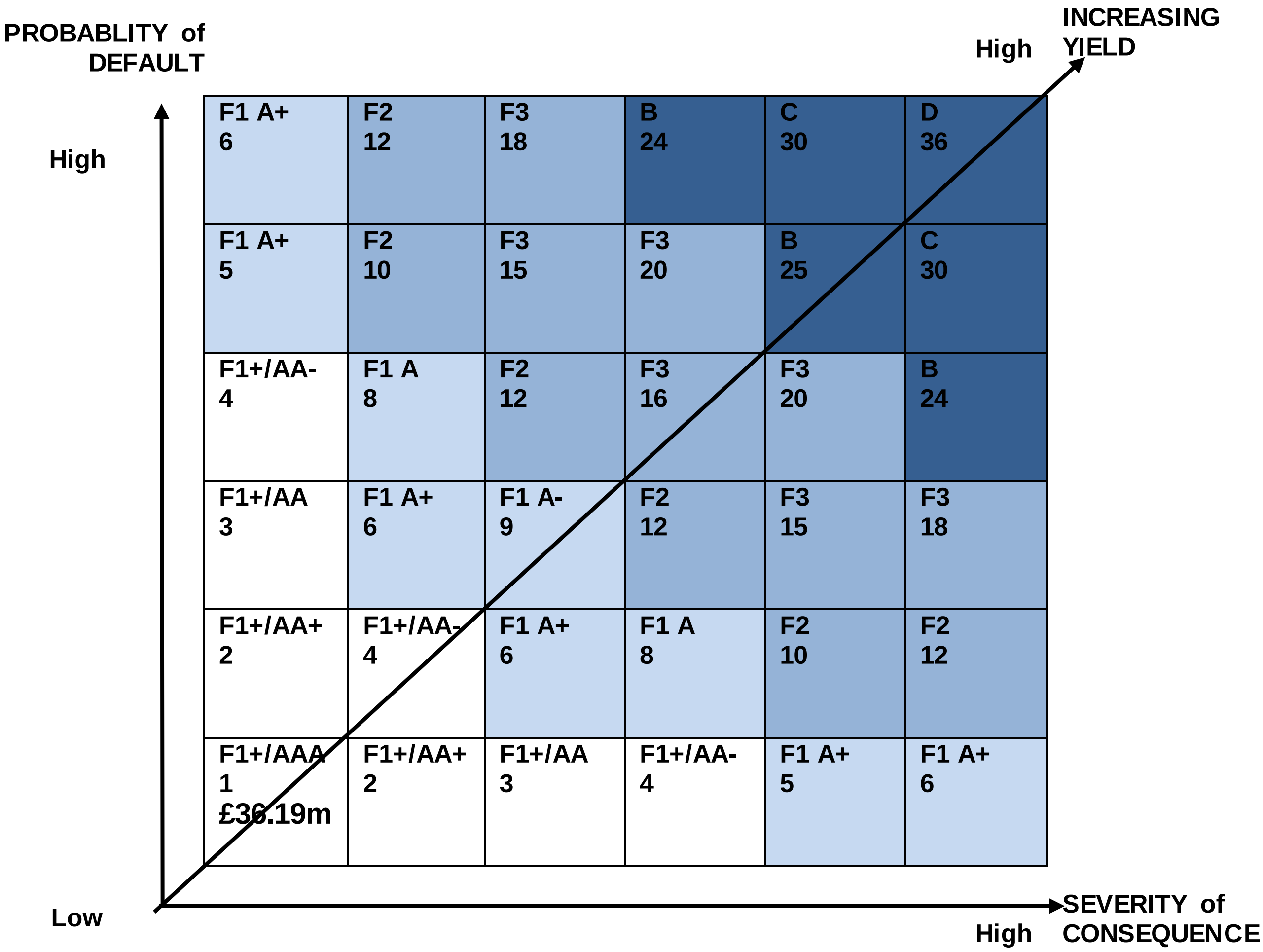
8.5. An investment has been made with the Church, Charities and Local Authority Investment Fund (CCLA) in June 2014. CCLA invest in commercial property which is rented out to enterprises such as retail units, warehousing, and offices. The majority of properties owned are in the south of the country where the market is often more buoyant than the north. The Council has in effect bought a share of the property portfolio and returns paid are in the region of 4%. This is seen as a long-term investment with the potential for the capital value of the investment to vary as property prices fluctuate.

8.6. The Net Asset Value (NAV) of the Property Fund has decreased over a 12-month period to May 2023 from 363.21p per unit to 289.20p per unit, a decrease of 20%. The fund is considered to be a long-term investment and fluctuations in value are to be expected with this type of asset. The investment market over the past 12 months has been turbulent and driven by interest rates rather than property fundamentals. The CCLA is well positioned in the property market and has experienced no material change in tenant default rates with income levels remaining stable and reliable. The fund has a high industrial weighting with future growth potential and is making a strategic shift away the weaker office sector. The overall value of the Council's investment in the fund still remains higher than the original principal sum invested. It should also be noted that much of the fluctuation mentioned above took place in the latter half of 2022 and NAV prices have now stabilised in recent months. The situation will continue to be monitored closely however, and advice taken from the Council's treasury advisers should its position in the fund need to be reviewed. The income yield on the Property fund at the end of May 2023 was 4.25% which is above the level of returns received in the past.

8.7. The ratio of overnight deposits (short term) to fixed term investments and the property fund is shown below:



8.8. The matrix below shows how the Council has set its risk appetite by being risk averse and putting security and liquidity before yield when investing:



SEFTON RISK TOLERANCE:

Risk Level	Score	Grade	Amount Invested
LOW	1 - 4	Investment Grade	£36.19m
LOW - MEDIUM	5 - 9	Investment Grade	-
MEDIUM	10 - 20	Investment Grade	-
HIGH	21 - 36	Speculative Grade	-

8.9. The Council will continue to maximise any investment opportunities as they arise although it is not envisaged that any substantial increase in returns can be achieved for the remainder of the current financial year as balances available for investment will be held in short term deposits to allow the Council to respond to any exceptional demands for cash as they arise. The security and availability of cash will be prioritised over improved yields as per the agreed Treasury Management Strategy and advice received from Sefton's treasury management advisors.

9. Interest Earned

9.1. The actual performance of investments against the profiled budget to the end of June 2023 and the forecast performance of investments against total budget at year end is shown below:

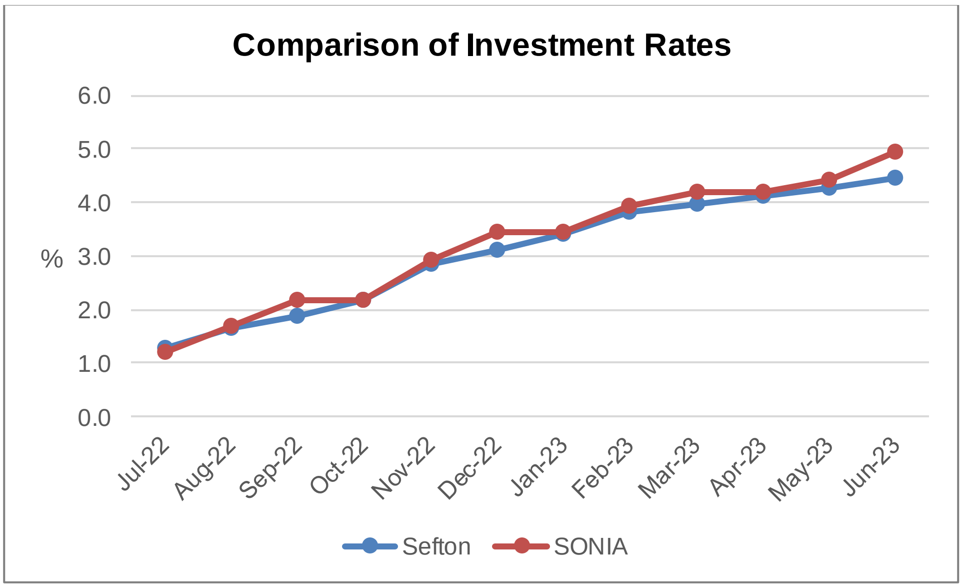
	Budget £m	Actual £m	Variance £m
Jun-23	0.272	0.451	0.179

	Budget £m	Forecast £m	Variance £m
Outturn 2023/24	1.317	1.549	0.232

9.2. The forecast outturn for investment income shows the level of income to be above the target set in the budget for 2023/24. Investment rates have increased significantly over the past 12 months (see 9.4. below) largely in response to rises in interest rates. The forecast income for 2023/24 is therefore estimated to be at a higher level when compared to the budget estimates set out in the Council's medium term financial plan.

9.3. It is not envisaged that improved rates will lead to a significant increase over and above the current forecast income from investments during 2023/24 as cash balances are diminishing and held in short term deposits.

9.4. The Council has achieved an average rate of return on its investments of 4.45% to the end of June 2023. The chart below shows the average monthly rate of return plotted against the SONIA benchmark.



9.5. As can be seen from the chart above, Sefton's investments have slightly underperformed compared to SONIA to the end of Jun 2023, although remain broadly aligned with the benchmark. The investment income received is above target compared to the 2023/24 budget as shown in paragraph 9.1 (above).

10. Interest Rate Forecast

10.1. Arlingclose, the Council's treasury advisors, have provide the following interest rate view as of 23 June 2023:

	Current	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
Official Bank Rate													
Upside risk	0.00	0.50	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00
Central Case	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00
Downside risk	0.00	0.50	0.50	0.50	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00	1.00

- The MPC raised the Bank Rate by 50bps to 5.0% in June. Due to current inflation and wage data, we believe that Bank Rate will rise to 5.25% in August and to 5.50% in September.
- The risks lie to the upside. Further strong inflation data for June (released in July) will likely result in another 50bps rise in Bank Rate in August.
- The MPC will cut rates in the medium term to stimulate the UK economy but will be reluctant to do so until services inflation and wage growth ease. The stickiness of these data suggests that rate cuts will happen later than previously expected. We see rate cuts from Q2 2024 to a low of around 3% by mid-2025.
- Arlingclose expects long-term gilt yields to eventually fall from current levels reflecting the lower medium-term path for Bank Rate. However, yields will remain relatively higher than in the past, partly due to quantitative tightening, with continued elevated volatility.

11. Compliance with Treasury and Prudential Limits

11.1. As at the end of Jun 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.