

## **Annual Treasury Management Report 2022/23**

**Report by David Gladwin, Acting Chief Financial Officer**

### **Report for Decision**

#### **1 Recommendations**

The Audit Committee is invited to consider this report before the final report is presented to Council. Committee should note that the proposed recommendation to Council is that it note the Annual Treasury Management Report 2022/23.

#### **2 Purpose of Report/Executive Summary**

The purpose of the report is to inform members of the Audit Committee of the Treasury Management activity undertaken in 2022/23 and the year-end position.

**Date: 13 June 2023**

**Report Contact:**

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### 3 Background

The main points arising from treasury activity in 2022/23 were:

- The pooled internal loans fund rate for General Fund and HRA was 2.41% in 2022/23, which is again expected to be one of the lowest when benchmarked against all mainland Authorities in Scotland;
  - Were the pooled internal loans fund rate to have equated to the Scottish weighted average of 3.38%, this would have generated loan charges in 2022/23 of £15.7 million. The Council's actual 2022/23 loan charges for General Services and HRA were £12.5 million, representing a cash saving (compared to the Scotland average) of £3.2 million in 2022/23;
  - Total long term borrowing maturing in the year amounted to £1.518 million, comprising the following:-
    - One £0.648 million Maturity Loan with PWLB matured on 3 February 2023 (original tenor 28 years at an interest rate of 8.63%);
    - £0.048 million of PWLB Annuities of various tenors and interest rates;
    - £0.657 million of Annuity and EIP, and £0.165 million of interest free loans.
  - No new long term borrowing was taken in the year, with the Council able to defer new long-term borrowing, at higher than expected PWLB rates, as a result of £50.000 million of long-term borrowing secured in December 2021 which pre-funded part of the 2022/23 borrowing requirement. The remainder of the 2022/23 borrowing requirement was funded through the utilisation of the Council's surplus cash / working capital balances;
  - The Council were under-borrowed by £25.908 million (7.5% of the borrowing Capital Financing Requirement) at 31 March 2023. This means that the Council has funded the majority (92.5%) of its underlying borrowing requirement as at 31 March 2023. This position is prudent in the current economic climate (with PWLB rates forecast to drop from their prevailing rates, across the next 2 financial years), as it balances longer-term interest rate and refinancing risk with short-medium term budgetary implications;
  - The average rate of interest paid on external debt was 3.01% in 2022/23, down from 3.22% in 2021/22 and reflecting the historically low interest rates secured on longer-term PWLB borrowing in recent years;
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- Cash balances in instant access accounts throughout the year were significantly higher than normal, and reflective of (a) the Scottish Government providing upfront funding to local authorities to support a range of grant schemes, (b) developer contribution receipts, (c) PWLB borrowing taken in advance, and (d) the impact on the Council's cashflow due to rephasing of capital expenditure plans. The majority of the level of higher cash balances that are being held are committed to fund revenue and capital expenditure in the 2023/24 and forthcoming financial years.
- Fixed Term Deposits were placed during the year in line with the Council's approved creditworthiness process as outlined in the "*Treasury Management and Investment Strategy 2022/23 & Prudential indicators*" (TMSS 22/23) report approved by Council on 15 February 2022. These fixed term deposits were placed with high credit worthy banks and the UK Government's Debt Management Account Deposit Facility. The Council's deposit portfolio at 31 March 2023 is outlined in Table 2 below and in detail in Table 11 in Appendix 1;
- The average rate of return on deposits was 2.03% in 2022/23 (exceeding the benchmark<sup>1</sup> of 1.42% for the nineteenth year in succession) with total interest earned on deposits totalling £3.260 million and reflecting the significantly higher than normal levels of surplus cash;
- The Council useable reserves of £90.583 million at 31 March 2023 are fully cash backed, in line with the approved TMSS 22/23.
- No debt rescheduling was undertaken during 2022/23.

A detailed report "*Annual Treasury Management Review 2022/23*" on the activity during 2022/23 is attached as Appendix 1.

The Treasury Portfolio at the start and end of the financial year is shown in Tables 1 and 2 below.

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<sup>1</sup> 6 month uncompounded SONIA (Sterling Overnight Index Average) which reflects the weighted average duration of the Council's portfolio for the year

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Table 1: Loan Portfolio at 1 April 2022 and 31 March 2023

<b>Loan Type</b>	<b>Principal Outstanding 1 Apr 2022 £000's</b>	<b>Principal Outstanding 31 Mar 2023 £000's</b>	<b>Movement  £000's</b>
PWLB Annuity	553	505	-48
PWLB Maturity	284,776	284,128	-648
LOBO	20,000	20,000	0
Other Market Loans	17,542	16,885	-657
Salix Loans	400	235	-165
<b>Total Loans</b>	<b>323,271</b>	<b>321,753</b>	<b>-1,518</b>
<b>CFR</b>	<b>307,247</b>	<b>347,661</b>	<b>+40,414</b>
<b>Over/(Under) Borrowed</b>	<b>+16,024</b>	<b>-25,908</b>	<b>-41,932</b>

Table 2: Deposits at 1 April 2022 and 31 March 2023

<b>Deposit Type</b>	<b>Principal Outstanding 1 Apr 2022 £000's</b>	<b>Principal Outstanding 31 Mar 2023 £000's</b>	<b>Movement  £000's</b>
Bank Call Accounts	31,058	2	-31,056
Money Market Funds	30,324	15,980	-14,344
Bank Notice Accounts	14,985	0	-14,985
Bank Fixed Term Deposit Accounts	35,000	96,000	+61,000
Other Local Authorities	45,000	2,000	-43,000
<b>Total Deposits</b>	<b>156,367</b>	<b>113,982</b>	<b>-42,385</b>
<b>Useable Reserves</b>	<b>86,412</b>	<b>90,583</b>	<b>+4,171</b>

Throughout 2022/23, all counterparties that the Council placed deposits with met their obligations in respect of the return of the deposited funds and interest receivable in full and on the required dates.

## **5 Report Implications (Resource, Digital and Risk)**

### **5.1 Resource**

Treasury Management activity during the year, in accordance with the approved strategy, has once again been effective in minimising loan charges through minimising the cost of borrowing and maximising the return on deposits within the parameters set by the strategy for the year.

Although benefits from Treasury Management activity continue to accrue there are no direct financial implications or other resource issues arising from this report.

The loan charges associated with Capital Expenditure and Treasury Management activity during 2022/23 are reported in the Financial Monitoring 2022/23 – General Fund Revenue report and HRA 2022/23 Outturn report elsewhere on the Council agenda for 27 June 2023.

## **5.2 Digital**

None.

## **5.3 Risk**

As the Council follows the requirements of the new CIPFA Code of Practice and the Prudential Code this minimises the risks involved in Treasury Management activities place. For those risks that do exist there are robust and effective controls in place to further mitigate the level of risks. These include full written Treasury Management Practices, which define the responsibilities of all staff involved, and which were updated during the 2022/23 financial year to reflect the provisions of the new Prudential and Treasury Management Codes and approved by Audit Committee.

## **5.4 Ensuring Equalities (if required a separate IIA must be completed)**

This report does not recommend any change to policy or practice and therefore does not require an Equalities Impact Assessment.

## **5.5 Additional Report Implications**

**See Appendix A**

## **Appendices:-**

**Appendix B: Annual Treasury Management Review 2022/23**

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## **APPENDIX A – Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

Not applicable

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

- ☐ Holistic Working
- ☐ Hub and Spoke
- ☐ Modern
- ☒ Sustainable
- ☒ Transformational
- ☐ Preventative
- ☐ Asset-based
- ☒ Continuous Improvement
- ☐ One size fits one
- ☐ None of the above

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- ☐ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☐ Efficient and Modern
- ☐ Innovative and Ambitious
- ☐ None of the above

### **A.4 Delivering Best Value**

The report does not directly impact on Delivering Best Value.

### **A.5 Involving Communities and Other Stakeholders**

Although no external consultation has taken place, cognisance has been taken of professional advice obtained from Link Asset Services, the Council's appointed Treasury Consultants.

### **A.6 Impact on Performance and Outcomes**

The strategies adopted are an integral part of the corporate aim to achieve Best Value as they seek to minimise the cost of borrowing by exercising prudent debt management and placement of deposits. This in turn helps to ensure that the Council's capital expenditure is sustainable in revenue terms.

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**A.7 Adopting a Preventative Approach**

Not applicable.

**A.8 Supporting Sustainable Development**

Not applicable