

**Report for: Cabinet**

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<b>Date of Meeting:</b>	8 <sup>th</sup> December 2022
<b>Subject:</b>	Treasury Management Mid-Year Report 2022/23
<b>Key Decision:</b>	No
<b>Responsible Officer:</b>	Dawn Calvert - Director of Finance and Assurance
<b>Portfolio Holder:</b>	Councillor David Ashton - Portfolio Holder for Finance and Human Resources
<b>Exempt:</b>	No
<b>Decision subject to Call-in:</b>	No, as it is for noting only
<b>Wards affected:</b>	All wards
<b>Enclosures:</b>	None

## **Section 1 – Summary and Recommendations**

This report provides a Mid-Year Review of the Council's Treasury Management activities in 2022/23 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice.

### **Recommendations:**

Cabinet is requested to:

1. Note the Treasury Management Mid-Year Review for 2022/23.
2. Refer this report to the Governance, Audit, Risk Management and Standards Committee for review.

### **Reason: (for recommendations)**

- a) To promote effective financial management and comply with regulations issued under the Local Government Act 2003, the CIPFA Code of Practice on Treasury Management, and the CIPFA Prudential Code for Capital Finance, along with meeting the requirements of the Council's Financial Regulations.
- b) To keep Members informed of Treasury Management activities and performance to date for 2022/23.

## **Section 2 – Report**

### **1.0. Introduction**

1.1. The purpose of this report is to update Members with the Council's Treasury Management activity in 2022/23, presenting performance to 30<sup>th</sup> September 2022 in accordance with the Council's Treasury Management Practices and in compliance with the CIPFA Treasury Management Code of Practice. The Council has complied with all elements of the Treasury Management Strategy Statement (TMSS) as the treasury management function.

1.2. Treasury management comprises:

- Managing the Council's borrowing to ensure funding of the Council's current and future Capital Programme is at optimal cost;
- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

1.3. The annual revenue budget includes the revenue costs that flow from capital financing decisions. Under the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code, increases in capital expenditure should be

limited to levels whereby increases in interest charges and running costs are affordable within the Council's revenue account.

- 1.4. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation to ensure the security and liquidity of the Council's treasury investments.
- 1.5. The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of the CIPFA Treasury Management Code of Practice.

## **2.0. Reporting Requirements**

- 2.1. The Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.
- 2.2. **Treasury Management Strategy Statement Report** – The first, and most important report is presented to the Council in February and covers:
  - The Treasury Management Strategy Statement (TMSS), which details how the investments and borrowings for capital expenditure are to be organised, including Treasury Limits and Prudential Indicators.
  - The Annual Investment Strategy which forms part of the TMSS, (the parameters on how investments are to be managed).
  - the MRP Policy (how capital expenditure is charged to revenue over time).

**The 2022/23 TMSS was presented to Council on 24 February 2022.**

- 2.3. **Mid-Year Review Report** – This is presented to Cabinet in December/January and updates Members on the progress of the Capital Programme, reporting on Prudential Indicators to give assurance that the treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

**This report fulfills the requirements of the the Mid-Year Review for 2022/23.**

- 2.4. **Treasury Management Outturn Report** – This is typically presented to Cabinet in June/July and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the TMSS and Mid-Year Reports.
- 2.5. **Scrutiny** – The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet/Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS). The Council has complied with the CIPFA Treasury Management Code of Practice to the extent that all Treasury Management

reports have been scrutinised though the efficient conduct of the Council's business may require consideration by GARMS subsequent to consideration by Cabinet/Council.

- 2.6. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

### **3.0. Options considered**

- 3.1. The report is in accordance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

### **4.0. Treasury Management Strategy Statement and Annual Investment Strategy Update**

- 4.1. The Treasury Management Strategy Statement, (TMSS), for 2022/23 was approved by Council on 24 February 2022.
- 4.2. There are no policy changes proposed to the TMSS approved for 2022/23; the details in this report update the position in the light of the updated economic environment, budgetary changes and revised capital programme outturn forecast contained in the 2022/23 Q2 Capital Budget Monitoring Report also presented at this meeting.

### **5.0. Compliance with Prudential Indicators**

- 5.1. It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. The Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement for 2022/23 during the half year ended 30 September 2022 (and up to 30 November 2022 at the point this report was despatched).
- 5.2. All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices.

#### **Prudential Indicator for Capital Expenditure**

- 5.3. The Council's Capital Programme is a key driver of Treasury Management activity. The output of the Capital Programme is reflected in the statutory prudential indicators, which are designed to provide Member's with an overview of the impact of the capital expenditure plans and ensure that these remain prudent, affordable and sustainable.
- 5.4. Table 1 shows the original capital expenditure budget, the revised budget and the forecast outturn for 2022/23 against the revised budget. The original budget for 2022/23 is the budget agreed at Council in February 2022. The revised budget reflects updates to the 2022/23 original budget to reflect slippage from the 2021/22 capital outturn which has been rolled forward into 2022/23. The forecast outturn reflects the estimated capital spend for the full year.

**Table 1 – Capital Expenditure**

<b>Capital expenditure</b>	<b>2022/23 Revised Budget £'000</b>	<b>2022/23 Forecast Outturn £'000</b>
<b>General Fund</b> Resources and Commercial Directorate	11,662	11,222
People's Directorate	28,189	6,110
Place Directorate	61,957	35,392
<b>General Fund</b>	<b>101,808</b>	<b>52,724</b>
HRA	52,446	34,454
<b>Total</b>	<b>154,253</b>	<b>87,178</b>

5.5. The 2022/23 Q2 Capital Budget Monitoring Report provides further details of the updated forecast outturn position.

#### **Changes to the Financing of the Capital Programme**

5.6. Table 2 illustrates how the Council's capital expenditure plans (table 1) will be funded. The net financing need for the year increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

**Table 2 Financing of Capital Expenditure**

<b>Financing of capital expenditure</b>	<b>2022/23 Revised Budget £'000</b>	<b>2022/23 Forecast Outturn £'000</b>
<b>General Fund</b>		
Capital Receipts	0	0
Capital Grants	39,527	11,801
BCiL	5,614	4,514
NCiL	938	742
Section 106	1,159	1,159
Revenue	0	0
<b>External Funding</b>	<b>47,238</b>	<b>18,216</b>
<b>GF Net financing need for year</b>	<b>54,570</b>	<b>34,508</b>
<b>Total General Fund</b>	<b>101,808</b>	<b>52,724</b>
<b>HRA</b>		
Capital Receipts	6,077	6,077
Capital Grants	13,860	4,696
Section 106	3,721	3,721
Revenue	18,728	13,101
<b>External Funding</b>	<b>42,386</b>	<b>27,595</b>
<b>Net financing need for year (HRA)</b>	<b>10,060</b>	<b>6,859</b>
<b>Total HRA</b>	<b>52,446</b>	<b>34,454</b>
<b>GF &amp; HRA Net Financing need for year</b>	<b>64,630</b>	<b>41,367</b>

**Capital Financing Requirement**

- 5.7. The CFR is the total historic outstanding capital expenditure incurred by the Council, which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which has not immediately been paid for, will increase the CFR. The Council makes an annual charge to the revenue budget for the repayment of its debt liability, the Minimum Revenue Provision, which acts to reduce the CFR and charge prudential borrowing to the General Fund over time.
- 5.8. The Original Capital Financing Requirement for 2022/23 as reported in the Treasury Management Strategy Statement report to Cabinet in February 2022 was £655m as follows:

**Table 3 – Capital Financing Requirement**

Capital Financing Requirement £'000	2022/23 Original
CFR – General Fund	469,513
CFR – HRA	185,647
<b>Total CFR</b>	<b>655,160</b>

- 5.9. The Authority's actual CFR as at 31 March 2022 was £590.378m (GF £439m/HRA £151m). Table 4 reflects the latest projections for the CFR based on the both the revised budget for 2022/23 and the forecast outturn from the 2022/23 Q2 Capital Budget Monitoring Report, (summarised in tables 1 and 2), and this shows that the CFR is within the approved CFR for 2022/23 of £655.160m.

**Table 4 – Capital Financing Requirement**

Capital Financing Requirement £'000	2022/23 CFR based on Revised Capital Budget	2022/23 CFR based on Forecast Outturn
CFR – General Fund	472,492	452,430
CFR – HRA	161,399	158,198
<b>Total CFR</b>	<b>633,891</b>	<b>610,628</b>
<b>Movement in CFR from 2021/22 Actual of £590.378m</b>	<b>43,513</b>	<b>20,251</b>

<b>Movement in CFR represented by</b>		
Net financing need for the year (table 2)	64,629	41,367
Less MRP/VRP and other financing movements	-21,116	-21,116
<b>Movement in CFR</b>	<b>43,513</b>	<b>20,251</b>

**Authorised Limit and Operational Boundary**

- 5.10. No changes have been proposed to the Council's Operational Boundary and Authorised Limit which were approved as part of the 2022/23 TMSS on 24 February 2022.

Operational Boundary

- 5.11. This limit is based on the Council's programme for capital expenditure, Capital Financing Requirement and cash flow needs for the year. It is the limit beyond which external debt is not normally expected to exceed.

**Table 5 – Operational Boundary**

Operational boundary £'000	2022/23
Borrowing	638,857
Other long-term liabilities	16,303
<b>Total</b>	<b>655,160</b>

### Authorised Limit

- 5.12. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council.
- 5.13. It is the statutory limit determined under section 3(1) of the Local Government Act 2003. Under the Act, the Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

**Table 6 – Authorised limit**

Authorised limit £'000	2022/23
Borrowing	668,857
Other long-term liabilities	26,303
<b>Total</b>	<b>695,160</b>

## 6.0. Economic Update

- 6.1. The Bank of England's Monetary Policy Committee (MPC) has increased Bank Rate to 3.00% from 2.25%. The increase was made on 3<sup>rd</sup> November and reflected a split vote – seven members voting for a 75 basis points increase, one for 50 basis points and one for 25 basis points. The MPC continues to grapple with getting inflation back on track over a three-year horizon.
- 6.2. The Council's treasury advisor, (Link Group) sees Bank Rate increasing 50 basis points in both December and February before the MPC scales down the rate of increase to just 25 basis points in both March and May 2023. The next BoE interest rate review is on 15<sup>th</sup> December 2022.

### Interest Rate Forecast

- 6.3. Link Group, provided the following forecast on 27th September 2022 for PWLB rates which are based on PWLB Certainty Rates (which is the standard rate less 20bps).
- 6.4. The latest forecast sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is providing a package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
<b>BANK RATE</b>	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10



## 7.0. Treasury Position as at 30 September 2022

### Investments

- 7.1. In accordance with the CIPFA Treasury Management Code of Practice and MHCLG Investment Guidance, the TMSS sets out the Council's investment priorities as being:
- Security of capital
  - Liquidity
  - Yield
- 7.2. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

**Table 7 – Investments and Returns**

Investment Portfolio	31-Mar-22			30-Sep-22		
	Principal (£'000)	Average Rate (%)	Average Life (days)	Principal (£'000)	Average Rate (%)	Average Life (days)
- MMFs	1,617	0.05%	1	1,626	1.69%	3
- Banks	96,386	0.02%	3	95,968	0.27%	5
<b>Total Investments</b>	<b>98,003</b>	<b>0.02%</b>	<b>3</b>	<b>97,593</b>	<b>0.30%</b>	<b>5</b>

- 7.3. The Council held £97.6m of investments as at 30 September 2022 compared with £98m at 31 March 2022. The portfolio remains highly liquid with the yield reflecting the current market for liquid investments. The internal borrowing strategy of the Authority, focusing on minimising the net cost of borrowing, also prevents longer term investment with a consequential impact on investment return.
- 7.4. The Council's investment income budget for 2022/23 is £1.103m and the forecast outturn is £1.107m. This includes income from the £15m loan to the West London Waste Authority which the Council approved in July 2013 to finance the cost of a new energy waste plant. The term of the loan is 25 years at an interest rate of 7.604% on a reducing balance basis. The loan balance at the 31 March 2022 was £15.25m which includes interest accrued to date.
- 7.5. During the period cash investments have been held with DWS and Fidelity Money Market Funds, Lloyds, Royal Bank of Scotland PLC, and Handelsbanken. Counterparty use has been consistent with previous years and in accordance with the credit criteria set out in the TMSS. Officers can confirm that the approved limits within the Annual Investment Strategy have not been breached to the period of 30th November 2022.
- 7.6. There are no changes proposed to the Council's Investment Counterparty Criteria approved in the 2022/23 TMSS.

### Borrowing

- 7.7. The Council continues to run an internal borrowing strategy with a borrowing portfolio of £417m (excluding £17.6m of PFI and Finance Lease Liabilities)

below the actual CFR of £590m as at 31 March 2022 and the revised estimate of the CFR for 31 March 2023 of £610m, based on the forecast outturn for the period from the 2022/23 Q2 Capital Budget Monitoring Report.

- 7.8. The Authority's current borrowing portfolio was reduced by £5m in September 2022, due to a loan maturing and being paid back to PWLB. No new borrowing has been undertaken in 2022/23 to date up to 30<sup>th</sup> November 2022.
- 7.9. The forecast outturn on borrowing costs is £7.9m, a favourable variance of £5.0m on the budget of £12.9m, reflecting the continued internal borrowing strategy adopted by the Authority.

**Table 8 – Borrowing Portfolio**

Borrowing Portfolio £'000	31-Mar-22			30-Sep-22		
	Principal	Average Rate (%)	Average Life (yrs)	Principal	Average Rate (%)	Average Life (yrs)
- PWLB	348,461	3.45%	35.06	343,461	3.43%	35.06
- Market	73,800	3.53%	40.72	73,800	3.53%	40.22
Total borrowing	422,261	3.46%	36.05	417,261	3.45%	35.97

- 7.10. The Director of Finance will continue to keep borrowing decisions under review.
- 7.11. The maturity structure of the debt portfolio remained within the Prudential Indicator limits set as part of the 2022/23 Treasury Management Strategy. The maturity structure table (9) below includes one Lenders Option Borrowers Option (LOBO) market loan at its next call date, which is the earliest date the lender can require repayment.

**Table 9 – Maturity structure of Borrowing**

Maturity structure of borrowing	Lower	Upper	Actual 31.03.22	Actual 30.09.22
Under 12 months	N/a	40%	6%	5%
12 months to 2 years	N/a	30%	0%	0%
2 years to 5 years	N/a	30%	0%	0%
5 years to 10 years	N/a	40%	5%	5%
10 years and above	30%	100%	89%	90%

## 8.0. Risk Management Implications

This report is for noting and Cabinet are not being asked to make any decisions. Hence there are no direct risk management implications to this report.

## 9.0. Procurement Implications

There are no procurement implications arising from this report.

## **10.0. Legal Implications**

The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report.

The Act, accompanying statutory guidance and Codes of Practice referred to through capital financing regulations requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

## **11.0. Financial Implications**

In addition to supporting the Council's revenue and capital programmes the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget.

## **12.0. Equalities implications / Public Sector Equality Duty**

There is no direct equalities impact.

## **13.0. Council Priorities**

This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

## **Section 3 - Statutory Officer Clearance**

**Statutory Officer: Dawn Calvert**

Signed off by the Chief Financial Officer

**Date: 28/11/2022**

**Statutory Officer: Caroline Eccles**

Signed on behalf of the Monitoring Officer

**Date: 28/11/2022**

**Chief Officer: Patrick Flaherty**

Signed off by the Chief Executive

**Date: 28/11/2022**

**Head of Procurement: Nimesh Mehta**

Signed off by the Head of Procurement

**Date: 26/11/2022**

**Head of Internal Audit: Susan Dixon**

Signed off by the Head of Internal Audit

**Date: 25/11/2022**

## **Mandatory Checks**

**Ward Councillors notified:** NO, as it impacts on all Wards

**EqIA carried out:** NO – report is for information and not decision making.

**EqIA cleared by:** N/A

## **Section 4 - Contact Details and Background Papers**

**Contact:** Dawn Calvert – Director of Finance & Assurance,  
[dawn.calvert@harrow.gov.uk](mailto:dawn.calvert@harrow.gov.uk),

**Background Papers:** None

**Call-in waived by the Chair of Overview and Scrutiny Committee – NO**