

## **Barrow Borough Council**

### **Annual Treasury Management Statement 2022-23**

#### **Introduction**

The Council managed its cash and investments in-house during 2022-23. All activities complied with the Council's Treasury Management Strategy for 2022-23, which was approved by Full Council on the 22 March 2022. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators. This report meets the requirements of both the Code of Practice for Treasury Management and the Prudential Code for Capital Finance in Local Authorities.

#### **The Borrowing Requirement and Debt**

The Council's underlying need to borrow to finance capital expenditure is called the Capital Financing Requirement (CFR). The original budgeted CFR compared to the actual outturn is shown in the following table and the movement was as expected:

<b>31/3/2022 Actual CFR</b>		<b>31/3/2023 Budget CFR</b>	<b>31/3/2023 Actual CFR</b>
£18.6m	General Fund	£18.1m	£18.1m
£16.4m	Housing Revenue Account	£15.6m	£15.6m
<b>£35.0m</b>	<b>Total</b>	<b>£33.7m</b>	<b>£33.7m</b>

#### **Borrowing Outturn**

No new loans were taken out, one loan matured naturally, and no rescheduling was performed.

- Debt outstanding at 31 March 2023 of £33.5m:
  - £13.4m belonging to the General Fund
    - 4.37% average interest rate
    - Average life 21.7 years
    - £4.7m under borrowed compared to CFR
  - £20.1m belonging to the Housing Revenue Account
    - 3.64% average interest rate
    - Average life 11.7 years
    - £4.5m over borrowed compared to CFR
    - One loan of £1m is repayable in March 2024

The maturity structure of the Council's external borrowing is shown in the following table:

<b>31 March 2022</b>		<b>31 March 2023</b>
<b>£000</b>		<b>£000</b>
1,000	Less than 1 year	1,000
1,000	Between 1 and 2 years	1,000
3,000	Between 2 and 5 years	3,000
7,350	Between 5 and 10 years	7,350
8,500	Between 10 and 15 years	8,500
1,239	Between 15 and 20 years	239
-	Between 20 and 25 years	-
4,000	Between 25 and 30 years	12,390
8,390	Between 30 and 35 years	-
<b>34,479</b>		<b>33,479</b>

### **Investment Outturn**

The Council's investment policy is governed by DCLG guidance, which has been implemented in the annual investments strategy since 2012. The policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data.

The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. The Council maintained an average balance of £40m of internally managed funds; some COVID-19 funding continued into 2022-23 as a cashflow aid from Government, Energy Rebate funding was received ahead of distribution, and some capital funds were received on-account during the year.

The Council is required to consider the potential of credit loss based on the wider market of investments and the history of default for individual counterparties. The potential for expected credit loss for the investments held at the 31 March 2023 has been estimated as £5k; this is considered de-minimus and is not included in the financial statements. There is also no credit loss in the financial statements in relation to the Clusters of Empty Homes soft loans.

Temporarily invested funds earned an average rate of return of 1.91% and funds held for daily cash flow needs earned an average rate of return of 0.42%; the overall average was therefore 1.49%. A comparable performance indicator is the Sterling Overnight Index Average (SONIA) for 2022-23 which was 2.26%. The Council's approach to investments is security first, liquidity second, and yield last. The Council is has limited access to higher interest opportunities due to the relatively low principle available, counterparty limits, and short time frames that investments can be placed for.

The total usable reserves, balances and provisions held at 31 March 2023 of £31.1m were resourced by:

- £30m held in short term investments with 2.94% average interest rate and average life under 10 months
- A current bank account balance of £1.1m

There were no investments beyond 364 days and the investments held at the year-end will all mature by the 13 December 2023.

### **Prudential and Treasury Indicators**

During 2022-23 the Council complied with all legislative and regulatory requirements.

In addition to the Capital Financing Requirement, the key prudential and treasury indicators detailing the impact of capital activities during the year are as set out in the following table:

<b>2021-22 Actual</b>		<b>2022-23 Budget</b>	<b>2022-23 Actual</b>
£3.2m	Capital expenditure – General Fund	£18.8m	£7.8m
£2.1m	Capital expenditure - HRA	£2.1m	£2.2m
<b>£5.3m</b>	<b>Total capital expenditure</b>	<b>£20.9m</b>	<b>£10.0m</b>
£13.4m	External debt – General Fund	£13.4m	£13.4m
£21.1m	External debt – HRA	£20.1m	£20.1m
<b>£34.5m</b>	<b>Total gross borrowing</b>	<b>£33.5m</b>	<b>£33.5m</b>
(£32.0m)	Investments – all under a year	(£24.5m)	(£29.0m)
(£18.6m)	Net debt – General Fund	(£11.1m)	(£15.6m)
£21.1m	Net debt – HRA	£20.1m	£20.1m
<b>£2.5m</b>	<b>Total net borrowing</b>	<b>£9.0m</b>	<b>£4.5m</b>

The lower capital expenditure on General Fund when compared to the original budget comes from the significant in-year reprofiling of Town Deal and Levelling Up Fund programmes.

In order to ensure that borrowing levels are prudent over the medium term, the Council's external borrowing must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Gross borrowing should not exceed the 2022-23 Capital Financing Requirement, plus the expected changes for the next two years; this allows the Council some flexibility to

borrow in advance of the immediate capital need. The gross borrowing of £33.5m is below the 2022-23 Capital Financing Requirement of £33.7m.

The authorised limit is the affordable borrowing limit required by section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level and has not done so. The operational boundary is the expected borrowing position of the Council during the year; periods where the actual position is above the boundary is acceptable.

The borrowing limits for 2022-23 are shown in the following table:

	<b>General Fund</b>	<b>HRA</b>	<b>Council</b>
Authorised limit	£18.5m	£36.4m	£54.9m
<i>Maximum gross borrowing</i>	<i>£13.4m</i>	<i>£21.1m</i>	<i>£34.5m</i>
Operational boundary	£14.1m	£23.1m	£37.2m
<i>Average gross borrowing</i>	<i>£13.4m</i>	<i>£20.6m</i>	<i>£34.0m</i>

The financing costs as a proportion of net revenue stream indicates the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream:

<b>2021-22 Actual</b>		<b>2022-23 Budget</b>	<b>2022-23 Actual</b>
6%	General Fund	11%	3%
15%	Housing Revenue Account	14%	15%

For 2022-23 the General Fund percentage is much lower than the budget estimate. This is due to significant additional external interest earned on temporary surplus funds, and additional COVID-19 Business Rate reliefs. When excluding these items, for comparative purposes, the General Fund financing costs as a proportion of net revenue stream would be 10% for 2022-23.

### **Exposure**

The Council had no exposure to variable rates in 2022-23 as all debts and investments were held at fixed rates. The limit for exposure to fixed rates is up to 100% of the portfolio; up to 30% for variable rates.