2022-2023 Annual Treasury Management Report

1. Introduction

1.1. The Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management report including a review of activities and the actual Prudential and Treasury Indicators for 2022/23.This report meets the requirements of both the Chartered Institute of Public Finance and Accounting (CIPFA) Code of Practice in Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

1.2. The report includes:

- Capital Activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement, CFR);
- Reporting of the required prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Review of debt and investment activity.

1.3. During 2022/23 the Council complied with its legislative and regulatory requirements. Detailed reports have been presented to Overview and Scrutiny Committee, Cabinet and Council throughout the year as part of the Quarterly Corporate Financial Reports.

1.4. Table 1 below provides a summary of the key data for 2022/23:

Table 1: Capital Expenditure, Capital Financing Requirement and Cash Resources

	See also table	2021/22 Actual £000	2022/23 Feb 22 estimate £000	2022/23 Actual £000
Capital expenditure	2	10,875	15,836	6,938
Capital Financing Requirement (CFR)	3	24,043	24,677	25,001
External debt	4,5,6	12,800	24,677	12,800
Total Investments (inc. call accounts)	7,8	25,750	22,358	22,324

2. Capital Expenditure and Financing 2022/23

2.1. The Council incurs capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need;
- Un-financed capital expenditure which leads to an increase in the Council's CFR. This increases the Minimum Revenue Provision (MRP see 2.6) charged to the revenue account to ensure that resources are set aside to pay for the asset over its useful life.

2.2. Table 2 below shows the actual capital expenditure and how this was financed.

Table 2: Capital expenditure and financing.

	2021/22 Actual £000	2022/23 Feb 22 estimate £000	2022/23 Feb 23 estimate £000	2022/23 Actual £000
Capital expenditure	**10,875**	**15,836**	**12,385**	**6,938**
Resourced by:				
· Capital receipts	5,589	2,751	2,155	753
· Capital grants	314	7,751	6,174	3,328
· Revenue Reserves	1,181	3,504	1,841	910
Unfinanced capital expenditure	**3,791**	**1,830**	**2,215**	**1,947**

2.3. Detailed explanations of the variances were included within the 2022/23 Revenue and Capital Budget Monitoring Reports: Provisional Outturn report to Cabinet on 11th July 2023. Most of the underspend relates to timing adjustments, with requests to carry forward budgets to 2023/24 and onwards. Many schemes are delivered through partnerships with third party organisations and it has taken longer than anticipated to get schemes under way. There are also significant lead-in times for the delivery of larger specialist vehicles e.g. refuse collection vehicles.

2.4. The CFR represents the Council's underlying need to borrow for capital expenditure. It increases when the Council incurs capital expenditure and reduces as resources are applied to capital expenditure.

2.5. The CFR is the cumulative unfinanced capital expenditure which has not yet been 'paid for'. It can be understood in terms of an outstanding 'mortgage' balance on the Council's non-current assets.

2.6. There are statutory controls in place to ensure that the cost of capital assets is charged to revenue over the life of the assets. This is the annual MRP charge.

2.7. The total CFR can also be reduced by:

- The application of additional capital financing resources (such as unapplied capital receipts); or
- Charging more than the statutory minimum revenue charge each year through a Voluntary Revenue Provision (VRP)

2.8. The Council's 2022/23 MRP Policy (as required by MHCLG guidance) was approved as part of the Treasury Management Strategy Report for 2022/23 on 22nd February 2022.

2.9. The Council's CFR for the year is shown in Table 3, and represents a key prudential indicator.

Table3: CFR Movement

CFR	2021/22 Actual £000	2022/23 Feb 22 estimate £000	2022/23 Feb 23 estimate £000	2022/23 Actual £000
Opening balance	21,227	24,118	24,043	24,043
Add unfinanced capital expenditure (as above)	3,791	1,830	2,215	1,947
Less MRP	(975)	(1,271)	(989)	(989)
Closing balance	24,043	24,677	25,269	25,001

3. Borrowing

3.1. A key prudential indicator is to compare the level of gross debt against the CFR. Gross debt should not exceed the CFR in the medium term in order to remain prudent and to ensure revenue activities are not being funded by borrowing. Table 4 highlights the Council's gross borrowing position against the CFR and shows that the Council has complied with this prudential indicator.

Table 4: Gross Debt v CFR

	31 March 2022 £000	31 March 2023 £000
Gross Debt	12,800	12,800
CFR	26,860	25,001
Over / (under) borrowing	(14,060)	(12,201)

3.2. During 2022/23, the council maintained an under-borrowed position increasing from £14.0m to £12.2m. This means that the capital borrowing need, the CFR, was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as the overall borrowing need of the new Westmorland and Furness Council had not been established and it was deemed prudent not to increase borrowing prior to vesting day which may be at relatively higher rates when the overall borrowing and investment needs were established.

3.3. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However this was, and will continue to be, kept under review to avoid incurring higher borrowing costs in the future when the Council is unlikely to be able to avoid new borrowing to finance capital expenditure.

3.4. The Public Works Loans Board (PWLB) lends government money to other public bodies and is the Council's main source of borrowing.

3.5. In order to access PWLB borrowing Councils need to complete an annual return splitting the capital programme for the current year and next three years between the following six categories

- Service Spending
- Housing
- Economic Regeneration
- Preventative Action
- Treasury Management
- Investment assets bought primarily for yield.

If the Council has any capital scheme which falls into the last category investment assets bought primarily for yield, then they will be unable to access PWLB funding.

What category a scheme falls into is determined by the Council's Section 151 Officer.

3.6. There are strict criteria which schemes have to meet to fall into each category, with the last category being the catch all category. A full review of the capital programme was completed and the Council currently had no schemes that were deemed to fall into the final category, Investment assets brought primarily for yield. As a result, if conditions had been right, the Council would have been able to access the PWLB for borrowing.

3.7. Included in the Prudential Code are a number of other indicators for debt, the levels for which are shown in Table 5

Table 5: Summary of Debt and Debt Indicators

	2021/22 £000	2022/23 £000
Actual Maximum gross borrowing position	12,800	12,800
Authorised limit	34,800	32,316
Operational boundary	31,615	25,300
Estimate of Financing Costs : Net revenue stream (Feb 22 estimate)	10.67%	13.85%
Actual of Financing Costs : Net revenue stream	9.28%	4.53%

3.8. The Authorised limit; is the "affordable borrowing limit" required by section 3 of the Local Government Act 2003. This is the level of debt that while not desirable, could be afforded in the short term, but is not sustainable in the longer term. Once set the Council does not have the power to borrow above the authorised limit.

3.9. The Operational Boundary; is the limit beyond which external debt is not normally expected to exceed. This is set at a level consistent with the borrowing need (CFR) plus an allowance for unexpected expenditure.

3.10. As demonstrated in Table 5 the council has maintained gross borrowing within both its authorised limit and operational boundary for 2021/22.

3.11. The ratio of financing costs to net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income). This shows the percentage amount of the net revenue stream which is spent before the Council provides any services. For 2022/23 the actual was 4.53%, which came in below estimates for the year, due to no increase in borrowing and hence interest payable.

3.12. In addition to the previously mentioned indicators for debt it is also important to be aware of the maturity structure of borrowing and limits places on fixed and variable rate debt. These are shown in Table 6 below.

Table 6 Maturity Structure of Debt and Limits on Fixed and Variable rate debt.

	31 March 2022 Actual	31 March 2023 Approved	31 March 2023 Actual
Fixed Interest Borrowings:			
Under 12 months	0.00%	Up to 25%	0.00%
12 Months to 2 Years	0.00%	Up to 25%	0.00%
2 - 5 Years	0.00%	Up to 25%	0.00%
5 to 10 years	0.00%	Up to 100%	0.00%
10 to 20 years	0.00%	Up to 100%	0.00%
20 to 30 Years	6.25%	Up to 100%	53.13%
30 to 40 Years	93.75%	Up to 100%	46.88%
40 years plus	0.00%	Up to 100%	0.00%
	100.00%		**100.00%**
Limits on Borrowing at	**£m**	**£m**	**£m**
Fixed rate	12.8	30.0	12.8
Variable rate (maturing<1 year)	0.0	0.0	0.0

4. Investments

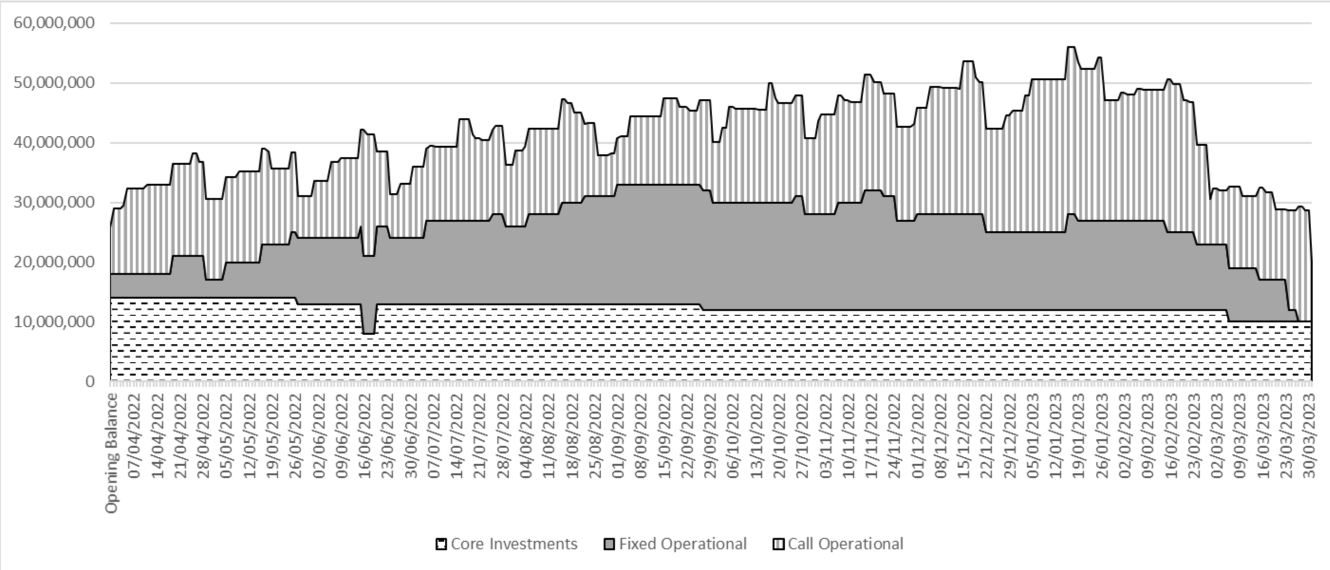
4.1. The Council's investments are all managed in house by the Council's finance team, with the objective to manage risk to ensure the security of investments and maintain adequate liquidity for revenue and capital activities. Procedures and controls to achieve this are well established both through member reporting and officer activity detailed in the Council's Treasury Management Practices.

4.2. At the beginning and end of 2022/23 the Council's investment position was as follows:

Table 7 Investment Position

	31 March 2022 Principal £000	Rate/ Return %	31 March 2023 Principal £000	Rate/ Return %
Call Accounts	7,750	0.08%	12,324	3.33%
Cash Flow (Operational)	4,000	0.08%	0	0%
Core Cash	14,000	0.11%	10,000	2.13%
Total Investments	**25,750**	**0.09%**	**22,324**	**2.79%**

4.3. Chart 1 shows how investment balances have fluctuated over the course of the year.



4.4. Investment returns increased significantly during 2022/23 with the Bank of England Bank Rate increasing from 0.75% to 4.5% over the year. As a result income from return on the investment of £824k exceeded the original budget of £40k by £784k.

4.5. While the call accounts outperformed the related benchmark rates, both Core Cash and Operational Cash performance was below the benchmark rate. This is mainly due to interest rates increasing very rapidly while these investment were at fixed rates for longer periods. While that strategy had served well during periods of static interest rates it results in underperformance during rapid increases in rates.

Table 8 Investment Performance

	Average Interest Rate	Benchmark	Variance
Call Accounts	2.70%	2.23%	0.47%
Cash Flow (Operational)	2.14%	2.72%	-0.58%
Core Cash	1.19%	3.11%	-1.91%

Non-Treasury Investments

4.6. During 2021/22 the Council carried out a review of all properties carried as investment properties against the latest guidance. As a result 14 properties are no longer classified as investment properties, as they are not held primarily for yield or capital gains and are rented at market or near market rents.

4.7. Investment properties are defined for accounting purposes as priories head primarily for yield or capital gains and which are rented at market or near market rents. The Council owned 10 properties which were classified as investment properties, of which 5 are retail properties, 4 miscellaneous commercial property and 1 trading/industrial site. These properties are:

Brogden Street offices, Ulverston
24 Main Street Kirkby Lonsdale (former TIC)
Ice Cream Kiosk Site, Waterhead
Kiosk Site, Braithwaite Fold, Bowness
Vending Site, Ferry Nab, Bowness
Promenade Café, Grange
Retail Property Finkle Street, Kendal
Caravan Site, Braithwaite Fold, Bowness
Garage Dowkers Lane Kendal
Industrial Site North Lonsdale Road, Ulverston

4.8. These have a combined fair value of £2.532m and are all within the boundaries of SLDC. After expenses the Council earned £104k income from occupiers compared to £119k for the same properties in 2021/22. This gives a return on investments of 4.11% in 2022/23 compared to 4.67% in 2021/22. This is mainly as a result of the caravan site re-opening later than expected so the profit share was less than expected.

5. Conclusions

5.1. The Council has operated in line with its Treasury and Prudential Indicators and overall investments return has come in on budget and the majority of the portfolio has performance over benchmark investment rates.

5.2. The capital programme out-turn has led to no new borrowing being required as cash reserves have been used to fund capital. The borrowing position will continue to be kept under review.