

Cumbria County Council's Treasury Management Activity 2022/23

1.0 Introduction

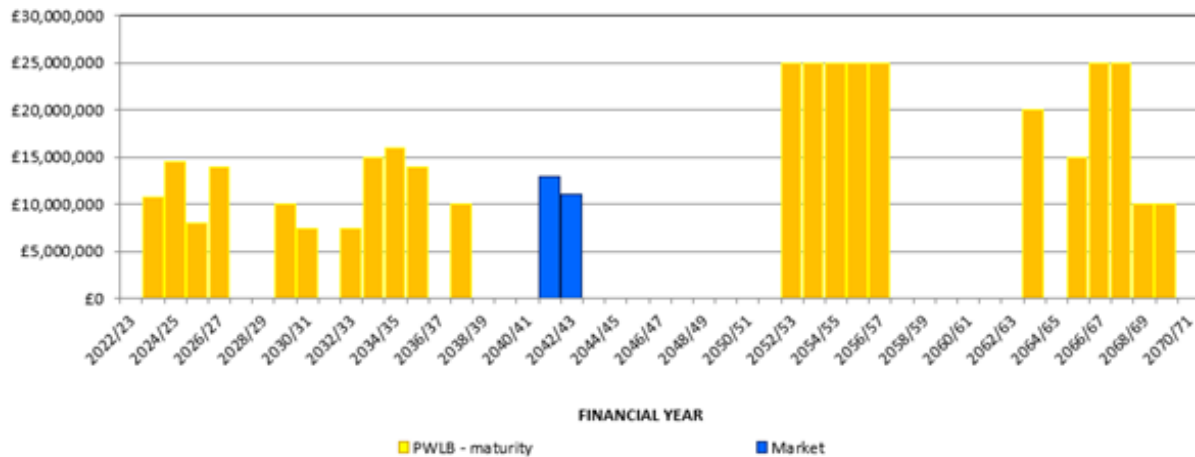
- 1.1 The economic and financial environment in which Cumbria County Council's treasury operations were undertaken remained challenging but increasing interest rates throughout the year provided opportunity for increased yield throughout 2022/23. As such, it was considered appropriate for Cumbria County Council ('the Council') to continue to take a risk aware and prudent approach to its Treasury Strategy during 2022/23. The Council's approach and the outcomes of it are set out in the following sections below:
- Section 2 – Debt Management (Borrowing)
 - Section 3 – Investment Portfolio
 - Section 4 – Training & Advisors
 - Section 5 – Compliance with Treasury Limits

2.0 Debt Management (Borrowing)

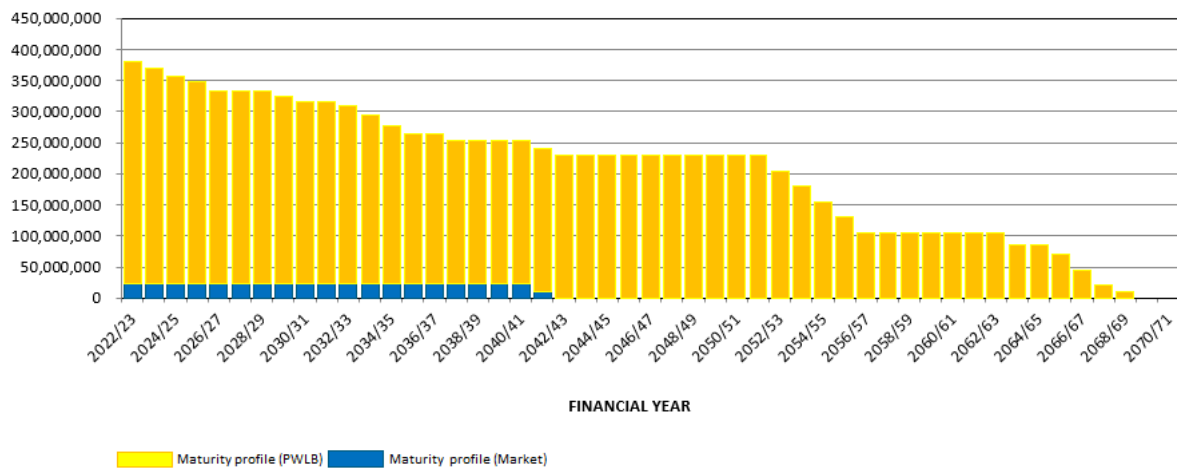
- 2.1 The Treasury Management function ensures that the County Council's cash was managed in accordance with the relevant professional codes and that sufficient cash was available to fund those plans. This involved both the organisation of the cash flow and, where capital plans required, the organisation of appropriate borrowing facilities. The Prudential Code only permits the Council to borrow in the long term to finance capital spend. In accordance with this the County Council's Borrowing Strategy detailed the Council's approach to funding the expected need detailed in the Capital Programme.
- 2.2 The Strategy for 2022/23 agreed in February 2022 was to continue using cash balances for internal borrowing whilst possible, but to also make tactical decisions to take new external borrowing (which has previously been approved by the Council to fund schemes in the capital programme) where considered appropriate in order to protect against higher interest rates in the future.
- 2.3 No new long-term borrowing has been undertaken in 2022/23 and one loan of £5m matured during the year. In recognition that the ability to defer borrowing is limited by the actual use of reserves and balances (i.e. available cash) this was kept under close review throughout the year. Such arrangements are in place for each of the new Councils to ensure that any new borrowing arrangements are made appropriately and in a timely manner.
- 2.4 Details of the County Council's debt maturity and interest rates are presented further below. Details of the disaggregation of the County Councils debt portfolio between Cumberland Council and Westmorland & Furness Council has been agreed by the new Councils and is reported within each Council's respective Treasury Management Strategy Statement.

Long term borrowing (Debt Portfolio) at 31 March 2023

Maturity Profile of Individual Loans:



Total Loan Duration:



Key: Dark colour = Market Loans (LOBO's), medium colour = Public Works Loans Board (PWLB)

Note: Lender Option Borrower Options (LOBOs) are long term 'market loans' (i.e. a loan from a bank for a fixed period repaid at maturity). The interest rates in the initial periods of these loans are at a discount to the market rate. The lender has the option to change the terms, at which point the Council has the option to repay the loan early. Due to this, the loans are classed as 'variable' rate. The costs of early repayment have been reviewed and penalties for re-financing are currently prohibitive.

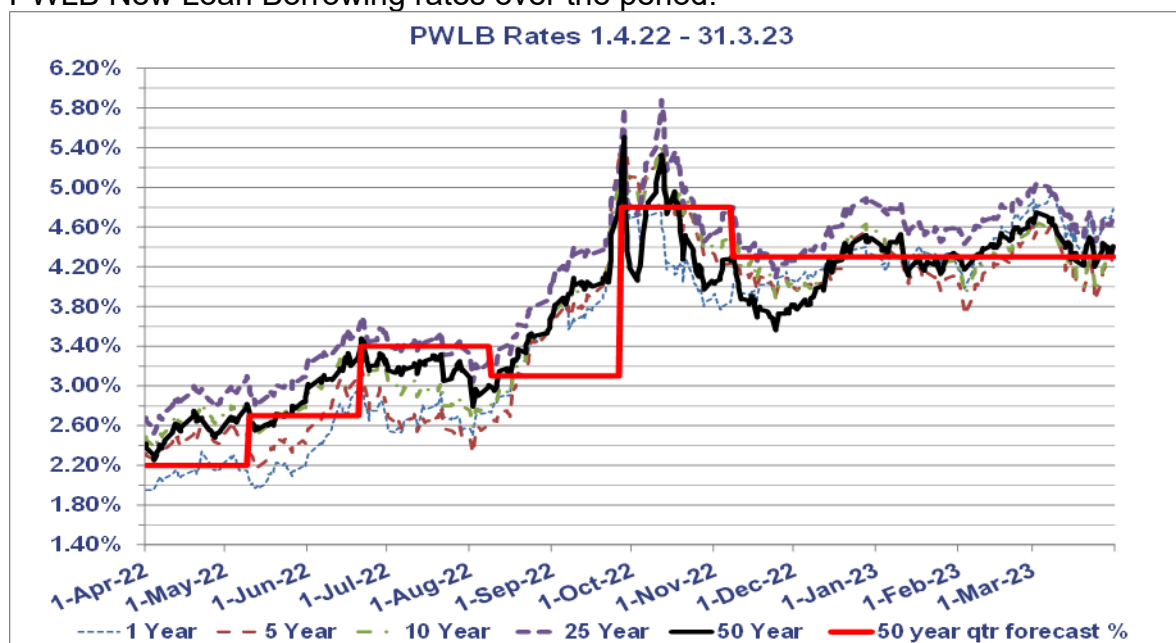
The LOBOs taken out between 2002 and 2003 total £24m (6.3%) of the Council's total long term borrowing as at 31 March 2023.

Debt portfolio detail at 31 March 2023:

Lender	Original Loan Start Date	Maturity Date	Principal	Interest Rate
P W L B	24-Dec-97	15-May-23	5,700,000	6.25
P W L B	04-May-95	15-Nov-23	5,000,000	8.50
P W L B	24-Sep-98	15-May-24	9,500,000	5.00
P W L B	04-May-95	15-Nov-24	5,000,000	8.50
P W L B	14-Nov-01	14-Nov-25	3,000,000	4.50
P W L B	29-May-03	15-Nov-25	5,000,000	4.45
P W L B	14-Nov-01	13-Nov-26	14,000,000	4.50
P W L B	04-Sep-19	01-Sep-29	10,000,000	1.21
P W L B	22-Oct-18	22-Oct-30	7,500,000	2.50
P W L B	22-Oct-18	22-Oct-32	7,500,000	2.60
P W L B	27-Aug-10	27-Aug-33	15,000,000	3.92
P W L B	20-Dec-04	15-May-34	16,000,000	4.50
P W L B	19-May-05	15-May-35	14,000,000	4.50
P W L B	10-Dec-07	15-Nov-37	10,000,000	4.49
FMSWERTM	25-Jan-02	27-Jan-42	13,000,000	4.73
FMSWERTM	31-Jan-03	30-Jan-43	11,000,000	4.45
P W L B	25-Jan-07	15-May-52	25,000,000	4.25
P W L B	25-Jan-07	15-May-53	25,000,000	4.25
P W L B	25-Jan-07	15-May-54	25,000,000	4.25
P W L B	25-Jan-07	14-May-55	25,000,000	4.25
P W L B	08-Mar-07	15-May-56	25,000,000	4.25
P W L B	10-Jun-19	10-Jun-63	20,000,000	2.16
P W L B	22-Oct-18	22-Oct-65	15,000,000	2.67
P W L B	28-Mar-18	28-Mar-67	25,000,000	2.32
P W L B	28-Mar-18	28-Mar-68	25,000,000	2.32
P W L B	31-May-18	31-May-68	10,000,000	2.25
P W L B	04-Sep-19	01-Sep-69	10,000,000	1.67
			381,200,000	3.77

Note: The FMSWERTM borrowing above relates to market loans with FMS Wertmanagement Bank Germany. Initially taken from Depfa Bank Plc (Dublin) and subsequently transferred by the lender to FMS.

PWLB New Loan Borrowing rates over the period:



- 2.5 PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. A prohibition denies access to borrowing from the PWLB for any local authority purchasing assets primarily for yield (i.e. commercial projects, particularly property investment).
- 2.6 Any change in rates for new loans does not affect the existing borrowing that the Council has through the PWLB as the rates are fixed to maturity.
- 2.7 No new long-term borrowing has been undertaken during 2022/23 as the strategy has been to defer external borrowing. One existing loan for £5m matured in November 2022, and no new borrowing was taken to replace it. This reduced the average rate on the remaining debt portfolio from 3.83% to 3.77%.

CAPITAL FINANCING REQUIREMENT (CFR)

- 2.8 The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from temporary internal cash balances (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions and the level of cash balances.

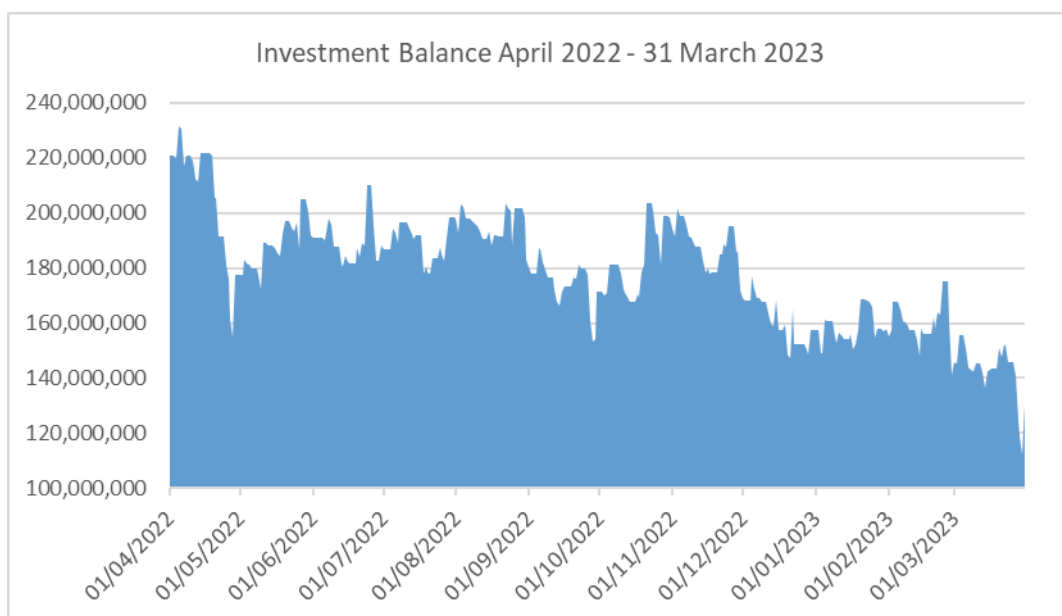
External & Internal borrowing and the Capital Financing Requirement (CFR)

	Unaudited 31/03/2023 £m	Actual 31/03/2022 £m
Capital Financing Requirement (CFR)	561.4	556.0
PFI Liabilities	(108.9)	(110.9)
Over/(under) borrowed i.e. Internal Borrowing	(71.3)	(58.9)
Total = External Borrowing	381.2	386.2

- 2.9 As at 31 March 2023, the Council's estimated capital financing requirement (CFR) for 2022/23 was £561.4m. The increase of £5.4m from the CFR as at 31 March 2022 (£556.0m reported to Council in September 2022), reflects the outcomes for actual spend on the 2022/23 Capital Programme (new schemes in the year due to be funded by prudential borrowing were more than the MRP charge for the year).
- 2.10 The estimated level of internal borrowing as at 31 March 2022 was £71.3m.

3.0 Investment Portfolio 2022/23

- 3.1 In accordance with the Code, it is the County Council's priority to ensure security of capital and liquidity, and then to obtain an appropriate level of return which is consistent with the Council's risk appetite.
- 3.2 The Council's cash balances decreased from £217.4m at 31 March 2022 to £131.0m at 31 March 2023.
- 3.3 As previously reported, expectations had been that the Council's cash balances would reduce over the year, with key drivers being:
- The upfront payment in April 2022 for the Council's 2022/23 Local Government Pension Scheme employer pension contribution (£33.6m), enabling the Council to take a discount for early payment which has benefited the Council's Revenue Budget and was assumed within the Base Budget;
 - The spending of COVID-related funding received as a mix of temporary and upfront grants;
 - The receipt and spending of monies received to support the costs of transitioning through the local government reorganisation process; and
 - Payments for ongoing capital works which continued throughout 2022/23.
- 3.4 The Council also received a number of upfront grants relating to ongoing and new capital programmes. The cash balance therefore incorporated the remaining balance of those grants due to be spent during 2022/23 and beyond.
- 3.5 The average level of funds available for investment purposes was £178.2m (highest balance £231.5m, lowest balance £112.1m, as shown in the following chart). These funds were available on a temporary basis, and the level of funds available is normally dependent on the timing of council tax receipts, precept payments, receipt of grants and progress on the Capital Programme.



- 3.6 The Council's investment strategy is to first provide security and adequate liquidity, before considering optimising investment return. The aim is for an appropriate balance of instant access, short-term investments (paying lower rates) and longer, three to twelve month deposits (earning higher rates). The Council is committed to this policy, but it must be acknowledged that it lowers the potential interest rates available.
- 3.7 During most of the year there was an expectation that the base rate would rise. The strategy in reaction to this was to look to place fixed rate deposits for surplus cash earning positive returns, whilst maintaining a high level of security on the whole investment portfolio. As these deposits matured, they were replaced with higher earning deposits.
- 3.8 The Council's average investment rate as at 31 March 2023 was 4.16%, which reflects the blend in the portfolio from investments held in instant access accounts used for daily liquidity but with low returns, and the fixed term investments with a longer maturity, returning up to a rate of 4.63% (arranged in February 2023).
- 3.9 The Council's investment portfolio and average interest rate as at 31 March 2023 is shown below. The disaggregation of this investment portfolio between Cumberland Council and Westmorland and Furness Council has been agreed and is detailed within each Council's respective Treasury Management Strategy Statement.

Credit Limit Group / Counterparty	Country	Credit Rating	Deposit Type	Start Date	Maturity Date	Interest Rate (%)	Principal (£)
LOCAL AUTHORITY (20% MAX, UP TO 2 YRS)							
ABERDEEN CITY COUNCIL	UK	AA-	Term Dep	08/12/2022	08/05/2023	3.48	2,500,000
ABERDEEN CITY COUNCIL	UK	AA-	Term Dep	08/12/2022	08/05/2023	3.48	2,500,000
DORSET COUNCIL	UK	AA-	Term Dep	27/02/2023	29/08/2023	4.40	5,000,000
LB OF WALTHAM FOREST	UK	AA-	Term Dep	28/02/2023	29/08/2023	4.40	5,000,000
STIRLING COUNCIL	UK	AA-	Term Dep	03/03/2023	28/09/2023	4.54	5,000,000
EAST DUNBARTONSHIRE COUNCIL	UK	AA-	Term Dep	03/03/2023	26/09/2023	4.54	5,000,000
YELLOW (£20m MAX)							
ABERDEEN MMF	UK	AAA	MMF*			4.05	5,200,000
BNP PARIBAS MMF	UK	AAA	MMF*			4.20	11,000,000
DEUTSCHE PLATINUM MMF	UK	AAA	MMF*			4.16	18,800,000
FEDERATED LIQUIDITY MMF	UK	AAA	MMF*			4.09	9,000,000
BLUE (£25m MAX, UP TO 1 YEAR)							
NATWEST LIQUIDITY ACCOUNT	UK	A+	Instant			1.00	2,000,000
NATWEST FIXED TERM DEPOSIT	UK	A+	Term Dep	09/02/2023	31/10/2023	4.34	5,000,000
ORANGE (£20m MAX, UP TO 1 YEAR)							
AUSTRALIA AND NEW ZEALAND BANK	AUS	A+	Term Deposit	06/01/2023	03/10/2023	4.63	5,000,000
AUSTRALIA AND NEW ZEALAND BANK	AUS	A+	Term Deposit	03/02/2023	03/11/2023	4.43	5,000,000
HELEBA - LANDESBANK HESSEN THURINGEN	UK	A+	Term Deposit	13/12/2022	13/06/2023	4.02	5,000,000
HELEBA - LANDESBANK HESSEN THURINGEN	UK	A+	Term Deposit	20/12/2022	29/09/2023	4.23	5,000,000
RED (£15m MAX, UP TO 6 MTHS)							
GOLDMAN SACHS INTERNATIONAL BANK	UK	A+	Term Deposit	16/02/2023	16/08/2023	4.15	5,000,000
LLOYDS BANK CORPORATE MARKETS	UK	A+	Term Deposit	05/01/2023	15/05/2023	4.09	5,000,000
LLOYDS BANK CORPORATE MARKETS	UK	A+	Term Deposit	05/01/2023	30/06/2023	4.31	5,000,000
NATIONAL BANK OF CANADA	CAN	A+	Term Deposit	25/01/2023	14/07/2023	4.24	5,000,000
NATIONAL BANK OF CANADA	CAN	A+	Term Deposit	25/01/2023	24/07/2023	4.26	5,000,000
BAYERISCHE LANDESBANK	GERMANY	A-	Term Deposit	22/02/2023	22/08/2023	4.35	5,000,000
SANTANDER UK	UK	A+	Term Deposit	12/01/2023	12/07/2023	4.05	5,000,000
*Money Market Fund (instant access)		Average Rate and Total Investments				4.16	131,000,000

3.10 New deals arranged in the period 1st April 2022 to 31st March 2023 are shown below:

Counterparty	Start Date	Maturity Date	Amount	Rate %
AUSTRALIA AND NEW ZEALAND BANK	06/04/2022	06/01/2023	5,000,000	1.68
LANDESBANK HESSEN-THURINGEN LONDON	06/04/2022	06/10/2022	5,000,000	1.29
AUSTRALIA AND NEW ZEALAND BANK	04/05/2022	03/02/2023	5,000,000	1.99
LLOYDS BANK CORPORATE MARKETS	11/05/2022	11/11/2022	5,000,000	1.55
BAYERISCHE LANDESBANK	11/05/2022	12/09/2022	5,000,000	1.23
BAYERISCHE LANDESBANK	20/05/2022	22/08/2022	5,000,000	1.23
STANDARD CHARTERED BANK - SUSTAINABLE	27/05/2022	25/11/2022	10,000,000	1.59
GOLDMAN SACHS INTERNATIONAL BANK	30/05/2022	30/08/2022	5,000,000	1.13
LANDESBANK HESSEN-THURINGEN LONDON	13/06/2022	13/12/2022	10,000,000	1.87
LLOYDS BANK CORPORATE MARKETS	22/06/2022	22/12/2022	10,000,000	2.16
GOLDMAN SACHS INTERNATIONAL BANK	12/07/2022	12/12/2022	5,000,000	2.08
SANTANDER UK	12/07/2022	12/01/2023	5,000,000	2.04
NATIONAL BANK OF CANADA	25/07/2022	25/01/2023	10,000,000	2.37
AUSTRALIA AND NEW ZEALAND BANK	04/08/2022	03/03/2023	10,000,000	2.52
GOLDMAN SACHS INTERNATIONAL BANK	17/08/2022	16/02/2023	5,000,000	2.725
BAYERISCHE LANDESBANK	22/08/2022	22/02/2023	5,000,000	2.82
WEST DUNBARTONSHIRE COUNCIL	26/08/2022	27/02/2023	5,000,000	2.45
GOLDMAN SACHS INTERNATIONAL BANK	30/08/2022	28/02/2023	5,000,000	3.085
BAYERISCHE LANDESBANK	12/09/2022	10/03/2023	5,000,000	3.28
NATIONAL WESTMINSTER BANK	26/09/2022	27/03/2023	10,000,000	4.35
SANTANDER UK	29/09/2022	29/03/2023	5,000,000	4.32
STANDARD CHARTERED BANK - SUSTAINABLE	30/09/2022	30/03/2023	5,000,000	4.54
LANDESBANK HESSEN-THURINGEN LONDON	06/10/2022	06/03/2023	5,000,000	3.92
NATIONAL WESTMINSTER BANK	28/10/2022	27/03/2023	5,000,000	3.6
LLOYDS BANK CORPORATE MARKETS	11/11/2022	10/02/2023	5,000,000	3.58
ABERDEEN CITY COUNCIL	08/12/2022	09/05/2023	2,500,000	3.48
ABERDEEN CITY COUNCIL	08/12/2022	09/05/2023	2,500,000	3.48
LANDESBANK HESSEN-THURINGEN LONDON	13/12/2022	13/06/2023	5,000,000	4.015
LANDESBANK HESSEN-THURINGEN LONDON	20/12/2022	29/09/2023	5,000,000	4.23
LLOYDS BANK CORPORATE MARKETS	05/01/2023	15/05/2023	5,000,000	4.09
LLOYDS BANK CORPORATE MARKETS	05/01/2023	30/06/2023	5,000,000	4.31
AUSTRALIA AND NEW ZEALAND BANK	06/01/2023	03/10/2023	5,000,000	4.63
SANTANDER UK	12/01/2023	12/07/2023	5,000,000	4.05
NATIONAL BANK OF CANADA	25/01/2023	14/07/2023	5,000,000	4.24
NATIONAL BANK OF CANADA	25/01/2023	24/07/2023	5,000,000	4.26
AUSTRALIA AND NEW ZEALAND BANK	03/02/2023	03/11/2023	5,000,000	4.43
NATIONAL WESTMINSTER BANK	09/02/2023	31/10/2023	5,000,000	4.34
GOLDMAN SACHS INTERNATIONAL BANK	16/02/2023	16/08/2023	5,000,000	4.145
BAYERISCHE LANDESBANK	22/02/2023	22/08/2023	5,000,000	4.35
DORSET COUNCIL	27/02/2023	29/08/2023	5,000,000	4.4
LB OF WALTHAM FOREST	28/02/2023	29/08/2023	5,000,000	4.4
EAST DUNBARTONSHIRE COUNC	03/03/2023	26/09/2023	5,000,000	4.54
STIRLING COUNCIL	03/03/2023	28/09/2023	5,000,000	4.54

- 3.11 The average investment returns achieved in the twelve-month period are noted in the following table:

Period	Benchmark Return % pa	Average Rate of Return achieved % pa	Out/(Under) Performance %
Year to 31/03/23	2.22%	2.07%	- 0.15%

- 3.12 As illustrated, the Council underperformed the benchmark, the SONIA (Sterling Overnight Index Average) 7 day compounded average, by 0.15% (15 basis points). Some under-performance would be expected for a reducing portfolio balance over the same period that rates were increasing.

4.0 Training and Advisors

- 4.1 Cumbria County Council ensured that any Officer involved in the operation of the treasury management function, received appropriate training relevant to their needs to ensure they fully understood their roles and responsibilities. During the year Treasury staff continued to attend regular courses and seminars provided through its advisors, Link Asset Services, its membership of the CIPFA Treasury Management Forum (TMF) Scotland and England, and other ad hoc events including treasury software supplier forums.
- 4.2 In addition to this training, the Director of Finance (S151 Officer) and Officers within the Finance Team received professional and technical advice from the Council's contracted external advisors, Link Asset Services.

5.0 Compliance with Treasury Limits

- 5.1 During the financial year, Officers operated within the treasury limits and Prudential Indicators agreed by the County Council in February 2022. The outturn for the prudential indicators is detailed below.

6.0 The Council's Prudential Indicators and Treasury Management Indicators 2022/23

Officers can confirm that all Treasury Management activities undertaken during 2022/23 were within the boundaries of the Prudential Indicators approved by Council in February 2022.

		2022/23 Revised Estimate*	2022/23 Original Estimate**
	PRUDENTIAL INDICATORS – Affordability	£.pp	£.pp
		£m	£m
1	Estimate of proposed capital expenditure	108.329	193.463
	Estimate of proposed capital expenditure to be funded by prudential borrowing	20.832	57.966
	The original and forecast capital expenditure (as included within the 2022/23 Budget Monitoring Outturn report) and amount of capital expenditure to be funded by prudential borrowing for 2022/23.		
2		£m	£m
	Capital Financing requirement (CFR) excluding PFI & other long term liabilities– the borrowing need	452.46	501.13
	Capital Financing requirement (CFR) including PFI & other long term liabilities– the borrowing need	561.36	609.89
	The Capital financing requirement indicator is a measure of the Council's underlying need to borrow for capital purposes.		
3a	Ratio of Finance costs to Net Revenue Stream exclusive of PPPI	%	%
		7.51	6.97
3b	Ratio of Finance costs to Net Revenue Stream Inclusive of PPPI		
		10.74	10.31
	This indicator shows the proportion of income received from grant and Council Tax that is spent on paying for the consequences of borrowing to fund capital borrowings.		

PRUDENTIAL INDICATORS - Prudence		2022/23 Approved Limit **	Revised limits proposed	2022/23 Actual
4	Authorised limit for external debt	£m	£m	£m
	Borrowing	543	no change	381
	Other Long term Liabilities	135	no change	109
	Total	678	no change	490
	This is the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit (Legal Limit) determined under section 3 (1) of the Local Government Act 2003.			
5	Operational Boundary for external debt	2022/23 Approved Limit **	Revised limits proposed	2022/23 Forecast Actual
		£m	£m	£m
	Borrowing	518	no change	381
	Other Long term Liabilities	125	no change	109
	Total	643	no change	490
	The Operational Boundary is based on the Council's prudent estimate of the maximum level of external debt. It is only a guide and may be breached temporarily on occasion without significant concern, due to variations in cash flow and/or interest rates. Any sustained or regular trend above the operational boundary will be investigated and action taken as appropriate.			

6 7	Upper Limit on Net Sums Borrowed	2022/23 Approved Limit ** £m	Revised limits proposed	2022/23 Actual at 31/03/23
		£m	£m	£m
	Fixed interest rates	518	no change	357
	Variable interest rates	100	no change	(107) ***
*** Net borrowing is negative as variable investments (£131m) exceed variable borrowing (£24m). All investments maturing within one year are classed as variable.				
The purpose of this indicator is to contain the Council's exposure to unfavourable movements in future interest rates. The indicators are expressed as Fixed Rate Debt less Fixed Rate Investments and Variable Rate Debt less Variable Rate Investments. The Council defines variable rate as including those instruments maturing within each year, as the replacement of those instruments will be subject to prevailing rates of interest.				

9	Upper limit for total principal sums invested for over 364 days (per maturity date)	Lower of £20m or 20% of the portfolio at any time during the financial year (Actual £0m)
The purpose of this indicator is to ensure that the Council has protected itself against the risk of loss arising from the need to seek early redemption of principal sums invested. Only core cash will be invested for periods greater than 1 year.		

10	Maturity Structure of fixed interest rate borrowing	Upper	Lower	Actual 31/03/23
	Under 12 months	30%	0%	3.0%
	12 months to 2 years	40%	0%	4.0%
	2 years to 5 years	40%	0%	7.5%
	5 years to 10 years	40%	0%	4.8%
	10 years and above	100%	30%	80.7%
	The maturity of borrowing is determined by the earliest date on which the lender can require payment. The indicator is designed to exercise control over the Council having large concentrations of fixed rate debt needing to be replaced at any one time.			

* 2022/23 Budget Monitoring Update reported to Westmorland & Furness Council Cabinet 11 July 2023

** 2022/23 Original Estimate as presented to Cumbria County Council 10 February 2022