Report to Cabinet

Subject: Annual Treasury Activity Report 2022/23

Date: 6 July 2023

Author: Financial Services Manager and Deputy S151 Officer

Wards Affected

All

Purpose

To inform Members of the outturn in respect of the 2022/23 Prudential Code Indicators, and to advise Members of the outturn on treasury activity, both as required by the Council's Treasury Management Strategy.

Key Decision

This is not a key decision.

Recommendation:

That:

1. Members approve the Annual Treasury Activity Report for 2022/23 and refer it to Full Council for approval, as required by the regulations.

1 Background

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

1.2 For 2022/23 the minimum reporting requirements were that the Full Council should receive the following reports:

- An Annual Treasury Management Strategy Statement (TMSS) in advance of the year. This was considered by Cabinet on 16 February 2022 and subsequently approved by Full Council on 2 March 2022.

- A Mid-Year Treasury Update report. In accordance with best practice, Members will note that, as in previous years, quarterly monitoring reports for treasury activity have been provided and that this exceeds the minimum requirements.

- An Annual Review following the end of the year describing the activity compared to the strategy. This report is in fulfilment of this requirement.

1.3 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. The Annual Treasury Activity Report provides details of the outturn position for treasury activities during the year, and highlights compliance with the Council's policies, previously approved by Members.

1.4 The Council has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by submitting them to Cabinet before they are reported to Full Council.

1.5 Member training on treasury management issues is undertaken by the Chief Financial Officer as it is needed in order to support Members' scrutiny role. In addition, the Council's treasury advisers, Link Asset Services (LAS), periodically deliver more detailed training sessions for Members at the request of the Chief Financial Officer.

2 Proposal

2.1 <u>Summary of the economy and interest rates during 2022/23</u>

2.1.1 Against a backdrop of inflationary pressures, the easing of Covid restrictions, the Russian invasion of Ukraine, and a range of different UK Government policies, UK interest rates have been volatile for all of 2022/23.

2.1.2 Market commentators' misplaced optimism around inflation has been the main cause of the turmoil in the bond markets. Central Banks are facing a challenging time as inflation is elevated but labour markets are extra-ordinarily tight, making it an issue of fine judgment as to how far monetary policy needs to tighten.

2.1.3 Quarter 2 of 2022 saw UK GDP deliver growth of +0.1%, but this was quickly reversed in the third quarter, some of the fall in GDP can be attributed to the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1%. Most recently, January saw a 0.3% (month over month) increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

2.1.4 Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October 2022, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

2.1.5 The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, however; in addition the UK labour force overall fell by C500k which be attributed to many economic participants registering as long-term sick (people on long term sick are classified as economically inactive and are not included in the unemployment figures despite being out of work). Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity. In addition with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% (year on year) in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

2.1.6 The Bank of England Base Rate increased significantly throughout 2022/23, starting at 0.75% and finishing at 4.25%.

2.1.7 In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for seven weeks that ran through September and October 2022. The markets did not respond well to the unfunded tax-cutting and heavy spending policies put forward by the Chancellor. Prime Minister Rishi Sunak and Chancellor Jeremy Hunt's Autumn Statement on the 17 November 2022 gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous administration, although they remain elevated in line with developed economies generally.

2.1.8 As noted above, GDP has been moderate throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, Euro Zone and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). It still remains unclear if a shallow recession or worse will be avoided. Ultimately, the Monetary Policy Committee will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the International Labour Organisation unemployment rate unchanged at 3.7% in January 2023. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

2.1.9 The economic analysts, "Capital Economics", expect real GDP to contract by around 0.2% (quarter to quarter) from Q1 2023/24 and forecast a recession in 2023/24 involving a 1.0% peak-to-trough fall in real GDP.

2.1.10 The Sterling/Pound (£) has remained resilient of late, recovering from a record low of $1.035 (US Dollar), on the Monday following the Truss government's "fiscal event", to $1.23. Notwithstanding the Sterling/Pound's (£) better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

2.1.1 As for equity markets, the FTSE 100 started 2023 strongly, rising to a record high of 8,014 on 20 February 2023, as resilient data and falling inflation boosted earnings. But global equities fell sharply after concerns over the health of the global banking system emerged early in March. The fall in the FTSE 100 was bigger than the drop in the US S&P 500. Indeed, at around 7,600 now, the FTSE is 5.2% below its record high on 20th February, while the S&P 500 is only 1.9% lower over the same period. This is despite UK banks having been less exposed and equity prices in the UK's financial sector not falling as far. It may be due to the smaller decline in UK interest rate expectations and bond yields, which raise the discounted value of future earnings, compared to the US.

2.2 The Council's overall Treasury position at 31 March 2023

The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security of investment, and to manage risks within all treasury management activities. At the beginning and end of 2022/23, the treasury position was as follows:

Treasury position:	1 April 2022 £000s	31 March 2023 £000s
Total external debt	10,812	10,812
Capital Financing Requirement (CFR)	11,662	12,621
Over/(under) borrowing to CFR	(850)	(1,809)
Total external debt	10,812	10,812
Total investments	(27,590)	(24,025)
Net debt/(investment)	(16,778)	(13,213)

Full details of the Council's borrowing and investments can be found at Appendix 1.

2.3 The Treasury Strategy for 2022/23

2.3.1 The expectation within the treasury strategy for 2022/23 (the TMSS) was that Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23. However, by August 2022 it had become clear that inflation was moving up towards 40-year highs, and the Bank of England engaged in monetary policy tightening at every Monetary Policy Committee meeting during 2022, and into 2023, either by increasing Bank of England Base Rate by 0.25% or 0.5% each time. Currently the CPI measure of inflation is still above 10% in the UK but is expected to fall back towards 4% by year end. Nonetheless, there remain significant risks to that central forecast.

2.3.2 Whilst the Council budgeted to take an additional £3.5m of new borrowing in 2022/23 to finance the capital programme, the treasury strategy was to maintain an under-borrowed position (i.e. postpone borrowing to avoid the cost of holding higher levels of investments at rates lower than the cost of the borrowing) where possible whilst ensuring that borrowing was not postponed to a point where undertaking it at higher rates would be unavoidable.

2.3.3 In the event, the actual level of capital expenditure in 2022/23 was lower than anticipated and this, in association with higher than expected cash balances, meant that no additional borrowing was required as opposed to the £3.5m originally planned. As set out in 2.1.6 above, there were eight increases in Bank of England Base Rate during 2022/23 rising from 0.75% to 4.25% which is in sharp contrast to the relative stable environment assumed when the TMSS was approved.

2.4 <u>The Council's Borrowing Requirement</u>

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR) and is a gauge of the Council's indebtedness.

The CFR results from the Council's capital activity, and the resources it uses to pay for that capital spending, and represents unfinanced expenditure that has not yet been paid for from revenue or other resources.

CFR:	1 April 2022 (Actual) £000s	31 March 2023 (Orig. Est-TMSS) £000s	31 March 2023 (Actual) £000s
Capital Financing Requirement	11,662	16,256	12,621

The significant 2022/23 variance on the CFR is due to deferrals and savings on the <u>2021/22</u> capital programme, both of which reduced the borrowing requirement in that year, and to amendments on the capital programme during <u>2022/23</u>, including the deferral of schemes to 2023/24.

2.5 <u>Borrowing rates in 2022/23</u>

As stated above Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August 2022 it had become clear that inflation was moving up towards 40-year highs.

Medium term fixed borrowing rates were expected to rise during 2022/23 and the two subsequent financial years whilst long term fixed borrowing rates were expected to increase gradually.

The following projections were provided by the Council's treasury advisers as at 31 January 2022 and were reported in the TMSS for 2022/23.

Link Group Interest Rate View	7.2.22											
	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	1.00	1.00	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25	1.25
3 month ave earnings	1.00	1.00	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20	1.20
6 month ave earnings	1.10	1.20	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30	1.30
12 month ave earnings	1.50	1.60	1.70	1.70	1.60	1.60	1.50	1.40	1.40	1.40	1.40	1.40
5 yr PWLB	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30	2.30
10 yr PWLB	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40
25 yr PWLB	2.50	2.50	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60	2.60
50 yr PWLB	2.30	2.30	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40	2.40

The Public Works Loans Board (PWLB) rates are based on, and determined by, UK Government Bond (gilts) yields plus a specified margin determined by HM Treasury. Gilt yields have been on a continual rise since the start of 2021, peaking in the autumn of 2022. Currently, yields broadly range between 3% and 4.25%. At the close of play on 31 March 2023, and gilt yields from 1 to 50 years were between 3.64% and 4.18%, with the 1 year being the highest and 6-7 years being the lowest yields.

There is likely to be fall in gilt yields and PWLB rates across the whole curve over the next one to two years as the Bank of England Base Rate rises to dampen inflationary pressures and a tight labour market. The rate is then likely to be cut as the economy slows, unemployment rises, and inflation (On the CPI measure) moves closer to the Bank of England's 2% inflation target rate.

As a general rule, short dated gilt yields will reflect expected movements in Bank Rate, whilst medium term to long-dated yields are driven by the inflation outlook. The table below shows the LAS forecasts for interest rates as at 27 June 2023 demonstrating the gradual fall of interest rates.

Link Group Interest Rate View	27.03.23											
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

2.6 <u>The Council's borrowing outturn for 2022/23</u>

2.6.1 There were no new loans taken out during 2022/23. No loans were redeemed during the year.

2.6.2 The Council did not borrow more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed, and will not do so.

2.6.3 Total outstanding debt at 31 March 2023 was £10.812m. All loans held are repayable on maturity and are at fixed rates.

2.6.4 There was no rescheduling of PWLB debt undertaken during the year due to the significant differential between PWLB new borrowing rates and premature repayment rates making such action unviable.

2.6.5 No temporary borrowing was arranged for cash-flow purposes during 2022/23.

2.7 Investment rates in 2022/23

Continued uncertainty in response to the economic impact of the war in Ukraine and the cost of living crisis led to a cautious approach to investment during 2022/23, despite increases in interest rates. Investment returns in general were significantly more favourable in 2022/23, when compared to 2021/22 when often the cost of placing funds exceeded the returns available for investing sums available on certain days.

2.8 The Council's Investment outturn for 2022/23

2.8.1 The Council's investment policy is governed by MHCLG guidance and implemented by the Annual Investment Strategy, which formed part of the TMSS approved by Council on 3 March 2022. This policy sets out the approach for selecting investment counterparties. For 2022/23 the Chief Financial Officer adopted the Link Asset Services (LAS) credit rating methodology, a sophisticated modelling approach utilising credit ratings from all three of the main rating agencies to give a suggested maximum duration for investments. Accordingly it does not place undue reliance on any one agency's ratings. The methodology subsequently applies an "overlay" to take account of positive and negative credit watches and/or credit outlook information, which may increase or decrease the suggested duration of investments. It then applies a second overlay based on the credit default swap spreads for institutions, the monitoring of which has been shown to give an early warning of likely changes in credit ratings. The methodology also incorporates sovereign ratings to ensure selection of counterparties from only the most creditworthy countries. The 2022/23 TMSS Strategy permitted the use of any UK counterparties, subject to their individual credit ratings under the LAS methodology. It also permitted the use of counterparties from other countries with a minimum sovereign rating of AA-.

2.8.2 Whilst credit ratings advice is taken from the treasury advisers, the ultimate decision on what is prudent and manageable for the Council is taken by the Chief Financial Officer under the approved scheme of delegation.

2.8.3 No changes to the TMSS for 2022/23 approved by Council on 3 March 2022 were made during the year.

2.8.4 The Council's investment priorities in 2022/23 remained the security of capital and good liquidity. Whilst the Council always seeks to obtain the optimum return (yield) on its investments, this is at all times commensurate with proper levels of security and liquidity. During the year it remained appropriate either to keep investments short–term to cover cash-flow needs, or to take advantage of fixed periods up to twelve months with a small number of selected counterparties.

During 2022/23, significant use was made of the Council's three Money Market Funds (MMFs). These are AAA rated investment vehicles which allow the pooling of many billions of pounds worth of assets into highly diversified funds, thus reducing risk. The equated rates of return achieved on these funds were between 0.5% and 4.1% and increased significantly from May 2022 following the increase in the Base Rate to 1% on 5 May 2022 to 4.25% on 23 March 2023.

2.8.5 An investment of £1m was made in the CCLA Local Authority Property Fund (LAPF) on 30 November 2017. This is a local government investment scheme approved by the Treasury under the Trustee Investments Act 1961 (section 11). The equated dividend for 2022/23 was 3.9% and this is treated as revenue income. The investment has allowed the Council to introduce a property element into its investment portfolio without the risks associated with the direct purchase of assets. The main risk around Property Funds is the preservation of the capital sum. However evidence suggests that over time the property market has been a positive long-term investment and it is accordingly anticipated that this investment will be held on a long-term basis to minimise any risk.

2.8.6 The property fund investment purchased a number of units, determined by the unit price on the entry date. This valued the initial investment of £1m at £936,770, setting the implied entry fee at £63,230, or 6.32%. The certified value of the property fund investment at 31 March 2023 was £912,738 (down from £1,092,898 at the end of March 2022) reflecting a loss in value of £180,160 during the 2022/23 year from. Following changes to accounting arrangements, all movements in the valuation of pooled investment funds must be charged to the Comprehensive Income and Expenditure account (CIES). However, a statutory override is in place for a period of five years to ensure that the impact of these on the General

Fund is neutralised. Accordingly the difference of £87,262 between the £1m investment and the certified 31 March 2022 value of £912,738 is held in the Pooled Investment Funds Adjustment Account.

2.8.7 Investment interest of £629,969 (including dividends of £38,903 on the property fund) was generated in the year, representing an equated rate of 2.18%.

2.8.8 Investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. Investment counterparty limits for 2022/23 were set in the TMSS at £3m, or £4m for Money Market Funds (due to them being by definition highly diversified investment vehicles). A limit of £3m was set for investments with the CCLA PSDF money market fund in recognition of the pre-existing property fund investment of £1m (ie. a total of £4m with the counterparty). A limit of £4m was set for investments with Santander as they offer the Council preferential rates on their 95 and 180 day notice accounts and provide 60 days notice of any change. No limit was set with the Debt Management Office as this represents investment with central government. The Chief Financial Officer has delegated authority to vary the limits as appropriate and to report any change to Cabinet at the next quarterly report. No changes to limits were reported during 2022/23.

2.8.9 The Annual Treasury Activity Report for the year ended 31 March 2023 is attached at Appendix 1 in accordance with the TMSS.

2.9 Compliance with Prudential and Treasury Indicators

2.9.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limit. The Council's approved Prudential and Treasury Indicators (affordability limits) are included in the Treasury Management Strategy Statement (TMSS) approved by Council on 3 March 2022.

2.9.2 During the financial year 2022/23 the Council has at all times operated within the Prudential and Treasury Management Indicators set out in the Council's TMSS, and in compliance with the Council's Treasury Management Practices. A summary of the outturn position at 31 March in respect of each of the 2022/23 Prudential and Treasury Management Indicators is shown at Appendix 2.

a) Prudential Indicators:

i) Capital Expenditure

Capital expenditure for 2022/23 totalled £4,698,574. This differs to the approved indicator of £6,461,300 due to the inclusion of approved carry forward requests from 2021/22 and variations to the capital programme during 2022/23 which include the deferral of schemes to 2023/24.

ii) Capital Financing Requirement (CFR)

The CFR represents the Council's historic outstanding capital expenditure which has not yet been paid for from capital or revenue resources, and is essentially a measure of the underlying borrowing need. It does not increase indefinitely since the minimum revenue provision (MRP) is a statutory annual revenue charge for the economic consumption of capital assets. The CFR totalled £12,621,240 at 31 March 2023. This differs to the approved indicator of £16,250,800 due to savings and deferrals on the 2021/22 capital programme, as well as to variations to the capital programme for 2022/23 including the deferral of schemes to 2023/24.

iii) Gearing ratio

The concept of gearing compares the total underlying borrowing need (the CFR) to the Council's total fixed assets, and can provide an early indication when debt levels are rising relative to long term assets held. The Council's gearing ratio at 31 March 2023 was 27% which is lower than the approved indicator of 35% due primarily to the deferral of capital expenditure to 2023/24 and remains broadly comparable with the average gearing ratio for councils of a similar size.

iv) Ratio of Financing Costs to Net Revenue Stream

These indicators identify the trend in the cost of borrowing, net of investment income, against the net revenue stream. Financing costs represent the element of the Council's expenditure to which it is committed even before providing any services.

The outturn of 3.88% for service related expenditure differs to the approved indicator of 9.76% due to a reduction in MRP arising from savings and deferrals on the capital programme in 2021/22; significant additional investment interest; and reduced direct revenue financing in 2022/23 due to the deferral of schemes to 2023/24.

v) Maximum gross debt

The Council must ensure that its gross debt does not, except in the short term, exceed the opening capital financing requirement, plus estimates of any additional CFR for 2021/22 and the following two financial years. This allows flexibility for early borrowing for future years, but ensures that borrowing is not undertaken for revenue purposes. Gross debt at 31 March 2023 was £10.812m which was well within the approved indicator.

vi) Ratio of internal borrowing to CFR

The Council is currently maintaining an "internal borrowing" position, ie. The underlying borrowing need (CFR) has not yet been fully funded with loan debt as cash supporting the Council's reserves and balances is being used as a temporary measure.

The outturn for internal borrowing is 14%, which differs to the approved indicator of 15% due to variations in the capital programme including the deferral of capital schemes to 2023/24. These variations reduce the outturn CFR, and hence the difference between CFR and actual external borrowing.

(b) Treasury Management Indicators:

The Treasury Management indicators are based on limits, beyond which activities should not pass without management action, and the Council has operated within these limits at all times during 2022/23. They include two key indicators of affordability and four key indicators of prudence and Appendix 2 demonstrates the outturn position compared to each limit.

Affordability

i) Operational boundary for external debt

This is the limit above which external debt is not "normally" expected to pass. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the level of actual debt. The Operational Boundary has not been exceeded during 2022/23.

ii) Authorised limit for external debt

This limit represents a control on the "maximum" level of borrowing and is the statutory limit determined under s3(1) of the Local Government Act 2003. It represents the limit beyond which external debt is prohibited.

The Authorised limit must be set, and revised if necessary, by Full Council. It reflects a level of external debt which, whilst neither desirable nor sustainable in the longer term, could be afforded in the short term. The Government retains an option to control either the total of all Councils' plans, or a specific Council, although this power has not yet been exercised. The Authorised Limit has not been exceeded during 2022/23.

Prudence

iii) Maximum new principal sums to be invested during 2022/23 for periods in excess of 365 days - such investments are classified as a "non-specified". This indicator is subject to the overall limit for non-specified investments set annually in the TMSS. The Council made no new non-specified investments during 2022/23 and at 31 March 2023 held only one such investment in the form of the £1m investment in the CCLA property fund.

iv) Upper limits for the maturity structure of borrowing are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing. These limits have not been exceeded in 2022/23.

v) Prior to the 2017 revisions to the Treasury Management Code there was a requirement to set indicators for the Council's maximum exposure to fixed and variable interest rates for net borrowing (ie. external borrowing less investments). This requirement has now been removed in favour of a statement in the TMSS stating how interest rate exposure is managed and monitored by the Council, and this statement for 2022/23 is reproduced below:

The Council has a general preference for fixed rate borrowing in order to minimise uncertainty and ensure stability in the charge to revenue, however it is acknowledged that in certain circumstances, some variable rate borrowing may be prudent, for example if interest rates are expected to fall. The Council's investments are generally for cashflow purposes and accordingly a mix of fixed and variable rates will be used to maximise flexibility and liquidity. Interest rate exposure will be managed and monitored on a daily basis by the Chief Financial Officer.

Local indicators for the proportions of fixed and variable rate loans, have been retained by the Council for information purposes.

2.10 Other Issues affecting Treasury Management in 2022/23

2.10.1 IFRS9

Following the consultation undertaken by the Ministry of Housing, Communities and Local Government (MHCLG) on IFRS9 the Government introduced a mandatory statutory override requiring local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds. This will be effective for 5 years from 1 April 2018 to 31 March 2023. The Council is required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override, in order for the Government to keep the override under review and to maintain a form of transparency. This reserve has been named the Pooled Investment Funds Adjustment Account (see 2.8.6 above).

2.10.2 Changes in risk appetite and counterparty limits

The 2018 CIPFA Code and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite, eg. the use of certain investment instruments, this should be brought to Members' attention.

The Council remains averse to risk with the investment of its surplus cash, and has continued to maintain strict limits on the maximum investment with any one counterparty. The only exception to this is investment with the Debt Management Office, whereby the Council is effectively lending to central government.

No specific changes have been made with regard to risk appetite during the year.

2.10.3 Sovereign limits

The UK's sovereign rating was downgraded from AA to AA- in March 2020, reflecting a significant weakening of the UK's public finances caused by the coronavirus pandemic. As discussed at 2.8.1 above the current Treasury Strategy permits the use of any UK counterparties, subject to their individual credit ratings under the LAS methodology. It also permits the use of counterparties from other countries with a minimum sovereign rating of AA-.

2.10.4 IFRS16

IFRS 16 is an accounting standard relating to leases which will bring almost all leases on to the balance sheet, while requiring authorities to recognise a "right of use asset" and a lease liability. In response to severe delays in the publication of audited local authority financial statements in England, the implementation of IFRS16 for local authorities has been deferred until 1 April 2024 (i.e. for the closure of the 2024/25 accounts) although the Code of Practice on Local Authority Accounting for the United Kingdom for 2022/23 and 2023/24 will allow for adoption as of 1 April 2022 or 1 April 2023.

2.10.5 Prudential Code

Following a consultation ending on 16 November 2021, CIPFA issued a new edition of the Prudential Code. Although it applied with immediate effect, authorities may defer introducing revised reporting requirements until the 2023/24 financial year. These include changes in capital strategy, prudential indicators and investment reporting. The Council has worked with its treasury advisors to ensure full compliance with the new Code by the 31 March 2023 deadline, i.e. in time for the preparation of the TMSS for 2023/24. The principle that an authority must not borrow to invest primarily for financial return continues to apply.

3 Alternative Options

3.1 An alternative option is to fail to present an Annual Treasury Activity Report. However, this would contravene the requirement of the Council's Treasury Management Strategy Statement (TMSS).

4 Financial Implications

4.1 Financial implications are detailed in the body of this report.

5 Legal Implications

5.1 The legal implications are detailed in the body of the report.

6 Equalities Implications

6.1 There are no equalities implications arising from this report.

7 Carbon Reduction/Environmental Sustainability Implications

7.1 There are no carbon reduction/environmental sustainability implications arising from this report.

8 Appendices

8.1 Treasury Activity Report 2022/23 for year ended 31 March 2023
8.2 Prudential and Treasury Management Indicators for 2022/23.

9 Background Papers

9.1 None identified.

10 Reasons for Recommendations

10.1 To comply with the requirements of the Council's Treasury Management Strategy Statement.

Statutory Officer approval:

Approved by: Deputy Chief Financial Officer

Date: 27 June 2022

Approved by: Monitoring Officer

Date: 28 June 2022