REPORT TO: MORAY COUNCIL ON 27 SEPTEMBER 2023

SUBJECT: REPORT ON TREASURY MANAGEMENT PERFORMANCE AND TREASURY AND CAPITAL INVESTMENT PRUDENTIAL INDICATORS FOR 2022/23

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

1.1 To provide Council with the annual outturn report on Treasury Management and details of the Council's Prudential Indicators for Treasury Management and Capital Investment for the year ended 31 March 2023.

1.2 This report is submitted to Committee in terms of Sections III B (3) of the Council's Scheme of Administration relating to Treasury Management and the Capital Plan.

2. RECOMMENDATION

2.1 It is recommended that the Council considers and notes the Treasury Management Performance and the Council's Treasury Management and Capital Investment Prudential Indicators for 2022/23 as set out in APPENDIX 2.

3. BACKGROUND

3.1 Members have agreed that reports on Treasury Management Performance are submitted twice annually. One report to agree the Treasury Management and Investment Strategies with relevant Performance Indicators and the second report to submit the annual review and actual performance of Treasury Management activities. Quarterly Treasury Management monitoring reports are posted on the Members Portal throughout the year.

3.2 The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector 2021 (the Code) and the Local Government Investment (Scotland) Regulations 2010. All treasury management activities are carried out in accordance with the Code and regulations.

3.3 The primary requirements of the Code are as follows:

- An approved Treasury Management Policy, which sets out the policies and objectives of the Council's treasury management activities.

- An annual treasury management strategy report to Council for the year ahead and an annual review report to Council of the previous year.

3.4 The Local Government (Scotland) Act 2003 requires the Council to adopt the CIPFA Prudential Code for Capital Finance in Local Authorities and to produce the prudential indicators set out in the Prudential Code. These indicators are designed to support and record affordable and sustainable capital investment and treasury management.

4. TREASURY PERFORMANCE 2022/23

4.1 This annual Treasury Management performance report covers:

- The Economy and Interest Rates 2022/23
- Treasury Management Strategy and Performance for 2022/23
- Annual Investment Strategy and Performance 2022/23
- Investment Outturn for 2022/23
- Long Term Borrowing and Debt Rescheduling
- Short Term Borrowing
- Prudential Code for Capital Finance in Local Authorities

The Economy and Interest Rates 2022/23

4.2 Throughout the course of the year the UK has continued to see high levels of inflation. One of the reasons for this is the effects of the Covid pandemic and the impact that had on the supply chain, resulting in higher prices. The war in Ukraine has meant increases in gas prices and also food prices and this has kept global inflation above central bank targets and the UK economic outlook remained relatively weak.

4.3 At the start of 2022/23 inflation the Consumer Price Inflation (CPI) was at 5.5% and this rose steadily throughout the year, reaching a peak of 11.1% in October 2022. By February it was at 10.4%, with the largest upward contributions coming from food and housing. As we have moved into financial year 2023/24 inflation levels have started to decrease down to a level of 6.8% in July 2023 mainly due to the lower utility price cap, but it is still considerably higher than the Bank of England target of 2%.

4.4 The labour market saw a period of a high number of vacant jobs, but a shortage of available workers during the period, although there was some sign of this easing towards the end of the year as the unemployment rate started the year at 3.8% for April – June and was 3.7% for December to February. Earnings growth for December – February was 5.7% for both total pay (including bonuses) and 6.5% for regular pay. However, once adjusted for inflation both measures were negative for the same period and this was the case throughout the year.

4.5 Quarterly Gross Domestic Product (GDP) saw no great movement during the course of the year, registering a 0.1% gain in the April - June period, before contracting by (an upwardly revised) 0.1% in the subsequent quarter. For the

October - December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.

4.6 The Bank of England increased the base rate in every Monetary Policy Committee (MPC) meeting during the period, which saw the rate increase from 0.75% in March 2022 to 4.25% by the end of the financial year. With inflationary pressures remaining elevated, this pattern of increases has increased into 2023/24 with rates currently at the highest they have been for a number of years.

4.7 Globally economies have seen the same trend as here in the United Kingdom. Both the Federal Reserve in America and the European Central Bank both mirrored the Bank of England by consistently increasing interest rates. Both are also seeing similar inflation patterns to the United Kingdom.

2022/23 Treasury Management Strategy and Performance

4.8 The Treasury Management Strategy, incorporating the Annual Investment Strategy, was approved by the Council at its meeting on 22 February 2022 (paragraph 6 of the minute refers).

4.9 The Council's main objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which the funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.10 Given the significant real reduction in local government funding in recent years and the impact of the pandemic, the Council's borrowing strategy continued to address the key issue of affordability without compromising the longer term stability of the debt portfolio. During 2022/23 short-term interest rates continued to be lower than long-term rates, and it was more cost effective in the short-term to either use internal resources, or to borrow short-term loans. By adopting this approach, the Council was able to reduce net borrowing costs and reduce overall treasury risk. The Council continues to keep this policy under review and take advice from its Treasury Management advisors to determine whether the Councils borrows at long-term fixed rates with a view to keeping future interest costs as low as possible.

4.11 The Public Loans Works Board (PWLB) is the Council's preferred source of long-term borrowing given the transparency and control that its facilities continue to provide. The cost effectiveness of short term borrowing has been reviewed relative to medium term borrowing from PWLB.

Annual Investment Strategy

4.12 The Council's primary principle when investing is the security of capital and liquidity of investments. As a secondary aim the Council will also aim to achieve the optimum return on its investments, commensurate with proper levels of security and liquidity. It is considered prudent to only invest with highly credited UK financial institutions that have a long-term credit rating of BBB+ or higher and that policy was complied with throughout 2022/23.

4.13 The Council's creditworthiness policy was formulated after consultation with Arlingclose, the Council's treasury advisers. The Chief Financial Officer maintains a counterparty list in compliance with the minimum criteria approved by Full Council on 3 March 2020 (paragraph 4 of the minute refers).

4.14 All credit ratings are monitored daily and the Counterparty list amended to reflect any changes if necessary – there were not changes during 2022/23.

Investment Outturn for 2022/23

4.15 The Council managed its investments in-house and invested with the institutions listed on the Council's approved Counterparty list.

4.16 The table below shows the overall investment undertaken by the Council during 2022/23:

	Total Sum Deposited (£m)	Average Rate (%)
Approved Financial Institutions	582.243	1.79
Council's Bankers	34.705	2.20
TOTAL	**616.948**	**1.92**

The above figures are cumulative and the actual amounts invested at any one time ranged from £10.285 million to £65.715 million.

4.17 The average rate of interest earned on investments during the year was 1.92%, compared to the average 7 day London Inter Bank Bid Rate (LIBID) of 2.31%. When the Bank of England base interest rate increases, the Council's Bank of Scotland call account rate is increased from that day, as is the LIBID rate. The money market funds in which the Council invests the balance of funds take time to catch up as their interest rates are not set and fluctuate depending on the market and the size of investment in each fund. The Council's investments throughout the year were in line with Treasury Management Practices with money deposited in the approved funds, redeeming from the ones with lower rates first.

4.18 As at 31 March 2023, the following balance was invested:

Counterparty	Investment	Amount (£m)	Interest Rate (%)
Bank of Scotland	Call Account	8.335	4.20
CCLA	Money Market Fund	5.000	4.12
		13.335	**4.17**

Long Term Borrowing and Debt Rescheduling

4.19 The Council's long term external debt position at 31 March 2023 compared with the position at the end of the last financial year was as follows:

	31 March 2022			31 March 2023		
	Actual (£000)	Rate (%)	Average Life	Actual (£000)	Rate (%)	Average Life

			(years)			(years)
Fixed Rate Funding – PWLB	134,150	4.85	17.26	126,542	4.99	17.35
Fixed Rate Funding – Market	33,400	4.68	52.82	33,400	4.68	50.82
TOTAL DEBT	**167,550**	**4.77**		**159,942**	**4.88**	

There was no variable rate borrowing in the year.

4.20 The Council has been maintaining an under borrowed position which means that the capital borrowing need (Capital Financing Requirement) has not been fully funded with loan debt. Cash supporting the Council's reserves, balances and cash flows have been used as temporary measures to offset the need to borrow.

4.21 The strategy of effectively delaying new long term borrowing by utilising internal and temporary borrowing has served well at a time when comparatively cheaper temporary borrowing from other local authorities is readily available, and historically low investment returns give rise to potentially significant carrying costs for new long-term borrowing.

4.22 There was no new long term borrowing from the Public Works Loans Board (PWLB) in the year.

4.23 No debt rescheduling was undertaken during the year as the differential between PWLB new borrowing rates and PWLB premature repayment rates made rescheduling unviable.

Short Term Borrowing

4.24 During the year, nineteen new temporary loans totalling £79.5m were borrowed from other UK local authorities. A table detailing the short term loans outstanding at 31 March 2023 can be found at **APPENDIX 1.**

The Prudential Code for Capital Finance in Local Authorities

4.25 The Local Government (Scotland) Act 2003 requires the Council to undertake its treasury activities with regard to the Prudential Code for Capital Finance in Local Authorities.

4.26 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. The Prudential Code also states that it is not prudent for local authorities to make investment or spending decisions that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Borrowing is permitted for cash flow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

4.27 The Code requires the Council to produce mandatory indicators aimed at assisting members in ensuring that proposed capital investment levels and treasury management decisions satisfy the key requirements of affordability, prudence and sustainability. The Prudential Indicators for 2022/23 were approved at Full Council on 22 February 2022 (paragraph 6 of the minute refers). Performance against key indicators is shown in **APPENDIX 2.**

5. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))
None arising specifically from this report.

(b) Policy and Legal
The Local Government (Scotland) Act 2003 provides the power to borrow and invest as well as providing controls and limits on these activities.

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Sector which details best practice The Local Government Investment (Scotland) Regulations 2010.

All Treasury Management activities are carried out in accordance with the Code and Regulations.

(c) Financial implications
The financial implications are highlighted within the report and the attached **APPENDIX 2**.

(d) Risk Implications
The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's treasury advisers, will proactively manage its investments and debt over the year.

(e) Staffing Implications
There are no staffing implications arising directly from this report

(f) Property
There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact
There are no equalities issues arising from this report

(h) Climate Change and Biodiversity Impacts
There are no climate change or biodiversity issues arising from this report.

(i) Consultations
This report has been produced in consultation with Arlingclose Limited, the Council's Treasury Advisers.

6. CONCLUSION

6.1 **The Council's requirements for funds continues to be managed in accordance with the agreed Treasury Management Strategy. All treasury management and capital investment activities have been undertaken within the limits set by the Prudential Code Performance Indicators for 2022/23.**

Author of Report:	Laurie Milne, Senior Accountant
Background Papers:	Various working papers held within Financial Services.
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