



## North Devon Council

Report Date: 7<sup>th</sup> November 2022

Topic: Mid-Year Treasury Management Report 2022/23

Report by: Director of Resources and Deputy Chief Executive

### 1. Introduction

1.1 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- An economic update for the first part of the 2022/23 financial year (appendix A);
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- The Council's capital expenditure and prudential indicators;
- A review of the Council's investment portfolio for 2022/23;
- A review of the Council's borrowing strategy for 2022/23;
- A review of any debt rescheduling undertaken during 2022/23;
- A review of compliance with Treasury and Prudential Limits for 2022/23.

### 2. Recommendations

The Committee is asked to recommend to full Council that:

- 2.1 The changes to the prudential indicators be approved.
- 2.2 The report and the treasury activity be noted.

### 3. Reasons for Recommendations

- 3.1 This Council is required through regulations issued under the Local Government Act 2003 to produce a mid year treasury report reviewing treasury management activities and the prudential and treasury indicators for 2022/23. This report meets the requirements of the CIPFA Code of Practice on Treasury Management (revised 2017).
- 3.2 This Council is also required under the Code to give prior scrutiny to the treasury management reports by the Policy Development Committee before they are reported to the full Council.

## 4. Report

### 4.1 Treasury Management Strategy Statement and Annual Investment Strategy update

The Treasury Management Strategy Statement (TMSS) for 2022/23 was approved by this Council on 23<sup>rd</sup> February 2022.

The underlying TMSS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes are set out below:

<b>Prudential Indicator 2022/23</b>	<b>Original Estimate £000</b>	<b>Revised Prudential Indicator £000</b>
Capital Financing Requirement	29,265	24,929
Operational Boundary	24,665	10,528
Maturity Structure of borrowing over between 12 months to 2 years – Upper Limit	60%	70%

Section 4.3 of this report gives further information on the Capital Financial Requirement and the Operational Boundary. The change to the upper borrowing limit between 12 months and 2 years will allow greater flexibility for short term borrowing given the current interest rate forecast.

### 4.2 The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

- The Council's capital expenditure plans;
- How these plans are being financed;
- The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- Compliance with the limits in place for borrowing activity.

#### **Prudential Indicator for Capital Expenditure**

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the budget.

<b>Capital Expenditure by Service</b>	<b>2022/23 Original Estimate £000</b>	<b>Current Position 30/09/22 £000</b>	<b>2022/23 Revised Estimate £000</b>
Customer Focus	946	3	255
Environmental Enhancement	2,050	1,867	3,219
Governance	0	0	0
Place & Regeneration	10,122	1,075	7,580
Planning, Housing & Health	2,715	556	1,759
<b>Total</b>	<b>15,833</b>	<b>3,501</b>	<b>12,813</b>

### **Changes to the Financing of the Capital Programme**

The table below draws together the capital expenditure plans (above), and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision).

<b>Capital Expenditure</b>	<b>2022/23 Original Estimate £000</b>	<b>2022/23 Revised Estimate £000</b>
<b>Total capital spend</b>	<b>15,833</b>	<b>12,813</b>
Financed by:		
Capital receipts	150	200
Capital grants	8,994	7,614
Capital reserves	996	1,673
<b>Total financing</b>	<b>10,140</b>	<b>9,487</b>
<b>Borrowing requirement</b>	<b>5,693</b>	<b>3,326</b>

### 4.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the borrowing requirement (above), the reduction for the Minimum Revenue Provision (MRP) and impact on the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

	2022/23 Original Estimate £000	2022/23 Revised Estimate £000
<b>Prudential Indicator – Capital Financing Requirement</b>		
Borrowing requirement	5,693	3,326
Finance Leases – Capital costs	1,097	769
Minimum Revenue Provision	(734)	(733)
Finance Lease Principal Payments (MRP)	(153)	(132)
Movement in CFR	5,903	3,230
<b>Revised Total CFR</b>	<b>29,265</b>	<b>24,929</b>
<b>Prudential Indicator – the Operational Boundary for external debt</b>		
Borrowing	22,500	9,000
Other long term liabilities	2,165	1,528
<b>Total debt (year-end position)</b>	<b>24,665</b>	<b>10,528</b>

#### Prudential Indicator – Capital Financing Requirement

The forecast Capital Financing Requirement has decreased by circa £4.3m from the original budget. This is due to the re-profiling of the capital programme with expenditure being slipped to future financial years for projects such as Seven Brethren redevelopment and Green Lane capital improvements.

#### Prudential Indicator – the Operational Boundary for external debt

The forecast external PWLB borrowing has decreased by £13.5m from the original budget in part by the reduced capital expenditure as above and higher year end cash flow balance projections. Section 4.5 looks at the borrowing strategy in more detail.

#### 4.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need, which will be adhered to if this proves prudent.

	2022/23 Original Estimate £000	Current Position 30/09/22 £000	2022/23 Revised Estimate £000
Borrowing	22,500	3,000	9,000
Other Long term Liabilities	2,165		1,528
<b>Total debt</b>	<b>24,665</b>		<b>10,528</b>
CFR (year end position)	29,265		24,929

A further prudential indicator controls the overall level of borrowing. This is the **Authorised Limit** that represents 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 determined under section 3 (1) of the Local Government Act 2003.

Authorised limit for external debt	2022/23 Original Indicator £000	2022/23 Revised Indicator £000
Borrowing	33,000	33,000
Other long term liabilities	4,500	4,500
Total	37,500	37,500

The Extraordinary Council meeting held on 14<sup>th</sup> June 2021 approved the increase in the authorised borrowing limit to £37.5m as part of the report detailing the purchase of a strategic asset.

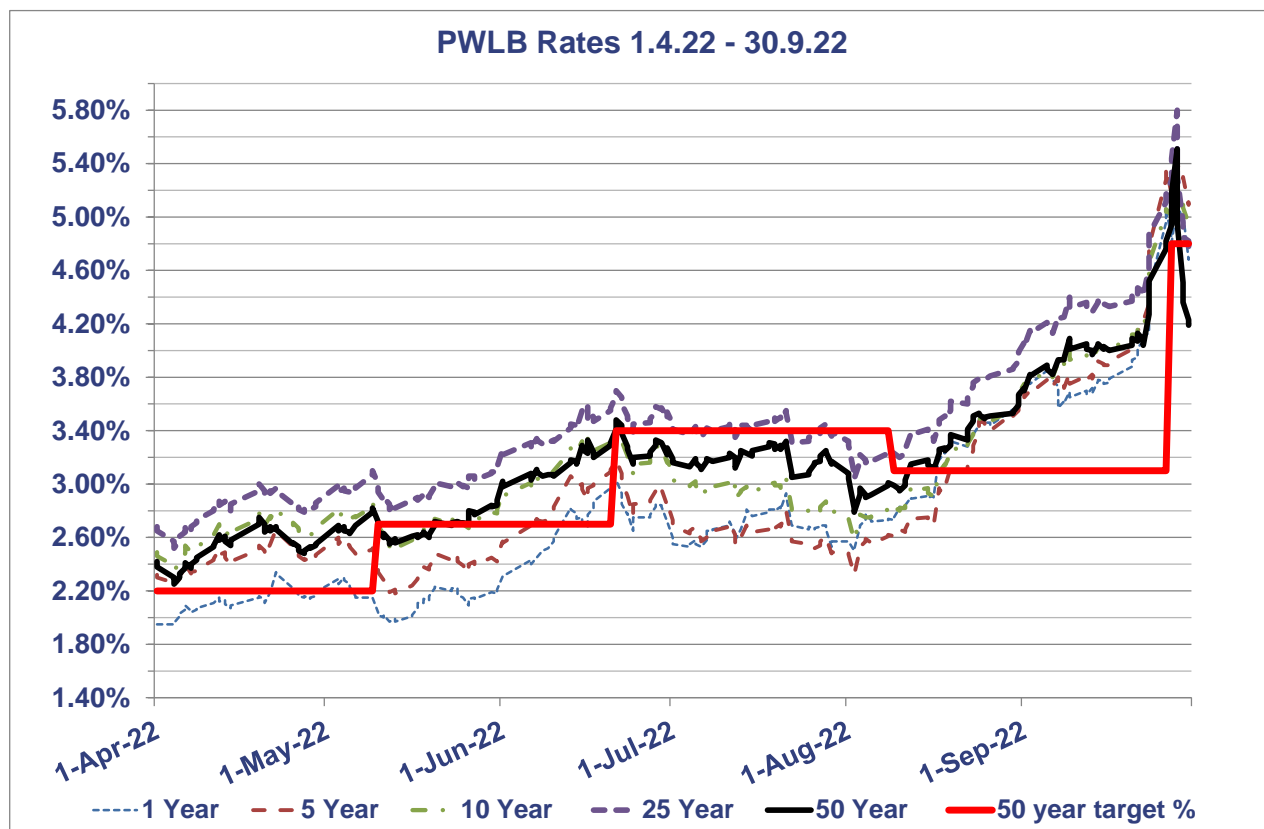
## 4.5 Borrowing

The Council's forecast capital financing requirement (CFR) for 2022/23 is £24.9m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the Public Works Loan Board (PWLB), or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

At present, the Council has projected total external borrowing of £9m with £1.5m long term liabilities (finance leases) whilst utilising £14.4m of cash flow funds in lieu of borrowing (internal borrowing). This is a prudent and cost effective approach in the current economic climate and reduces the net interest cost to the Council, but will require ongoing monitoring of economic conditions and our own cash flow balances to support the internal borrowing.

The cash balances have allowed external borrowing to remain at £3m as at 30<sup>th</sup> September. The current forecast is for an additional £6m of external borrowing during the financial year, but the exact amount will depend on any capital spend slippages and our cash flow balances towards the financial year end. Given current market volatility any borrowing undertaken is likely to be short term, as PWLB rates are expected to fall back as Bank Rate is reduced in a couple financial years' time.

### PWLB Rates 1<sup>st</sup> April 2022 to 30<sup>th</sup> September 2022



	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	1.95%	2.18%	2.36%	2.52%	2.25%
<b>Date</b>	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
<b>High</b>	5.11%	5.44%	5.35%	5.80%	5.51%
<b>Date</b>	28/09/2022	28/09/2022	28/09/2022	28/09/2022	28/09/2022
<b>Average</b>	2.81%	2.92%	3.13%	3.44%	3.17%
<b>Spread</b>	3.16%	3.26%	2.99%	3.28%	3.26%

#### 4.6 Debt Rescheduling

Debt rescheduling opportunities have been very limited in the current economic climate and following the various increases in the margins added to gilt yields which have impacted PWLB new borrowing rates since October 2010. No debt rescheduling has therefore been undertaken to date in the current financial year.

#### 4.7 Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th September 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23. The Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

#### 4.8 Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 23<sup>rd</sup> February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach.

## Creditworthiness.

Following the Government's fiscal event on 23<sup>rd</sup> September, both S&P and Fitch have placed the UK sovereign debt rating on Negative Outlook, reflecting a downside bias to the current ratings in light of expectations of weaker finances and the economic outlook.

## Investment Counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function

## Investment balances

The Council held £17m of investments as at 30 September 2022 (£18m at 31 March 2022) and the investment portfolio yield for the first six months of the year was 0.59% against the benchmark 7 day SONIA rate of 1.19%.

The Council's budgeted investment return for 2022/23 was £35,000. As at 30<sup>th</sup> September 2022 £59,556 investment interest was earned in the half-year period. In addition, using the cash flow balances for internal borrowing has reduced the borrowing costs on the expenditure budget and we are currently forecasting a £160,000 underspend on the interest payable budget for the year. As outlined in the Quarter 2 Performance and Financial Management report, it is proposed to place this amount into a new Treasury Management reserve to mitigate against higher interest rates as we move into the 2023/24 financial year.

The Chief Financial Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2022/23.

## Non-Treasury Management Investments

The PWLB will no longer provide loans for 'debt for yield' projects where financial assets and property are purchased primarily for financial return. This would also mean no PWLB loans for the rest of the capital programme in that year.

The Chief Finance Officer confirms there have been no 'debt for yield' projects included in the current capital programme.

## Bank Rate & SONIA rates 1<sup>st</sup> April 2022 to 30<sup>th</sup> September 2022

QUARTER ENDED 30/9/2022							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	2.25	2.19	2.19	1.82	1.55	1.22	0.73
High Date	22/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022	30/09/2022
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	1.28	1.22	1.19	1.11	0.91	0.67	0.37
Spread	1.50	1.50	1.50	1.26	1.16	0.99	0.58





## 5. Resource Implications

5.1 As detailed in the report.

## 6. Equalities Assessment

6.1 There are not any equalities implications anticipated as a result of this report, as the purpose of this report is to present the Council's financial position only.

## 7. Environmental Assessment

7.1 As at 30<sup>th</sup> September the Council held funds in a sustainable deposit account. These deposits have an underlying commitment to supporting activities that provide sustainable and environmentally friendly services and products.

## 8. Constitutional CONTEXT

8.1 Part 3 Annexe 1, para 1(c) – delegated power

8.2 Article 4.5.26 and Part 4 (Financial Procedure Rules) para 13.8 - referred power

## 9. Statement Of Confidentiality

8.1 This report contains no confidential or exempt information under the provisions of Schedule 12A of 1972 Act.

## 9. Statement Of Internal Advice

9.1 The author (below) confirms that advice has been taken from all appropriate Councillors and Officers.

Jon Triggs, Director of Resources and Deputy Chief Executive