REPORT TO:	**Audit and Governance Committee – 25 July 2023**
SUBJECT:	**Treasury Management – Annual Report 2022/23**
LEAD OFFICER:	**Sian Southerton, Senior Accountant (Treasury)**
LEAD MEMBER:	Cllr Walsh
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/CORPORATE VISION:

The Treasury Management function is required by regulation and has an effect on all Directorates of the Council.

DIRECTORATE POLICY CONTEXT:

This report is the Treasury Management Annual Report 2022-23.

This report summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual 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;
- Detailed debt activity; and
- Detailed investment activity.

FINANCIAL SUMMARY:

There are no direct financial implications arising from this report.

1. PURPOSE OF REPORT

1.1. The purpose of this report is to present the Treasury Management Annual report for activities in 2022/23 and to enable the Audit and Governance Committee to scrutinise the report prior to taking it to Full Council on 8 November 2023.

1.2. This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management 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 Accountancy (CIPFA) Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.3. During 2022/23 the minimum reporting requirements were that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 9 March 2022)
- a mid-year, (minimum), treasury update report (Council 18 January 2023)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

1.4. The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.5. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Audit and Governance Committee before they were reported to the Full Council.

1.6. All Councillors were invited to attend a Treasury Management briefing presented by Link Group (the Councils treasury advisors) to support Members' scrutiny role.
The last briefing was held on 3 October 2022 of which 10 Members attended and the first training session for Members was on the 4th July 2023, and was a more in depth session due to the introduction of the 2021 codes. 22 Members attended this session.

2. RECOMMENDATIONS

Audit and Governance Committee is requested to recommend Full Council to:

2.1. approve the actual prudential and treasury indicators for 2022/23 contained in the report
2.2. note the annual treasury management report for 2022/23; and
2.3. note the treasury activity during 2022/23 which has generated interest receipts of £1,455,650 (2.35%). Budget £370,000 (0.84%)
2.4. approve the addition of Handelsbanken Plc (Fitch rating AA, F1+) and Natwest Markets Plc (NRFB–Non Ring Fenced Bank) (Fitch rating A+, F1) to the 2023-24 treasury management strategy:
2.5. note that as agreed at Audit & Governance Committee on the 28 February 2023, the Qatar National Bank and First Bank of Abu Dhabi have been removed from the counterparties list in the Council's Treasury Management Strategy.

3. EXECUTIVE SUMMARY

3.1. During 2022/23, the Council complied with its legislative and regulatory requirements. Including confirmation that the authorised limit was not breached.

3.2. The actual prudential and treasury indicators are to be found in the body of this report and in appendix 1.

4. DETAIL

4.1. This can be found in the body of the report and in appendices 1-3

- Appendix 1 Prudential and treasury Indicators
- Appendix 2 Authorsied Counterparties
- Appendix 3 Investments held at 31 March 2023

At the Audit and Governance meeting on 28 February 2023, it was requested that findings should be reported back to the Committee on the early withdrawal of all investments in Qatar National Bank (QNB) and First Abu Dhabi Bank (FADB).
Investments at the time of the meeting are shown in the table 4.2.

Table 4.2:

Counterparty	Investment date	Maturity Date	Amount Invested £	Rate of Investment
Qatar National Bank	06/07/2022	06/01/2023	1,000,000	2.325
First Abu Dhabi Bank	07/07/2022	05/01/2023	1,000,000	2.14
Qatar National Bank	11/08/2022	13/02/2023	1,000,000	2.715
Qatar National Bank	28/09/2022	05/04/2023	4,000,000	4.685
First Abu Dhabi Bank	21/07/2022	21/07/2023	1,000,000	3.010
TOTAL			**8,000,000**	

All of these will have matured by 21 July 2023 and no further investments will be placed with them. Appendix 2 shows they are no longer on the Councils lending list.

Discussions took place with our advisors (Link Group), the brokers who actioned the deals and neighbouring Councils, and these were the findings:

- The deposits are term deposits and there is no function built in to enable any request for early repayment. There is therefore no set cost to be calculated for early repayment and banks can name their price. Funds were more expensive and harder to come by at the time, so the banks would have faced additional costs replacing the money which would impact the penalty.
- There would be a reputational risk in the markets which we cannot put a value on, but it could potentially risk the value and availability of all future investments.
- Administrative works are likely to be lengthy for the banks in unwinding their positions.

The view of our brokers and advisors, was that the banks would probably have refused to return the funds. It was commented that the brokers last successful recall of funds was as long ago as 2007 before the banking crisis and they have not since managed to recall this sort of deposit.

5. CONSULTATION

5.1. Consultation has been undertaken with the Council's Treasury Advisors – Link Group, Link Treasury Services Limited.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. The Treasury Management Annual Report is a mandatory requirement under the Local Government act 2003 and therefore the only option available is to accept the recommendations (2.1, 2.2, 2.3).

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

7.1. The financial implications arising from Treasury Management are outlined throughout the report.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are poor practices implemented, diminished interest returns, loss of capital invested, poor liquidity (funds available when required). The Council's strategies guard against most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Under Section 151 of the Local Government Act 1972, the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority including securing effective arrangements for treasury management. There are no specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. None direct

11. HEALTH & SAFETY IMPACT

11.1. None direct

12. PROPERTY & ESTATES IMPACT

12.1. None direct

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. None

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. To support the Council's 2030 carbon neutral target there should be consideration to transitioning current (and future) investments into more sustainable investment options. Currently this makes up 2.32% of the Council's total emissions, resulting in roughly 628.96 tCO2e being produced as per the carbon emissions audit 2021-2022.

14.2. Current Investments with CCLA (diversified fund and property fund and Standard Chartered (Sustainable deposits) have positive ESG factors.

14.3. Further options with be explored and considered.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None

16. HUMAN RIGHTS IMPACT

16.1. None

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. None

CONTACT OFFICER:
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Job Title: Senior Accountant (Treasury)
Contact Number: 01903 737861

BACKGROUND DOCUMENTS*:*

- The Local Government Act 2003 (The Local Government Act 2003).
- CIPFA'S Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (2017). The updated code (2021) has been adopted as part of the 2023-24 Strategy *(Link not available as copyright).*
- Cipfa Treasury Management Guidance notes (2018) *(Link not available as copyright)*
- The Prudential Code for Capital Finance in Local Authorities (2017). The updated code (2021) has been adopted as part of the 2023-24 Strategy *(Link not available as copyright).*
- DLUHC's Guidance on Local Government Investments
Guidance_on_local_government_investments.pdf (publishing.service.gov.uk)
- Link Asset Services Ltd TMSS Template 2022/23. *(Link not available as copyright).*
- 2022/2023 Strategy
Treasury Management Strategy and Annual Investment Strategy 2022/23 report to Audit and Governance Committee; 22 February 2022

Arun District Council
Treasury Management Annual Report 2022/23

1.0 INTRODUCTION

The Annual Treasury Management Report for 2022/23 summarises:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual 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;
- Detailed debt activity; and
- Detailed investment activity.

2.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2022/23

The Council undertakes 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; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. Table 2.1 shows the actual capital expenditure and how this was financed.

Table 2.1: Financing of Capital Expenditure

Capital Expenditure	Actual 2021/22 £'000	2022/23 Original £'000	2022/23 Actual £'000
Non HRA	4,341	3,939	7,411
HRA	6,940	8,351	6,436
HRA settlement	-	-	
Total	**11,280**	**12,290**	**13,847**
Financed by:			
Capital receipts	1,396	1,500	1,896
Capital grants	3,174	1,400	5,075
Capital reserves	2,467	5,336	3,180
Revenue	1,059	567	1,607
	8,096	**8,803**	**11,758**
Unfinanced capital expenditure	**3,184**	**3,487**	**2,089**

All "unfinanced capital expenditure" results in a financing or borrowing need that comes from either internal borrowing, grants, or other sums such as s106 sums**.**

3.0 THE COUNCIL'S OVERALL BORROWING NEED

The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2022/23 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council, which is know as 'internal borrowing'.

The CFR increases when capital expenditure is incurred but not financed and reduces when amounts are set aside for loan repayments.
Reducing the CFR – the Council's (non HRA) underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision – MRP, to reduce the CFR. This is effectively a repayment of the general fund borrowing need, (there is no statutory requirement to reduce the HRA CFR).

This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments.

In 2010/11 Arun DC had a subsidy liability of £4.8m. From April 2012, the Localism Act 2011 introduced a new financial regime for local authority housing. A new self-financing system replaced the previous subsidy system, giving Council's more freedom to borrow money and spend the income they receive from rents. To achieve this, Arun District Council made a substantial single payment of £71 million to the Government, financed with loans from the Public Works Loans Board (PWLB). The financial projections within the Business Plan demonstrated that the new financial regime would enabled the Council to service these loans and generate surpluses which it should have been able to invest in its housing, services and new homes.

The Council currently has no external debt other than that taken out for the HRA Self-Financing (March 2012), currently £35.46m.

The Council does not have an overdraft facility as it became very expensive and rather than incurring costs for the facility, an approx. £200k balance is held in the account daily. This is currently earning interest at a rate of 1.70% but was between 0.01% and 0.65% in 2022-23. The £200k balance is required to cover any potential cashflow need and to avoid high overdraft charges.

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 revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The Council's 2022/23 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2022/23 on 9 March 2022.

The Council's CFR for the year is shown in tables 3.1 and 3.2 and represents a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is required against these schemes as a borrowing facility is included in the contract.

Table 3.1: General Fund Capital Financing Requirement (CFR)

CFR: General Fund	**2021/22 Actual £,000**	2022/23 Original £,000	**2022/23 Actual £,000**
Opening balance	**(4,223)**	(4,442)	**(4,442)**
Additions in year	0	0	***4,574**
Add unfinanced capital expenditure	**0**	987	**293**
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	**(219)**	(200)	**(444)**
CFR	**(4,442)**	(3,655)	**(19)**

* Extended cleansing contract with new vehicles

Table 3.2: Housing Revenue Account (HRA) CFR

CFR: HRA	**2021/22 Actual £,000**	2022/23 Original £,000	**2022/23 Actual £,000**
Opening balance	**52,973**	49,347	**52,531**
Add unfinanced capital expenditure	**3,184**	6,578	**1,795**
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	**(3,626)**	(1,450)	**(1,450)**
CFR	**52,531**	54,475	**52,876**

Arun's only borrowing relates to the HRA Self-Financing settlement (currently £35.46m). Prior to this borrowing being undertaken, Arun had a negative CFR of £2.6m which has arisen over several years and was due more to changes in the capital accounting regulations rather than to any specific policy decision.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022/23) plus the estimates of any additional capital financing requirement for the current (2023/24) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure.

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this is set and approved by Full Council, the Council does not have the power to borrow above this level, unless it gets subsequent approval by Full Council to increase the limit. The authorised limit was not breached in 2022/23.

The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies how much of the Council's revenue resources are used to service debt. (2022-23 was HRA 16.6% and Non-HRA -5.45%)

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council's annual Treasury Strategy Statement (summary in appendix1). The limits are set and agreed by Full Council prior to each financial year and are deemed to be affordable.
Local authorities are required to have regard to all aspects of the Prudential Code that relate to affordability, sustainability, and prudence.

4.0 TREASURY POSITION AS AT 31 MARCH 2023

The Council's debt and investment position is organised by the treasury management service to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are shown in table 4.1.

Table 4.1: Impact of capital expenditure

Actual prudential and treasury indicators	31 March 2022 Actual £000	2022/23 Original £000	**31 March 2023 Actual £000**
Capital expenditure	11,280	12,290	**13,847**
Total Debt	(35,460)	(35,460)	**(35,460)**
Capital Financing Requirement at 31st March: • Non-HRA • HRA • **Total**	 (4,442) 52,531 **48,089**	 (3,655) 54,475 **50,820**	 (19) 52,876 **52,857**
Finance Lease Liability	(1,320)	(1,034)	**(5,364)**
Underlying Borrowing Requirement	**46,769**	**49,786**	**47,493**
(Over) / under borrowing	11,309	14,326	**12,033**
Total Investments	68,950	44,000	**43,930**
Net debt	33,490	8,540	**8,470**

The maturity structure of the debt portfolio is shown in table 4.2 (The upper and lower limits are also shown in appendix 1) and the investment portfolio in 4.3.

Table 4.2: Maturity structure of the debt portfolio

	31.3.22 actual	**31.3.23 actual**
Under 12 months	£0	**£0m**
12 months and within 24 months	£0m	**£0m**
24 months and within 5 years	£0m	**£0m**
5 years and within 10 years	£8.87m	**£8.87m**
10 years and within 20 years	£8.87m	**£8.87m**
20 years and within 30 years	£8.86m	**£8.86m**
30 years and within 40 years	£0m	**£0m**
40 years and within 50 years	£8.86m	**£8.86m**

Table 4.3: Investment portfolio

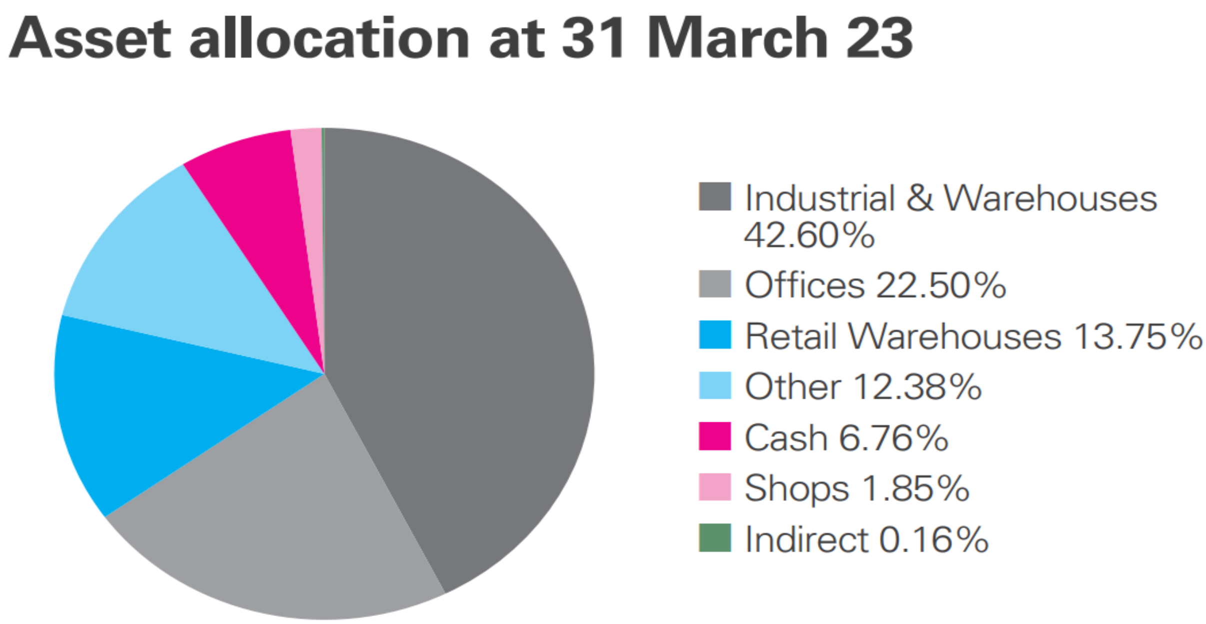
INVESTMENT PORTFOLIO	31.3.22 Actual £000	31.3.22 Actual %	**31.3.23 Actual £000**	**31.3.23 Actual %**
Treasury investments				
Banks	44,000	64%	**32,740**	**75%**
Building Societies - rated	0	0%	**0**	**0%**
Building Societies – unrated	4,000	6%	**2,000**	**4%**
Local authorities	0	0%	**0**	**0%**
Money Market Funds	13,950	20%	**2,190**	**5%**
Total managed in house	**61,950**	**90%**	**36,930**	**84%**
Property funds	5,000	7%	**5,000**	**11%**
Diversified funds	2,000	3%	**2,000**	**5%**
TOTAL TREASURY INVESTMENTS	**68,950**	**100%**	**43,930**	**100%**

Table 4.4:The maturity structure of the investment portfolio was as follows:

	31.3.22 Actual £000	2022/23 Budget £000	**31.3.23 Actual £000**
Investments			
Longer than 1 year	7,000	7,000	8,000
Up to 1 year	61,950	37,000	35,930
Total	**68,950**	44,000	**43,930**

Other prudential and treasury indicators are to be found in the body of this report and appendix 1.

This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate (although a few standalone shops). The spread as at 31 March 2023 is as follows.



These fund managers are experts in property management and are always actively managing their portfolio.

Table 4.5:Council's treasury position at the beginning and the end of 2022/23

Investments / Debt	2021/22 Average Rate/ Return (actual)	31st March 2022 Principal	**2022/23 Average Rate / Return (budget)**	**2022/23 Average Rate / Return (Actual)**	**31st March 2023 Principal**
Total Investments	0.59%	£68.95m	**0.84%**	**2.35%**	**£43.93m**
Total Debt	3.40%	£35.46m	**3.40%**	**3.40%**	**£35.46m**

5.0 <u>THE STRATEGY FOR 2022/23</u>

5.1 Investment strategy and control of interest rate risk

Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24. These rate rises meant that the budgeted investment income was exceeded by over £1m.

The sea-change in investment rates meant we were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

A laddered investment approach is based on allocating portions of our total investment and staggering maturity dates so that each portion of your portfolio matures at regular intervals. Each rung of the ladder represents a specific maturity date. This protects the council against interest rate changes.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

5.2 Borrowing strategy and control of interest rate risk

During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), 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 investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered.

The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. However, this was kept under review to avoid incurring higher borrowing costs in the future when this authority may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.

Interest rate forecasts were initially suggesting only gradual rises in short, medium and longer-term fixed borrowing rates during 2022/23 but by August 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 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.
Table 5.2.1 shows our advisors forecast at the time of writing the 2022/23 strategy and table 5.2.2 shows their forecast a year later.

Table 5.2.1

Our Treasury advisor forecasts at the time of approval of the treasury management strategy report for 2022/23 were as follows:

Link Group Interest Rate View 20.12.21	Dec-21	Mar-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	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Table 5.2.2

Their interest rate forecast changed periodically during 2022/23 and below shows the change in a year:

Link Group Interest Rate View 19.12.22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. Table 5.2.3 shows PWLB rates for 2022/23.

Table 5.2.3:HIGH/LOW/AVERAGE PWLB RATES FOR 2022/23

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps) - (reduction of 20bp)
- **PWLB HRA Rate** is gilt plus 60 basis points (G+60bps). This was introduced on 15 June 2023 – (reduction of 40bp)

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

Generally, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

Change in strategy during the year – the strategy adopted in the original Treasury Management Strategy Report for 2022/23 approved by the Council on 9 March 2022 was subject to no revisions during the year.

A full list of the Council's approved counterparties is included in appendix 2.

6.0 BORROWING OUTTURN FOR 2022/2023

Maturity loans for £70.902m were taken out on the 28 March 2012 to fund the new HRA self-financing system. The borrowing remaining as at 31 March 2023 was £35.46 as shown In table 6.1.

Table 6.1: Borrowing position as at 31 March 2023

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£35.46m			

A maturity loan is a repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into low borrowing rates. The average rate of these loans at 31 March 2023 was 3.40%.

No new external borrowing was undertaken during the year and therefore the Council has not borrowed in advance of its need.

No rescheduling was carried out during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.0 INVESTMENT OUTTURN IN 2022/23

Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 9 March 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Resources – the Council's cash balances comprise, primarily, of revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources are shown in table 7.1.

Table 7.1: Core cash resources

Balance Sheet Resources (£m)	31st March 2022 £m	**31st March 2023 £m**
General Fund Balances	5.0	5.0
HRA Balances	6.8	5.4
Earmarked reserves	27.4	20.8
Capital grants unapplied	0.7	1.7
Usable capital receipts	2.0	1.7
Total	**41.9**	**34.6**

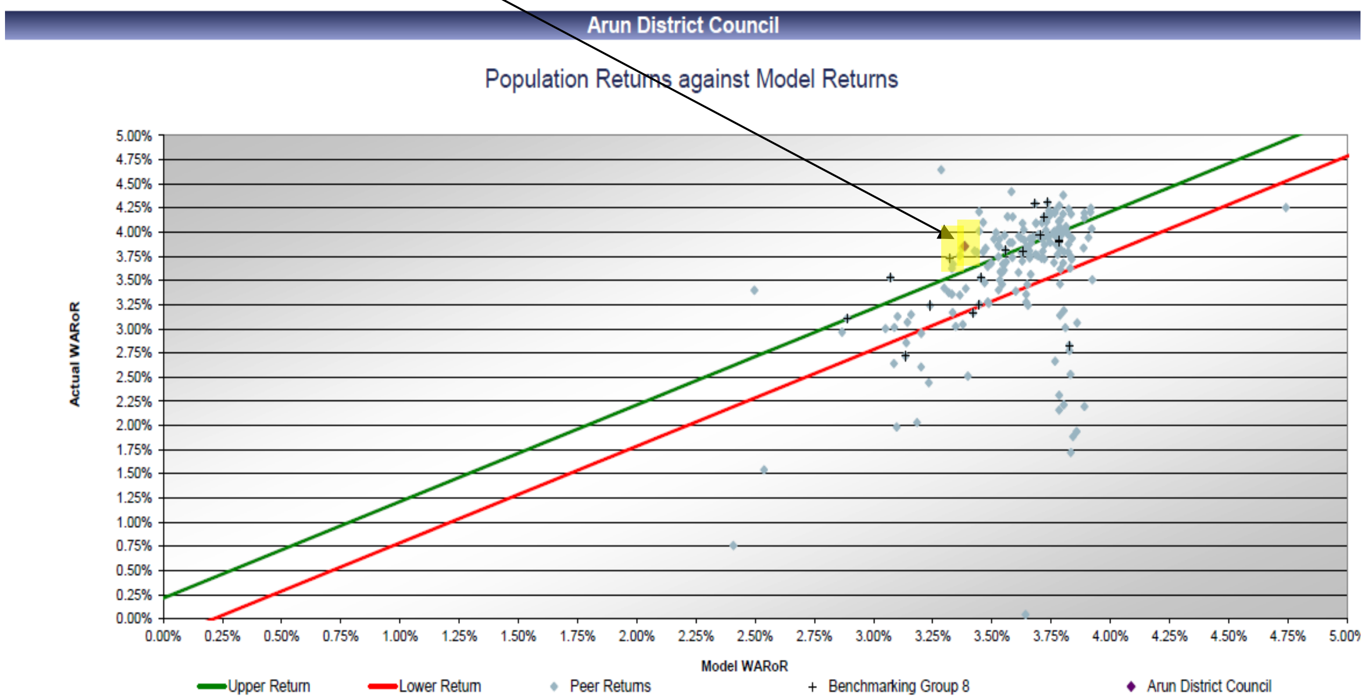
Investments held by the Council

The Council maintained an average balance of approximately £55m of internally managed funds, plus £5m CCLA property fund and £2m Diversified fund. These internally managed funds earned an average rate of return of 2.17% plus 4.07% for the property fund and 2.86% for the diversified fund giving an overall return of 2.35%.
This compares with a budget assumption of £44m investment balances earning an average rate of 0.84%.

Total investment income was £1,456k compared to a budget of £370k. This was largely due to the increases in interest rates which were not predicted at the time, and additional balances in the form of grants held throughout the year and either not paid out or delays in requests for the balances to be returned.

The Council has also subscribe to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios.

A full list of investments at the 31 March 23 is included in appendix 3 and below shows a comparison of Arun's investment performance against other Councils.



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Arun District Council	3.85%	3.39%	0.47%	3.17%	3.60%	Above

The Councils performance for the treasury investment portfolio is above the upper return boundary for the end of Q1 2023 (as it was for all of 2022/23).
This is as a result of the yields on investments under 1 month (MMF, Call accounts & Notice accounts) rising in line with increases in the Bank rate and investments made in 1-to-6-month durations (Fixed Deposit) pushing the portfolio's weighted average rate of return (WARoR) to 3.85% against the model portfolio's WARoR of 3.39% and exceeding the upper boundary WARoR of 3.60%.

8.0 IFRS 9 fair value of investments

Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are 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.

The valuation of investments previously valued under the available for sale category e.g., equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to **Fair Value through the Profit and Loss (FVPL).**

The Council had the following valuations at 31 March 2023 which would affect the Council taxpayer if the override was not in place:

- CCLA property fund - £4,767,294 (£5m invested)
- CCLA diversified fund - £1,892,639 (£2m invested

This would have had an adverse impact of £340,000 on the Council’s revenue budget.

9.0 Amendments to 2023/24 Strategy

This report includes additions to the counterparty lending list (appendix 2) in the way of Handelsbanken Plc and Natwest Markets Plc (NRFB). Each category has a limit which cannot be breached by individuals and will apply to a group of companies/institutions too.
They both adhere to the minimum credit criteria in category 1 and 2 and have been added for diversification and to offer further options due to the withdrawal of Qatar National Bank and First Abu Dhabi Bank.

Current Ratings
Handlesbanken (Fitch AA, F1+)
Natwest Markets Plc (NRFB) (Fitch A+, F1)

Prudential and treasury indicators

APPENDIX 1

1. PRUDENTIAL INDICATORS	2021/22	2022/23	2022/23
Extract from budget and rent setting report	**Actual**	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non – HRA	4,341	3,939	7,411
HRA	6,940	8,351	6,436
TOTAL	11,280	12,290	13,847
Ratio of financing costs to net revenue stream			
Non - HRA	(2.06)%	(1.88)%	***(5.45)%
HRA	31.35%	*15.58%	*16.60%
Capital Financing Requirement as at 31 March			
Non – HRA	(4,442)	(3,655)	** (19)
HRA	52,531	54,475	52,876
TOTAL	48,089	50,820	52,857
Annual change in Cap. Financing Requirement			
Non – HRA	(219)	787	**4,423
HRA	(442)	5,128	345
TOTAL	(661)	5,915	4,768

* Reduced provision for HRA debt
** Due to Extended cleansing contract with new vehicles
*** Due to increase interest rates

2. TREASURY MANAGEMENT INDICATORS	2021/22	2022/23	2022/23
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt			
Borrowing	54,000	53,000	53,000
Other long term liabilities	1,000	5,000	5,000
TOTAL	**55,000**	**58,000**	**58,000**
Operational Boundary for external debt			
Borrowing	49,000	48,000	48,000
other long term liabilities	1,000	5,000	5,000
TOTAL	**50,000**	**53,000**	**53,000**
Actual external debt	*35,460	35,460	35,460
Upper limit for total principal sums invested for over 365 days (£m)	**18,000**	**24,000**	**24,000**
-	-		-

**Debt for most of the year was £44.32m - £8.86m repaid on 28 March 2022*

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/23	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

APPENDIX 2

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £12 million for each institution (or group) - Maximum investment period - 5 Years

Min Criteria	Long Term	Short Term
Fitch	**AA-**	**F1+**
Moody	**Aa3**	**P-1**
S&P	**AA-**	**A-1+**

All Local Authorities

Australia & New Zealand banking Group Ltd (ANZ - AUS) *New for 23-24 strategy*
Bank of Nova Scotia (CAN)
Development Bank of Singapore Ltd (DBS-SING)
Handelsbanken Plc (UK) *addition to 23-24 strategy*
National Australia Bank (AUS) *New for 23-24 strategy*
Oversea-Chinese Banking Corp Ltd (OCBC - SING)
JP Morgan Chase (USA)
United Overseas Bank Ltd (UOB - SING)

Category 2 - Limit of £11 million for each institution (or group) - Maximum investment period - 3 Years

	Long Term	Short Term
Fitch	**A+**	**F1**
Moody	**A1**	**P-2**
S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group-UK)
Goldman Sachs International Bank (UK)
HSBC Bank plc (RFB &NRFB) (UK)
National Bank of Canada (CAN)
National Westminster Bank PLC (RFB) (UK)
Natwest Markets Plc (NRFB) (UK))

addition to 23-24 strategy

Santander (UK)
Standard Charted Bank (UK)
The Royal Bank of Scotland PLC (RFB) (UK)

<u>Category 3 - Limit of £8 million for each institution (or group) - Maximum investment period - 2 Years</u>

Min Criteria	<u>Long Term</u>	<u>Short Term</u>
Fitch	**A-**	**F1**
Moody	**A3**	**P-2**
S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)

<u>Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year Building Society with Assets greater than £10 billion</u>

Coventry Building Society (UK)
Leeds Building Society (UK)
Principality Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

<u>Category 5 - Council's Bank</u>
NO LIMIT - appropriate category 1 to 3 (Max of £11M term deposit)

Lloyds Bank Plc (RFB) (Cat 2 for Term deposit limit)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2 for Term deposit limit)

<u>Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)</u>	**<u>Fitch</u>**	**<u>NAV</u>**
<u>Category 6 - Money Market Funds (MMF's)</u> (CNAV, LVNAV, VNAV & Enhanced MMF's		
Limit of £4million for each institution		
	AAA	LVNAV
Aberdeen Standard (GBP)	AAA	LVNAV

CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)		
	AAA	
Northern Trust		

<u>Category 7 - Alternative Investments - No defined maturity date</u>
Maximum investment £4 million

Ultra-Short dated Bond Funds

<u>Category 8 - Debt Management Agency Deposit Facility (DMADF)</u>
NO LIMIT (UK Govt)

Debt management Office (DMO)

<u>Category 9 - Bonds issued by multilateral development banks - 5 Years</u> AAA
Maximum investment £4 million

<u>Category 10 – Property Funds - No defined maturity date</u>
Maximum investment £6 million

CCLA - Property Fund

<u>Category 11 - Multi-Asset Funds - No defined maturity date</u>
Maximum investment £6 million

CCLA - Diversified Income Fund

Below were removed as part of the 2023-24 strategy approved in March 2023:

- *First Abu Dhabi Bank (U.A.E)*
- *Qatar National Bank (Qatar)*

Below were added as part of the 2023-24 strategy and additions as part of this report:

- *Australia & New Zealand banking Group Ltd*
- *National Australia Bank (AUS)*

- *Handelsbanken Plc (UK)*
- *Natwest Markets Plc (NRFB) (UK)*

Appendix 3

INVESTMENTS at 31 March 2023

Type of Investment/Deposit	Reference no.	Counterparty	Issue Date	Maturity Date	Nominal	Current Interest Rate
Fixed Term Deposit	853	Qatar National Bank	28/09/2022	05/04/2023	£4,000,000.00	4.685
Fixed Term Deposit	859	Development Bank of Singapore (DBS)	01/12/2022	05/04/2023	£1,000,000.00	3.750
Fixed Term Deposit	828	Standard Chartered Bank - Sustainable Deposits	06/04/2022	06/04/2023	£2,000,000.00	1.94
Fixed Term Deposit	829	Standard Chartered Bank - Sustainable Deposits	14/04/2022	14/04/2023	£1,000,000.00	1.88
Fixed Term Deposit	857	Santander UK Plc	10/11/2022	14/04/2023	£1,000,000.00	3.640
Fixed Term Deposit	830	Standard Chartered Bank - Sustainable Deposits	21/04/2022	21/04/2023	£1,000,000.00	1.9500
Fixed Term Deposit	855	Yorkshire Building Society	20/10/2022	05/05/2023	£2,000,000.00	3.940
Fixed Term Deposit	856	NatWest Bank	04/11/2022	05/05/2023	£2,000,000.00	3.800
Fixed Term Deposit	846	National Westminster Bank	11/08/2022	11/05/2023	£1,000,000.00	2.500
Fixed Term Deposit	836	National Westminster Bank	22/06/2022	22/06/2023	£1,000,000.00	2.550
Fixed Term Deposit	842	First Abu Dhabi Bank	21/07/2022	21/07/2023	£1,000,000.00	3.010
Fixed Term Deposit	840	Close Brothers Limited	10/08/2022	10/08/2023	£1,000,000.00	2.800
Fixed Term Deposit	848	Santander UK Plc	25/08/2022	25/08/2023	£2,000,000.00	3.470
Fixed Term Deposit	850	Standard Chartered Bank - Sustainable Deposits	26/09/2022	26/09/2023	£1,000,000.00	4.420
Fixed Term Deposit	851	Standard Chartered Bank - Sustainable Deposits	28/09/2022	28/09/2023	£2,000,000.00	5.250
Fixed Term Deposit	852	Goldman Sachs International	28/09/2022	28/09/2023	£1,000,000.00	5.450
Fixed Term Deposit	854	Santander UK Plc	28/09/2022	28/09/2023	£2,000,000.00	5.250
Fixed Term Deposit	858	NatWest Bank	23/11/2022	23/11/2023	£1,000,000.00	4.350
Fixed Term Deposit	860	Development Bank of Singapore (DBS)	15/12/2022	15/12/2023	£1,000,000.00	4.500
Fixed Term Deposit	861	Development Bank of Singapore (DBS)	22/12/2022	22/12/2023	£1,000,000.00	4.450
Fixed Term Deposit	863	Standard Chartered Bank - Sustainable Deposits	05/01/2023	05/01/2024	£1,000,000.00	4.530
Fixed Term Deposit	865	Goldman Sachs International	05/01/2023	06/01/2025	£1,000,000.00	4.645
Calll Account	44447	Lloyds Bank			£3,740,000.00	4.160
Money Market Fund	100500	CCLA (Churches, Charities and LA's)			£2,190,000.00	4.1166
Property Fund	140000	CCLA (Churches, Charities and LA's)			£5,000,000.00	*4.26
Diversified Fund	140500	CCLA (Churches, Charities and LA's)			£2,000,000.00	*3.02
					£43,930,000.00	

* rates at 31-3-23