Treasury Management Activity 2022/23: April to November 2022

The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management ("the Code"). The Code recommends that members are informed of treasury management activities. This report provides an update on treasury management activity between 1 April and 30 November 2022 and a brief commentary on the economic context in which treasury management decisions were taken.

Economic context

The key themes during the period were the continuing increase in inflation, the resultant increase in interest rates and the anticipation that the economy will enter recession.

Consumer Price Index (CPI) inflation rose to 11.1% at the end of October, compared to a rate of 7.0% in March. It is forecast by the Bank of England that this will be near the peak. It is then anticipated that inflation will fall. The Bank of England Monetary Policy Committee reported in November a forecast that CPI inflation will fall to around 5% by the end of 2023 before falling to the 2% target by the start of 2024.

In response to the increasing inflation the period has seen interest rates increasing as the Bank of England took action to try and reduce inflation. The Bank of England increased the Bank Rate by 0.75% to 3.0% in November 2022. This was the eighth successive rise since December 2021. The council's treasury management adviser Arlingclose in its latest forecast expects the Bank Rate to rise to 4.25% by June 2023 under its central case, with the risks in the near and medium-term to the upside should inflation not evolve as the Bank forecasts and remains persistently higher.

The UK economy grew by 0.2% between April and June 2022, and the first estimates for July to September 2022 show that the headline growth indicator (GDP) fell by 0.2% due to the squeeze on household income from higher energy costs and goods prices. The November quarterly Monetary Policy Report (MPR) forecasts a prolonged but shallow recession in the UK with the economic outlook remaining weak, with unemployment projected to start rising.

Investment activity

Investments at 30 November 2022 totalled £995m and consisted of £78m in bank and local authority deposits and £917m in corporate and government bonds. The following table shows the investment activity between 1 April and 30 November 2022.

Bank and Local Authority	Call	Fixed	Total
Deposits	**£m**	**£m**	**£m**
Balance 1 April 2022	**51.0**	**30.0**	**81.0**
Maturities	-151.8	-20.0	-171.8
New Investments	168.7	0.0	168.7
Balance 30 November 2022	**67.9**	**10.0**	**77.9**

Bonds	Local Authority Bonds £m	Gilts £m	Liquidity £m	Corporate £m	Total £m
Balance 1 April 2022*	**32.5**	**237.1**	**326.1**	**206.6**	**802.3**
Maturities/sales	-1.2	-379.5	-873.5	-1.9	**-1,256.1**
New Investments	0.0	464.6	904.6	1.1	**1,370.3**
Balance 30 November 2022	**31.3**	**322.2**	**357.2**	**205.8**	**916.5**

*The opening balances include bonds that formed part of the Non-Treasury Management investments portfolio in the last financial year.

Total investments, including the bank and local authority deposits, have increased by £111m during the period however it is anticipated that these will now gradually reduce over the remainder of the financial year so as at 31 March 2023 they will be more in line with the opening balances position.

The current rate of return on the investment portfolio measured by Arlingclose is 2.52% which compares favourably with the Sterling Overnight Rate (SONIA) which averaged 1.57% over the same period.

Borrowing activity

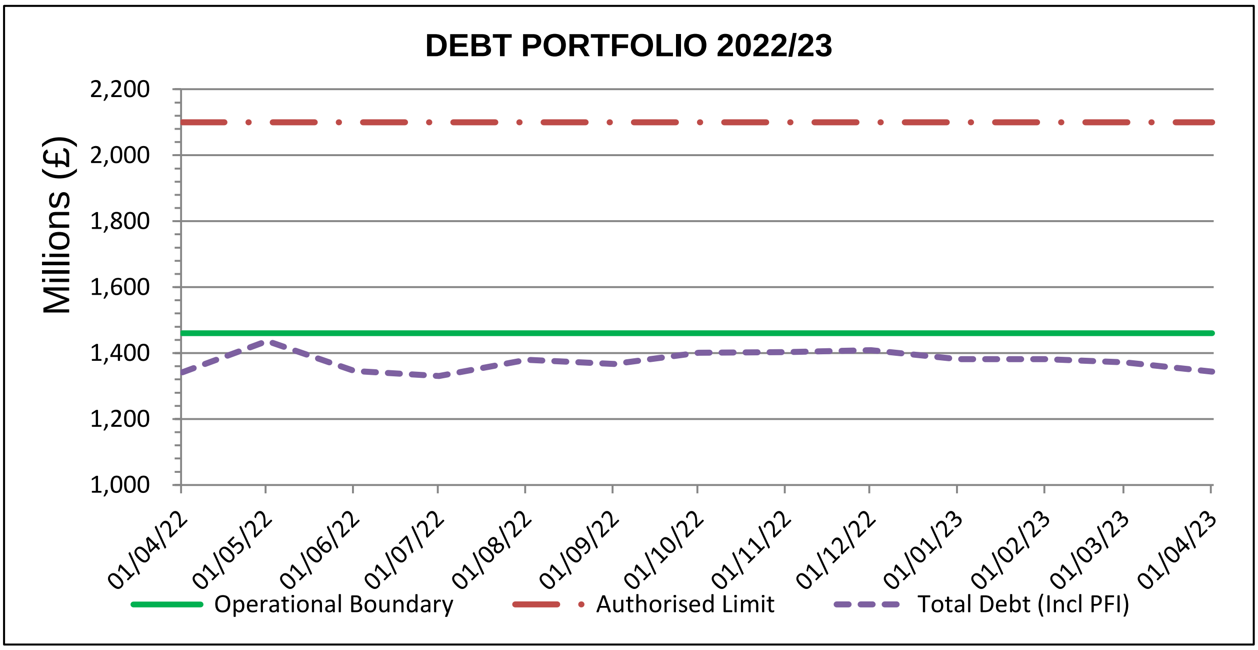
The council's capital programme includes a requirement to borrow to fund new capital investment. The table below summarises the borrowing activity which has taken place between 1 April and 30 November 2022.

Borrowing	PWLB Fixed £m	PWLB Variable £m	Long Term Bond £m	Other Local Authorities £m	Police, Fire & Lancashire District Councils £m	Total £m
Balance 1 April 2022	**284.6**	**0.0**	**600.0**	**247.0**	**71.8**	**1,203.4**
New Borrowing	0.0	0.0	0.0	356.0	415.0	771.0
Maturities	0.0	0.0	0.0	-327.0	-368.8	-695.8

Balance 30 November 2022	**284.6**	**0.0**	**600.0**	**276.0**	**118.0**	**1,278.6**
Public Finance Initiative (PFI) Liability	-	-		-	-	133.0
Total Borrowing & PFI						**1,411.6**

Total borrowing at the end of November was £1,412m including the financing of £133m of assets through remaining Private Finance Initiative schemes. The outstanding borrowing has increased by £75m in the period, which is largely due to the increased levels deposited by district councils into their shared investment schemes. It is expected that the borrowing levels will now reduce over the remainder of the financial year, as borrowings mature, so at 31 March 2023 they will be at a similar level to the opening balance.

The borrowing is undertaken within the framework set by the 'Authorised' and 'Operational' limits. The following graph shows the level of debt for the current financial year compared with the prudential indicator operational and authorised boundaries. It is expected that the debt may exceed the operational limit on occasions, but it should not exceed the authorised limit. The debt shown from 30 November represents the debt position if no maturing debt was replaced rather than an estimate of the expected position.



Total debt during the year has remained below both the authorised and the operational limits. It is anticipated that the debt will be below the operational boundary at the financial year end.

The council's current interest rate payable on debt as measured by Arlingclose is 2.87%.

Budget monitoring

It was reported to the council's Cabinet in September 2022 that the current forecast treasury management outturn to the end of the financial year is in line with budget. However, the final outturn may be significantly different from the current forecast, due to the impact of expected continuing market volatility. Any changes to fair value that need to be charged in year will be taken to/from reserves to prevent unrealised transactions impacting on the council's revenue account.

The financial position is kept under regular review and discussed with the Director of Finance on a monthly basis.

Prudential Indicators

The Treasury Management Strategy included some prudential indicators which provide a framework for the operation and risk management of treasury management activities. These are shown as follows for 2022/23 with the latest available actual position.

Authorised and Operational Limits for debt

The 'authorised limit' is a prudent estimate of external debt but allows sufficient headroom for unusual cash flow movements. During the year the Director of Finance approved the re-allocation of the 'authorised limit' between the borrowing and 'other long-term liabilities' to provide some additional flexibility in undertaking long-term borrowing. This approval is in accordance with the Prudential Code.

	Limit	Actual
	£m	£m
Borrowing	1,700	1,279
Other long-term liabilities (PFI schemes)	400	133
TOTAL	**2,100**	**1,412**

The 'operational limit' for external debt is based on the same estimates as the authorised limit. However, although it reflects a prudent estimate of debt, there is no provision for unusual cash flow movements. In effect, it represents the estimated maximum external debt arising as a consequence of the council's current plans. As required under the Code, this limit has been monitored during the year.

	Limit	Actual
	£m	£m
Borrowing	1,300	1,279
Other long-term liabilities (PFI schemes)	160	133
TOTAL	**1,460**	**1,412**

Gross debt and the capital financing requirement (CFR)

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the authority's total debt should be lower than its highest forecast capital financing requirement over the next three years. The county council's borrowing initially appears in excess of the capital financing requirement however, in making this comparison certain borrowing is included in the total borrowing but does not count against the capital financing requirement. These include the premiums paid and debt held on behalf of other authorities. The current level of debt also includes an element of borrowing in advance to cover new expenditure or maturing debt. In summary the position is:

	£m
Total debt at 30 November 2022	1,412
Capital Financing Requirement estimated at 31 March 2022	1,206
Debt in excess of Capital Financing Requirement	206
Due to:	
Debt held on behalf other authorities	35
Premiums	38
Borrowing in advance	133

Therefore, the Director of Finance confirms that the level of borrowing over the three years is within the capital financing requirement conditions.

Interest rate exposure

In order to control interest rate risk the council measures its exposure to interest rate movements. These indicators place limits on the overall amount of risk the council is exposed to. This covers the impact of the additional cost of borrowing and the income from investments. The one-year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.

	Upper Limit	Actual
One-year revenue impact of a 1% rise in interest rates	£50m	-£2.1m

The actual is a negative. This arises as a significant proportion of the debt is at fixed rates and are therefore not exposed to changes in interest rates while overall investments are attracting greater interest.

The indicator excludes the impact on fair values of an interest rate rise as these values are affected by various factors.

Maturity structure of debt

Limits on the maturity structure of debt help control refinancing risk.

	Upper Limit	Actual
Under 12 months	75%	15%
12 months and within 2 years	75%	15%
2 years and within 5 years	75%	31%
5 years and within 10 years	75%	4%
10 years and above	75%	35%

Investments over 1 year

Limit on the level of long-term investments helps to control liquidity, although the majority of these investments are currently held in securities which are readily saleable. The limit is largely determined by the forecast of reserves and balances held at the year-end. The level of investments is managed to be in line with the estimated reserves and balances and cash flow at 31 March 2023 (deemed an operational limit which will be reviewed during the year). However, it is anticipated that the level of reserves will fall gradually during the year and there will be positive cash-flows in year which will require a higher level of investments to be held including bonds held specifically for liquidity purposes.

	Upper limit	Actual
Total invested over 1 year	£1,100m	£896m

The level of investments is not anticipated to fall to the £700m limit by the year-end due to reserves and balances remaining higher than initially anticipated.

Minimum Average Credit Rating

To control credit risk the council requires a very high credit rating from its treasury counterparties.

	Benchmark	Actual
Average counterparty credit rating	A	AA

Liquidity Risk Indicator

The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.

	Limit	**Actual**
Total sum borrowed in past 3 months without prior notice	£50m	£29m