TREASURY MANAGEMENT ACTIVITY DURING 2022/23

BORROWING REQUIREMENT AND DEBT MANAGEMENT

1. Based on the latest capital programme and resources available to the authority there is an estimated net reduction in the borrowing need as at 31 March 2023 of £90M. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR) while useable reserves and working capital represent the underlying resources available for investments. These are the core drivers of TM Activity and the year-on-year change is summarised in table 1 below.

2. The Authority’s current strategy is to maintain borrowing and investments below underlying levels in order to reduce risk and interest costs. There is a forecast decrease of internal borrowing of £48.19M as a result of anticipated lower useable reserves and other resources.

Table 1 – Balance Sheet Summary

	31-Mar-22 Actual £M	31-Mar-23 Strategy £M	31-Mar-23 Forecast £M	31-Mar-23 Forecast Movement in year £M
General Fund CFR	339.15	410.84	371.96	32.81
Housing CFR	168.73	190.85	183.95	15.22
Total CFR	**507.88**	**601.69**	**555.91**	**48.03**
Less Other Debt Liabilities*	(60.62)	(57.11)	(57.11)	3.51
Loans CFR	**447.26**	**544.58**	**498.80**	**51.54**
Less External Borrowing**	(255.30)	(248.19)	(258.65)	(3.35)
Internal (over) Borrowing	**191.96**	**296.39**	**240.15**	**48.19**
Balance sheet Resources	(303.08)	(175.86)	(257.42)	45.66
Treasury Investments	111.12	0.00	48.01	(63.11)
New Borrowing or (Investments)	**(0.00)**	**120.53**	**30.74**	**30.74**

** finance leases, PFI liabilities and Transferred debt that form part of the authority's total debt*

3. The forecast movement in the CFR is one of the Prudential Indicators (PIs). When the strategy was last updated in February 2022, the forecast CFR for 31st March 2023 was £601.69M, the current forecast is £555.91M, a net reduction of £48.03M. This decrease reflects changes in borrowing for the capital programme, £32.81M General Fund and £15.22M HRA.

   During quarter 2 a review of the capital programme was undertaken which has resulted in a reduction in borrowing overall and a re-profiling of schemes to move borrowing into later years. Further details can be seen in the General Fund and HRA capital monitoring reports being reported to Council in November.

   The forecast movement in year is shown in table 2 below.

Table 2 – Capital Financing Requirement Movement in year

Capital Financing Requirement	General Fund £M	HRA £M	Total £M
Balance Brought forward	339.15	168.73	507.88
New Borrowing	43.93	15.22	59.15
MRP	(7.61)	0.00	(7.61)
Appropriations (to) from HRA	0.00	0.00	0.00
Movement in Other Liabilities	(3.51)		(3.51)
Estimated CFR 31 March 2023	**371.96**	**183.95**	**555.91**

4. The movement in actual external debt and usable reserves combine to identify the Authority's borrowing requirement and potential investment strategy in the current and future years. This is shown in the tables below together with activity in the year.

5. *Table 3: Borrowing and Investment Position*

	31-Mar-22 Actual £M	31-Mar-22 Average Yield / Rate %	30-Sep-22 Actual £M	30-Sep-22 Average Yield / Rate %	31-Mar-23 Forecast £M	31-Mar-23 Forecast Average %
Long Term Borrowing						
Public Works Loan	246.30	2.88	252.74	2.75	279.99	2.91
LOBO Loans from Banks	9.00	4.89	9.00	4.86	9.00	4.87
	255.30	**2.95**	**261.74**	**2.88**	**288.99**	**2.82**
Short Term Borrowing						
Other	0.36	0.38	0.44	1.84	0.44	2.91
Total External Borrowing	**255.66**	**2.83**	**262.18**	**2.86**	**289.43**	**2.78**
Other Long Term Liabilities						
PFI Schemes	47.52	9.01	45.95	10.20	44.37	10.20
Deferred Debt Charges (HCC)	13.10	2.66	12.92	2.56	12.73	2.56
Total Gross External Debt	**316.28**	**3.87**	**321.04**	**4.08**	**346.53**	**3.89**
Investments:						
Managed In-House						
Government & Local Authority	(24.41)	0.00	(22.44)	1.80		
Cash (Instant access)	(54.50)	0.51	(16.82)	2.12	(20.00)	5.00
Cash (Notice Account)	0.00	0.00	0.00	0.00	0.00	0.00
Long Term Bonds	(1.06)	5.27	(1.01)	5.27	(1.01)	5.27
Managed Externally						
Pooled Funds (CCLA) & Shares	(27.25)	3.81	(27.00)	3.76	(27.00)	3.00
Total Investments	**(107.22)**	**3.46**	**(67.27)**	**3.44**	**(48.01)**	**3.88**
Net Debt	**209.06**		**253.77**		**298.52**	

6. *Table 4: Forecast Movement in Gross External Debt during the year*

Movement during the year	2021/22 Actual £M	Movement £M	2022/23 Forecast £M
Long-term borrowing Carried Forward	231.60		255.30
Maturities in year	(9.30)		(7.11)
New borrowing in year	33.00		40.80
Net Long Term Borrowing	**255.30**	**33.69**	**288.99**
Short-term borrowing Carried Forward	10.36		0.36
Net Maturities in year	(10.36)		(0.36)
Net new borrowing in year	0.36		0.44
Net Short Term Borrowing	**0.36**	**0.08**	**0.44**
Total Borrowing at 31st March	**255.66**	**33.77**	**289.43**
Other Debt Liabilities	**60.62**	**(3.52)**	**57.10**
Total Debt at 31st March	**316.28**	**30.25**	**346.53**

7. The maturity analysis of the Council's actual debt at 30th September 2022 is shown in table 5 below. Debt due in one year includes both short term and long-term loans due in year, LOBO loans are shown as uncertain as they are within the call option.

8. *Table 5: Maturity Structure of Borrowing*

Analysis of Loans by Maturity	Lower Limit	Upper Limit	Compliance with Limit	Outstanding 30/09/2022	% of Debt
Less than 1 Year	0	50	Yes	6.83	3
Between 1 and 2 years	0	50	Yes	6.83	3
Between 2 and 5 years	0	50	Yes	20.50	8
Between 5 and 10 years	0	55	Yes	34.15	13
Between 10 and 20 years	0	60	Yes	34.58	13
Between 20 and 40 years	0	60	Yes	149.85	57
Over 40	0	75	Yes	0.00	0
Uncertain Date**	0	5	Yes	9.00	3
				261.74	**100**

Borrowing Update

9. Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing.

Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

Competitive market alternatives may be available, however the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2022

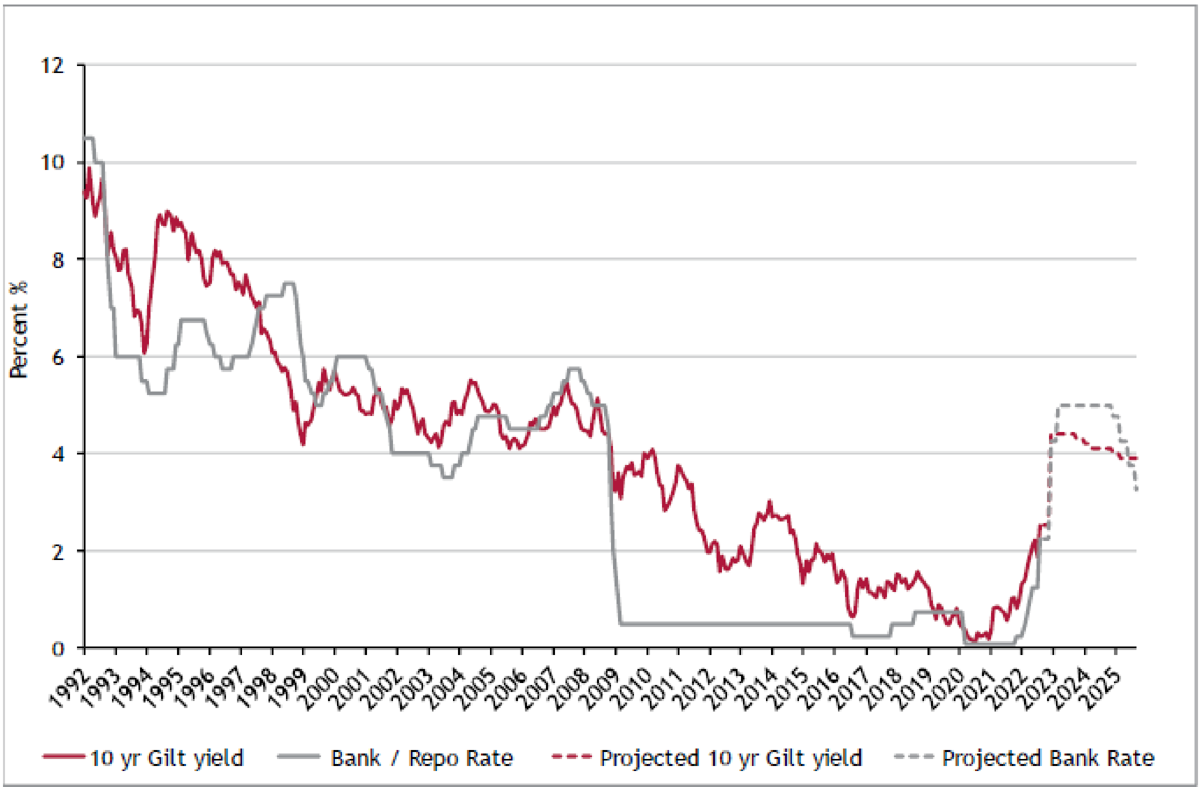
	are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB. The Authority is not planning to purchase any investment assets primarily for yield within the next three years and so is able fully access the PWLB.
10.	The Authority currently holds £114.14M in commercial property that was purchased prior to the change in the CIPFA Prudential Code. This is made up of 3 properties that were purchased between 2016 and 2017 for £27M, when SCC implemented a strategy to invest in commercial properties with the expected return on the investments being used to fund council services, known as the Property investment fund (PIF) and a historic portfolio. Before undertaking further additional borrowing the Authority will review options for exiting these investments, but this needs to be considered in conjunction with the loss of income generated by these properties, £6.25M for 2021/22.
Borrowing Strategy and Activity during Period	
11.	On 30th September 2022 the Authority held £262.18M of loans, (a increase of £6.52M since 31st March 2022), as part of its strategy for funding previous and current years' capital programmes. Outstanding loans are summarised in Table 3 and 5 above.
12.	The Authority's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Authority's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.
13.	Over the April-September period short term PWLB rates rose dramatically, particular in late September after the Chancellor's 'mini-budget' prompted a fall in sterling and rise in market interest rate expectations. Interest rates rose by over 2% during the period in both the long and short term. As an indication the 5-year maturity certainty rate rose from 2.30% on 1st April to 5.09% on 30th September; over the same period the 30-year maturity certainty rate rose from 2.63% to 4.68%. Although interest rates across the board have risen, short-term borrowing from other local authorities remains at lower interest rates than long term borrowing. In keeping with these objectives, new borrowing was kept to a minimum resulting in reduced net borrowing costs (despite foregone investment income) and reduced overall treasury risk.
14.	The authority has an increasing CFR (see table 1) due to the capital programme and an estimated borrowing requirement as determined by the Liability Benchmark which takes into account usable reserves and working capital. Rates are on an upward trajectory and are currently above the rate used for setting budget. Further borrowing will be required during the year and rates will be monitored to determine the appropriate time; current advice is to take small amounts over regular period due to interest volatility, to date we have taken one new long-term loan as detailed below.

Long Term Loans	Date	Amount £M	Rate %	Period (Years)
PWLB Maturity Loan	12/05/2022	10,000	2.94%	25
Total Borrowing		**10,000.00**		

15. The PWLB were the Council’s preferred source of long-term borrowing given the transparency and control that its facilities continue to provide, but PWLB funding margins have lurched quite substantially in the last year and there remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields plus 0.80. The Authority will evaluate and pursue these lower cost solutions and opportunities with its advisor Arlingclose, when there is a need to borrow.

16. The Authority’s borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short and long-term borrowing will be maintained.

17. The charts below show the pattern of the 25 year PWLB rate since 1992, the rise in November 2019 is where the 1% over gilts was implemented, but otherwise it had generally been a downward trend until the recent turmoil in markets.



Lender’s Option Borrower’s Option Loans (LOBOs)

18. The council continues to hold £9M of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the council has the option to either accept the new rate or to repay the loan at no additional cost. All of these LOBOS had options during the year, none of which were exercised by the lender, but if they were to then they would be replaced by a PWLB loan. Due to higher interest rates, the likelihood of a lender calling the loan has increased.

Other Debt Activity

19. Although not classed as borrowing the Council has previously raised capital finance via Private Finance Initiative (PFI). The mid-year balance was £45.95M and will fall to £44.37M after further repayment in year.

20.	In addition, the Authority holds debt in relation to debt transferred from Hampshire County Council on the 1st April 1997 when we became a unitary authority which is being repaid over 50 years at £0.4M per annum, the balance at 30th September was £12.92M.

INVESTMENT ACTIVITY

21.	Both the CIPFA and government guidance requires the council to invest prudently and have regard to the security and liquidity of investments before seeking the optimum yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low income returns.
22.	CIPFA revised TM Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for use in the course of business.
23.	The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Authority's investment balances ranged between £109.37M and £66.45M and are currently £67.27M but are expected to reduce to £48M by year end. This is due to timing differences between income and expenditure.
24.	This supports our decision to only borrow for cash flow purposes at this stage as savings on borrowing costs more than offset the loss on short term investments. Movement in year is summarised in table 6 below:

25. ***Table 6: Investment activity during the year***

	Balance on 01/04/2022 £M	Investments Repaid £M	New Investments £M	Balance on 30/09/2022 £M	(Increase)/ Decrease in Investment for Year £M	Average Life of Investments Life
Multi- National Bonds (not subject to bail in)	(1.06)	(0.05)	0.00	(1.01)	0.05	3 years
Money Market Funds and Call Account	(54.50)	188.57	(150.89)	(16.82)	37.68	on day notice
Government & Local Authority	(24.41)	101.92	(99.95)	(22.44)	1.97	45 days
Managed Externally (CCLA Pooled funds)	(27.25)	(0.25)		(27.00)	0.25	Unspecified
Total Investments	**(107.22)**	**290.18**	**(250.84)**	**(67.27)**	**39.96**	

26. The increases in Bank Rate over the period under review, and with the prospect of more increases to come, short-dated cash rates, rose by around 1.5% for overnight/7-day maturities and by nearly 3.5% for 9-12 month maturities.

By end September, the rates on DMADF deposits ranged between 1.85% (overnight) and 3.5% (6 months). The return on the Council's sterling low volatility net asset value (LVNAV) Money Market Funds ranged between 0.48% - 0.54% in early April and between 1.95% and 2.13% at the end of September.

Forecast income is now £1.63M, £0.61M higher than originally budgeted.

27.	Security of capital has remained the council's main investment objective. This has been maintained by following the Authority's counterparty policy as set out in its TM Strategy Statement for 2023/24. The council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio, which is supplied by our advisors. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment.

	Target	Actual
Portfolio average credit rating	A	AA-

28.	Counterparty credit quality was assessed and monitored with reference to credit ratings (the Authority's minimum long-term counterparty rating is A-) across rating agencies Fitch, S&P and Moody's); for financial institutions analysis of funding structure and susceptibility to bail-in, credit default swap prices, financial statements, information on potential government support and reports in the quality financial press. The authority also used secured investments products that provide collateral in the event that the counterparty cannot meet its obligations for repayment.

Credit Developments and Credit Risk Management

29.	Having completed its full review of its credit advice on unsecured deposits at UK and non-UK banks, in May Arlingclose extended the maximum duration limit for five UK banks, four Canadian banks and four German banks to six months. The maximum duration for unsecured deposits with other UK and non-UK banks on Arlingclose's recommended list is 100 days. These recommendations were unchanged at the end of the period. Arlingclose continued to monitor and assess credit default swap levels for signs of credit stress but made no changes to the counterparty list or recommended durations. Nevertheless, increased market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review. Further information on the background to this is available in Appendix 1.
30.	**Benchmarking:** Our advisors Arlingclose produce quarterly benchmarking which shows the breakdown of our investments and how we compare to their other clients and other English Unitary Authorities. Details can be seen in Appendix 3. Investments managed internally are currently averaging a return of 1.91% which is higher than the average unitary authority at 1.74% whilst maintaining the same credit rating at AA-. Total income returns at 2.74% is also higher than the average for both unitary (2.13%) and LA's (2.05%), this is primarily due to historic investment in EIB bonds which return 5.27%, although on a small balance of £1M, since maturities cannot be replaced at the same level. We hold 44% of our investments in strategic funds which offer higher return over the long term as detailed in paragraphs 15 to 18 below. This is higher than the average but in line with our strategy. In addition, due to the increase in the capital value of our external funds of +10.72% our total investment return at 7.42% is significantly higher than the average LA's at 1.47% and the average unitary at 2.27% across Arlingclose's client base but as previously reported, it is the income return that was the driver to invest and they were deemed less risky than buying individual properties and do not constitute capital spend. This is kept currently under review and advice sought from advisors.

Liquidity Management	
31.	In keeping with the DLUHC Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds and call accounts. There is no perceived risk that the Council will be unable to raise finance to meet its commitments. The Council also has to manage the risk that it will be exposed to replenishing a significant proportion of its borrowing at a time of unfavourable interest rates. The Council would only borrow in advance of need where there is a clear business case for doing so and will only do so for the current capital programme or to finance future debt maturities.
Externally Managed Funds	
32.	The Council has invested £27M in pooled property funds which offer the potential for enhanced returns over the longer term but will be more volatile in the shorter term. These funds are managed by professional fund managers which allows the Authority to diversify into asset classes other than cash without the need to own and manage the underlying investments.
33.	Because these funds have no defined maturity date, but are available for withdrawal after a notice period (90 days), their performance and continued suitability in meeting the Authority's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates. In light of their performance over the long-term and the Authority's latest cash flow forecasts, investment in these funds has been maintained.
34.	The market improved since year end when the value was reported as £30.89M and this improvement continue into the first quarter when the value was reported at £32.51M but has now fallen back to £31.13M a decrease of £1.38M since June but is still £4.13M above the initial investment of £27M. The dividend for April to June was £0.26M and has been estimated at £0.30M for July to September, 3.98% against the original investment, this is in line with 2021/22. If rates remain at this level the total forecast dividend for the year is £1.07M.
Non – Treasury Investments	
35.	The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. This is replicated in DLUHC Investment Guidance, in which the definition of investments is further broadened to also include all assets held partially for financial return.
36.	Between 2016 and 2017, SCC implemented a strategy to invest in 3 commercial properties with the expected return on investment being used to fund council services, known as the Property investment fund (PIF).
37.	All of the properties remain fully let and the tenants are meeting their financial obligations under the leases. The rate of return on these investments in 2022/23 is expected to be 5.74% gross and 2.03% net (after borrowing costs of £1.2M) which represents a contribution to the revenue account of around £0.54M.
38.	The Council also maintains an historic stock of investment properties within the City.