Appendix B

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Annual Treasury Management Review 2022-23

North Lincolnshire Council

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1. Introduction

The 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 CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2022/23 the minimum reporting requirements were as follows.

- an annual treasury strategy in advance of the year (Council)
- a mid-year (minimum) treasury update report (Audit Committee)
- an annual review following the end of the year describing the activity compared to the strategy (this report)

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.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 25th January 2023 in order to support members' scrutiny role.

2. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities are financed by a combination of :

- capital resources being capital receipts, capital grants and revenue contributions,
- cash resources (internal borrowing)
- borrowing (external borrowing)

The actual capital expenditure is one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m	31.3.22 Actual	31.3.23 Actual
Capital expenditure	**28.68**	**39.72**
Financed from Capital Resources	22.91	30.53
Financed from Cash Resources	5.77	9.19

3. The Council's Overall Borrowing Need

Gross borrowing and the Capital Financing Requirement (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 (2021/22) plus the estimates of any additional capital financing requirement for the current (2022/23) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£m	31.3.22 Actual	31.3.23 Actual
Capital Financing Requirement (CFR)	244.42	247.67
Gross borrowing position	152.62	144.57
Under / over funding of CFR	(91.80)	(103.10)

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2022/23 the Council has maintained gross borrowing within its authorised limit.

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 are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2021/22 £m	2022/23 £m
Authorised limit	£170.73	£177.36
Maximum gross borrowing position during the year	£158.25	£152.62
Operational boundary	£170.73	£172.36
Average gross borrowing position	£156.79	£148.43
Financing costs as a proportion of net revenue stream	7.8%	6.6%

4. Treasury Position & Prudential Indicators as of 31st March 2023

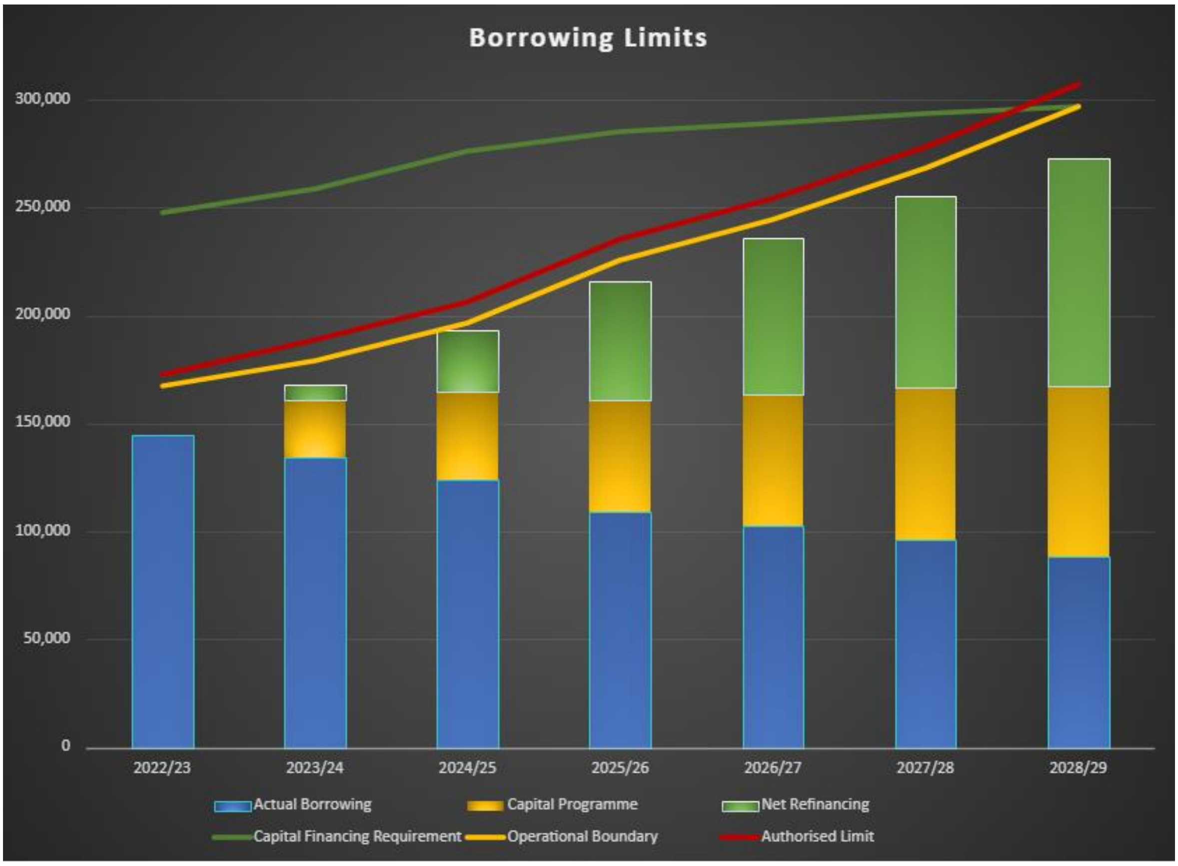
4.1 Treasury Position

At the beginning and at the end of 2022/23, the Council's treasury position was as follows:

DEBT PORTFOLIO	31.3.22 Principal	Rate/ Return	Average Life yrs	31.3.23 Principal	Rate/ Return	Average Life yrs
Fixed rate funding:	£m			£m		
PWLB	146.62	3.87%	10.84	141.57	3.88%	10.17
Market	6.00	1.75%	0.51	3.00	1.75%	0.01
Total debt	152.62	3.78%	10.44	144.57	3.84%	9.96
CFR	244.42			247.67		
Over / (under) borrowing	(91.80)			(103.10)		
Total investments	49.05	0.49%	0.03	15.94	3.58%	0.15
Net debt	103.57			128.63		

The maturity structure of the debt portfolio was as follows:

	31.3.22 Actual £m	31.3.22 Actual %	31.3.23 Actual £m	31.3.23 Actual %
Less than 1 year	8.05	5.27	10.27	7.10
1-2 years	10.27	6.73	10.40	7.19
2-5 years	31.71	20.78	27.47	19.00
5-10 years	51.79	33.94	47.08	32.56
10-20 years	26.24	17.20	25.48	17.63
20-30 years	14.32	9.38	14.38	9.95
30-40 years	10.24	6.71	9.49	6.57
40-50 years	0.00	0.00	0.00	0.00



4.2 Prudential Indicators

PRUDENTIAL INDICATORS	2021/22	2022/23
	Actual £m	**Actual £m**
Capital Expenditure	**28.68**	**39.73**
Ratio of financing costs to net revenue stream	**7.8%**	**6.6%**
Gross borrowing requirement General Fund		
brought forward 1 April	161.25	152.62
carried forward 31 March	152.62	144.57
in year borrowing requirement	(8.63)	(8.05)
Gross debt	152.62	144.57
CFR	244.42	247.67
Annual change in Cap. Financing Requirement	(0.77)	3.25

5. The Strategy for 2022/23

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 two or three increases in 2023/24, bank rate at the time of writing was 4.5%.

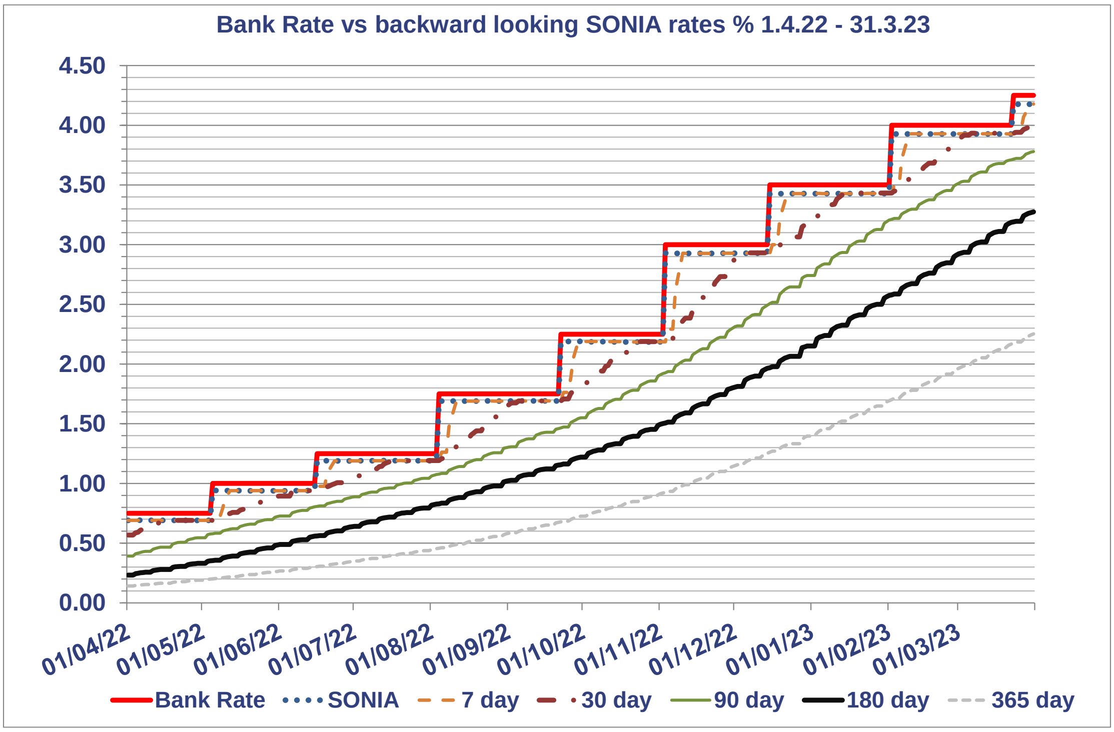
The change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes and placing longer term deposits to maximise investment was maintained.

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.

While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions. This means those institutions are better prepared to deal with stresses in the market and wider economy.

The table and graph below show interest rate movement during 2022-23 financial year.

Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2022/23



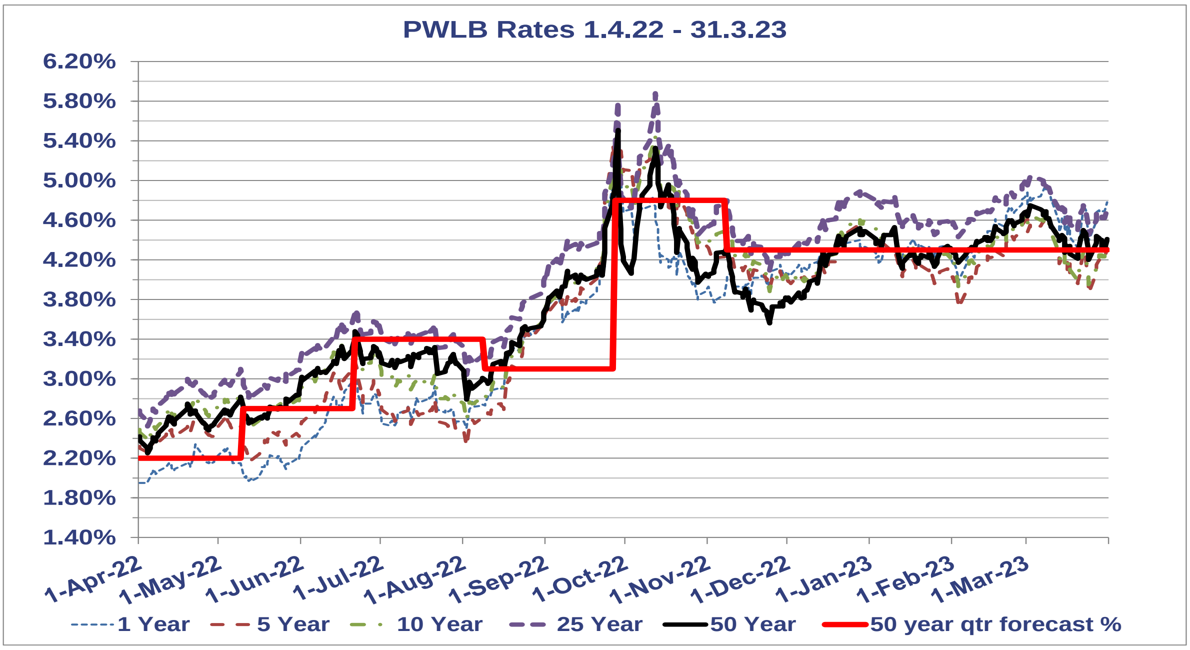
FINANCIAL YEAR TO QUARTER ENDED 31/03/2023							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	4.25	4.18	4.18	4.00	3.78	3.27	2.25
High Date	23/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023	31/03/2023
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	2.30	2.24	2.20	2.09	1.81	1.42	0.90
Spread	3.50	3.49	3.49	3.43	3.39	3.04	2.11

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.

The policy of avoiding new borrowing by running down spare cash balances, has served the council well for many years. During 2022/23 the cash balances were significantly robust to maintain this policy.

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 8% in the UK but is expected to fall back towards 5% by year end. Nonetheless, there remain significant risks to that central forecast.



6. Borrowing Outturn

6.1 Borrowing

No loans were drawn in the year.

6.2 Borrowing in advance of need

No loans were drawn in advance of need.

6.3 Rescheduling

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

6.4 Repayments

During 2022-3 Council repaid £8.05m at scheduled repayment dates.

7. Investment Outturn

7.1 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 24th February 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.

7.2 Investments held by the Council

- The Council maintained an average balance of £56.91m of internally managed funds.
- Total investment income was £1,067,940.32 compared to a budget of £200,000.
- The internally managed funds earned an average rate of return of 1.88%

INVESTMENT PORTFOLIO	31.3.22 Actual		31.3.23 Actual	
	£m	%	£m	%
Treasury investments				
Banks	13.05	26.61	2.54	15.93
MMF*	12.00	24.46	0.00	0.00
DMADF (H M Treasury) **	24.00	48.93	13.40	84.06
Total managed in house	49.05	100.00	15.94	100.00
Total managed externally	0.00	0.00	0.00	0.00
Treasury investments - Total	**49.05**	**100.00**	**15.94**	**100.00**
Treasury investments	49.05	95.81	15.94	88.21
Non-Treasury investments	2.15	4.19	2.13	11.79
Total Investments	**51.30**	**100.00**	**18.07**	**100.00**

*Money Market Fund
**Debt Management Account Deposit Facility

All treasury investments were up to one year.

8. Other Issues

8.1. Non-treasury management investments.

The council holds a non-treasury investment of £2.13 million as of 31st March 2023.

8.2. Sources of borrowing

No borrowing took place.

8.3. Changes in risk appetite

No fundamental change in risk appetite.

8.4. Counterparty limits

	Minimum Fitch long term rating	The higher of		Time Limit
		Value	% of portfolio	
Banks 1 higher quality	AAA-	5.00	12.5%	1 year
Banks 1 medium quality	AA-	3.00	7.5%	1 year
Banks 1 lower quality	BBB-	1.00	2.5%	1 year
Banks 2 – part nationalised	BBB-	3.00	7.5%	1 year
Limit 3 category – Council's banker	BBB-	5.00	20.0%	60 days
Building Societies	BBB-	1.00	2.5%	1 year
Debt Management Account Deposit Facility	UK sovereign rating	Unlimited		1 year
Local authorities	N/A	4.00	10.0%	1year
	Fund rating**	Value	% of portfolio	Time Limit
Money Market Funds per fund	AAAmmf	3.00	10.0%	liquid

8.5. Sovereign limits

There was no change in policy on minimum sovereign ratings during the financial year.