Report To:	**AUDIT PANEL**
Date:	1 August 2023
Executive Member / **Reporting Officer:**	Cllr Jacqueline North –First Deputy (Finance, Resources & Transformation) Ashley Hughes – Director of Resources
Subject:	**2022/23 ANNUAL TREASURY REPORT & PRUDENTIAL INDICATORS**
Report Summary:	The Council is required by regulation to provide three reports on its Treasury Management Activity. These three reports are: • A Treasury Strategy at the beginning of the financial year. • A mid-year update on Treasury Management Activity. • An annual Treasury Report reporting on the full year and showing actual Prudential Management Indicators. This report presents the final of the three reports for the 2022/23 financial year.
Recommendations:	Members are recommended to: 1) **Note** the Treasury Management activity for the 2022/23 financial year. 2) **Note** the Prudential Indicators at Outturn for the 2022/23 financial year.
Policy Implications:	Treasury Management activity manages the Council's cash flows and borrowings. These cash flows and borrowings help to deliver the policies set by the Council, including budgets and approved capital schemes.
Financial Implications: **(Authorised by the Section 151 Officer & Chief Finance Officer)**	As contained within the report
Legal Implications: **(Authorised by the Borough Solicitor)**	The report meets the requirements of both the CIPFA Code of Practice on Treasury Management, the CIPFA Prudential Code for Capital Finance in Local Authorities and the Council's Financial Procedure Rules. The Council is required to comply with both Codes through Regulations issued under the Local Government Act 2003. A summary of the regulatory framework is shown below. DLUHC Investment Guidance Local authorities should: • Prioritise security, liquidity, yield • Approve an Investment Strategy DLUHC MRP Guidance Local Authorities should: • Make prudent revenue provision for capital expenditure • Approve an Annual MRP policy Local Government Act 2003 Local authorities must: • Set an affordable borrowing limit each year • Have regard to statutory guidance from CIPFA & DLUHC Local Authorities must NOT: • Exceed their affordable borrowing limit • Borrow in a foreign currency

• Mortgage their property as security for borrowing
CIPFA Treasury Management Code Local Authorities should:
• Manage risks before seeking returns
• Approve an Annual Treasury Management Strategy
CIPFA Prudential Code Local Authorities should:
• Be prudent, affordable and sustainable
• Approve a capital Strategy

The Council's treasury management activities for 2022/23 were regulated by a variety of professional codes, statutes and guidance (which were updated for 2019/20):

- The Local Government Act 2003 (the Act), which provides the powers to borrow and invest as well as providing controls and limits on this activity;
- The Act permits the Secretary of State to set limits either on the Council or nationally on all local authorities restricting the amount of borrowing which may be undertaken;
- Statutory Instrument (SI) 3146 2003, as amended, develops the controls and powers within the Act;
- The SI requires the Council to undertake any borrowing activity with regard to the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The SI also requires the Council to operate the overall treasury function with regard to the CIPFA Code of Practice for Treasury Management in the Public Services;
- Under the Act DLUHC has issued Investment Guidance to structure and regulate the Council's investment activities; and
- Under Section 238(2) of the Local Government and Public Involvement in Health Act 2007 the Secretary of State has taken powers to issue guidance on accounting practices. Guidance on Minimum Revenue Provision was issued under this section on 8 November 2007. The Council's Treasury Management Strategy explains how it intends to comply with the legal framework and this annual report confirms compliance.

Risk Management: Associated details are specified within the presentation.

Background Papers: The background papers relating to this report can be inspected by contacting Tom Austin, Financial Management, by:

phone: 0161 342 3857

e-mail: Thomas.austin@tameside.gov.uk

1. INTRODUCTION

1.1 This is the Annual Report on Treasury Management for the financial year 2022/23. The report is ultimately required to be submitted to the Audit Panel, in accordance with CIPFA's Code of Practice on Treasury Management, the Council's Financial Regulations and the CIPFA Prudential Code.

1.2 The objective of the report is:

a) To outline how the treasury function was managed during the year and how this compares to the agreed strategy
b) To set out the transactions made in the year
c) To summarise the positions with regard to loans and investments at 31 March 2023
d) To set out the outturn position of the Council's prudential indicators

2. TREASURY MANAGEMENT

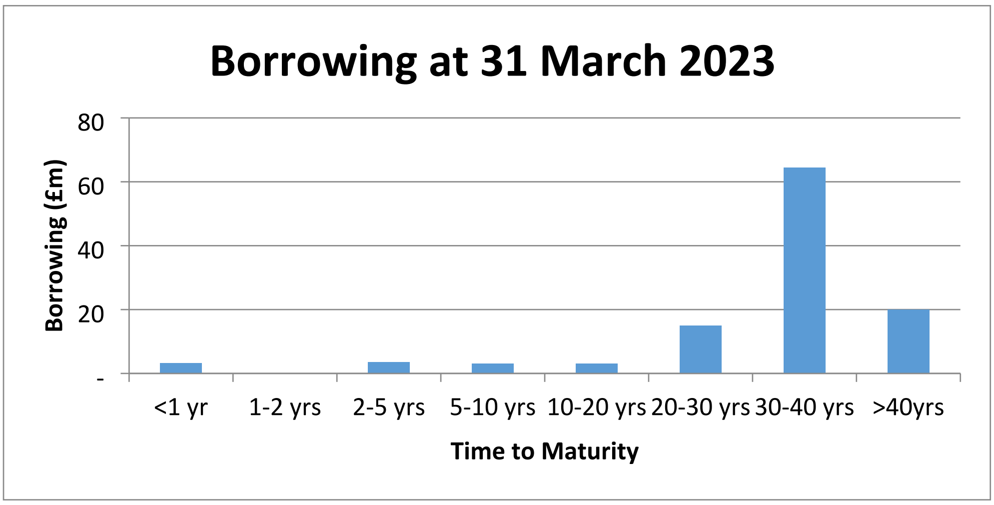
2.1 Treasury Management is defined as:
"The management of the local authority's cash flows, its borrowings and its investments, the management of associated risks, and the pursuit of the optimum performance or return associated with these risks".

2.2 Within this definition, the Council has traditionally operated a relatively low risk strategy. This in effect means that controls and strategy are designed to ensure that borrowing costs are kept reasonably low over the longer term, rather than subject to volatility that a high risk strategy might deliver. Where investments are involved, the policy is to ensure the security of the asset rather than pursue the highest returns available. These objectives are in line with the Code of Practice.

2.3 The global financial crisis has raised the overall possibility of default. The Council continues to maintain strict credit criteria for investment counterparties to manage this risk. A system of counterparty selection was agreed by the Council in the Treasury Management Strategy, as part of the budget setting process.

3. LONG TERM BORROWING

3.1 The long-term debt of the Council reflects capital expenditure financed by loans, which are yet to be repaid. Total borrowing at the start of the year was £141m. This decreased slightly to £139m by the end of the year. The maturity profile as at 31st March 2023 is as follows:



3.2 The amount of long-term debt that the Council may have is governed by the Prudential Limits set by the Council at the start of the financial year. This is based on the amount of borrowing which the Council has deemed to be prudent. It also allows for advance borrowing for future years' capital expenditure.

3.3 The Council must also allow for repayment of the debt, by way of the Minimum Revenue Provision (MRP). This is the minimum amount that the Council must set aside annually for the repayment of debt. The Local Authority (Capital Finance and Accounting) Regulations 2008 revised the previous detailed regulations and introduced a duty that an Authority calculates an amount of MRP that it considers prudent. Although the 2008 Regulations do not define "prudent provision", they provide guidance to authorities on how they should interpret this.

3.4 The Council's MRP policy for 2022/23 was set out in the Treasury Management Strategy as part of the Budget Report. The MRP charge for 2022/23 was £5.001m (excluding PFI).

3.5 The majority of the Council's debt has been borrowed from the Public Works Loan Board (PWLB), and is solely made up of long term fixed interest loans. In previous years, use has also been made of loans from banks. The main type of loan used is called a LOBO (Lender's Option - Borrower's Option) where after a pre-set time the lending bank has the option of changing the original interest rate. These loans are classified as variable interest rate loans when they reach option date. If the Council does not agree with the new interest rate, it has the option of repaying the loan. One of the Council's LOBO providers, Barclays, has waived their right to change the rate on their LOBO. This essentially converted that loan into a standard fixed rate loan with no risk of any increase in rate. The Council's current LOBO and bank loan portfolio is as follows:

Principal (£m)	Lender	Current Rate (%)	Start Date	Maturity Date	Loan Type
5	Just Retirement Ltd	4.65	27/01/2003	27/01/2043	LOBO
10	KBC	4.375	09/04/2003	09/04/2043	LOBO
5	Dexia	4.5	16/12/2004	16/12/2054	LOBO
10	Barclays	3.8	23/11/2005	23/11/2065	Fixed
10	Dexia	4.31	03/08/2007	03/08/2077	LOBO

3.6 The mixture of fixed and variable rates means that, although the Council can take some advantage when base rates are considered attractive, interest charges are not subject to high volatility, which might occur if all debt was variable. However, longer term fixed rates are normally higher than variable rates.

3.10 Short term borrowing and lending are used to support cash flow fluctuations caused by uneven income and expenditure, and to temporarily finance capital expenditure when long term rates are high and expected to fall. It is an extremely important aspect of Treasury Management to ensure that funds are available to meet the Council's commitments, and that temporary surplus funds attract the best available rates of interest.

4. INTEREST RATES

4.1 Interest rates (both long term and short term) vary constantly, even though headline rates (e.g. base rate, mortgage rate) may remain the same for months at a time.

4.2 In addition, different banks may pay different rates depending on their need for funds, and more particularly their credit status. Rates for borrowing are significantly higher than lending for the same period.

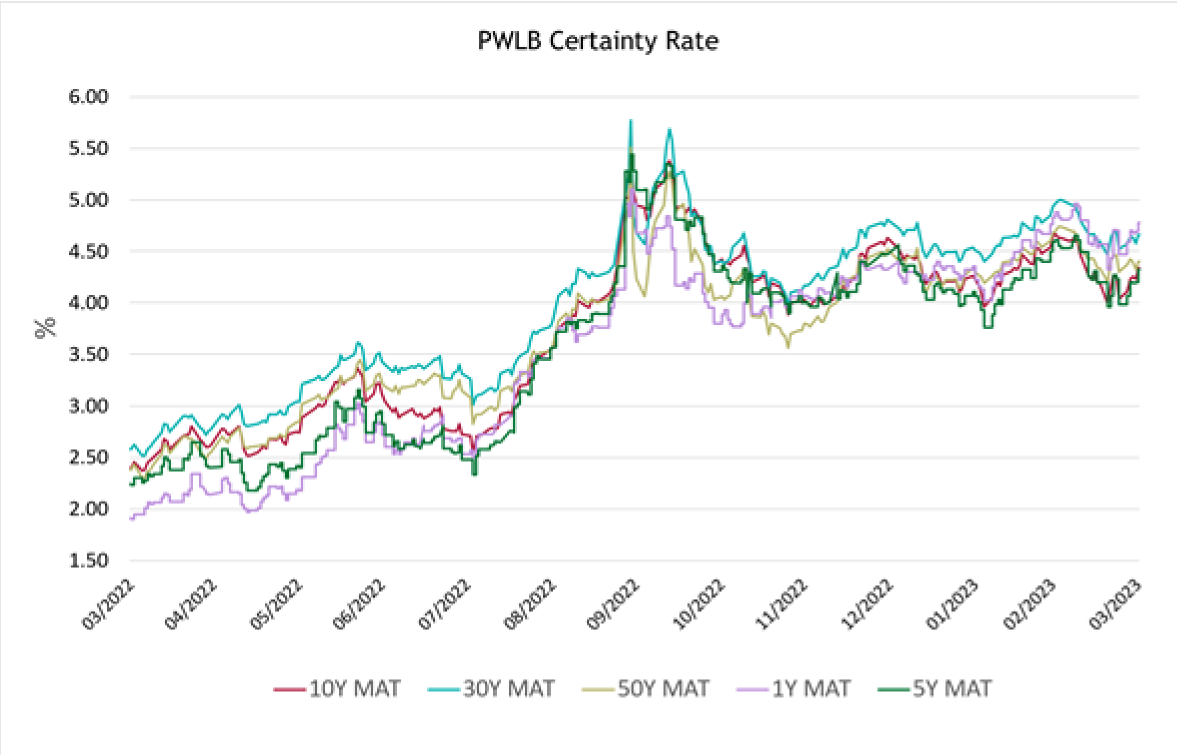
4.3 Long term interest rates are based on Government securities (Gilts), which are potentially volatile, with rates changing every day, throughout the day. PWLB fixed loan rates change on a daily basis. In view of this, gilts and all matters that affect their prices are continually reviewed.

4.4 Investment returns increased consistently over 2022/23, driven largely by repeated rises in the Bank of England Base Rate.

4.5 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

4.6 Investment balances have been kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets. External borrowing would have incurred an additional cost, due to the differential between borrowing and investment rates.

4.7 The table shown below (published by Arlingclose) shows the comparative Public Works Loan Board interest rates available during 2022/23, for a range of maturity periods.



5. ACTIVITIES 2022/23

Borrowing

5.1 The Council is able to borrow in order to finance capital expenditure that is not funded by other means such as grants and contributions. The Council has elected not to fully take up this borrowing due to unfavourable differences between borrowing and investment rates alongside existing cash balances.

5.2 The amount of long term borrowing which was required due to Council activity was

£57.168m as outlined below:

	£m
Loan financed capital expenditure: Expenditure not Financed 22/23 Outstanding from prior years plus debt maturing in year Less MRP repayments (excl. PFI)	 0.036 60.720 1.413 (5.001)
Net Borrowing requirement (internally borrowed)	**57.168**
Less Borrowing taken up in year	-
Net Under-borrowed position	**57.168**

5.3 Due to the unfavourable differences between borrowing rates and investment rates, and to reduce the risk to the Council from investment security concerns, the Council's recent policy has been to meet any borrowing requirement from internal borrowing (i.e. reducing the cash balances rather than taking up additional external borrowing). This has reduced the level of investment balances placed with banks and financial institutions, therefore reducing the Council's exposure to credit risk.

5.4 The outstanding borrowing requirement of £57.168m will be taken up when both interest rates and investment security are deemed to be favourable, in consultation with the Council's treasury management advisors. The need to borrow could be accelerated by the reduction of the Council's reserves due to cost pressures and other planned use. This situation, along with the interest rate environment, will be monitored closely to ensure borrowing is taken up at the optimum time.

Rescheduling

5.5 Rescheduling involves the early repayment and re-borrowing of longer term PWLB loans, or converting fixed rate loans to variable and vice versa. This may involve paying a premium or receiving a discount, but is intended to reduce the overall interest burden as the replacement loan (or reduction of investment) is normally borrowed at a lower interest rate.

5.6 The use of rescheduling is a valuable tool for the Council, but its success depends on the frequent movement of interest rates, and therefore it cannot be estimated for. It will continue to be used when suitable opportunities arise, in consultation with our treasury management advisors, although such opportunities may not occur.

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

5.8 The Section 151 Officer and the Council's treasury management advisors will continue to monitor prevailing rates for any opportunities to reschedule debt during the year.

Year-end position

5.9 The following table sets out the position of the Council's debt at 1 April 2022, the net movement for the year, and the final position at 31 March 2023.

	Debt Outstanding 01/04/22	Cash Movement in Year	Debt O/S 31/03/23
Principal Amounts	**£000**	**£000**	**£000**
PWLB - fixed interest	100,090	(1,413)	98,677
PWLB - variable interest	0		0
Market Loans	40,000	0	40,000
Manchester Airport *	550	0	550
Temp Loans / (Investments)	(139,653)	15,043	(124,610)
Trust Funds, Contractor Deposits etc.	155	89	244
Net loans outstanding	**1,142**	**13,719**	**14,861**

** Manchester Airport reflects debt taken over from Manchester City Council on 31 March 1994, which had been lent on to Manchester Airport. In 2009/10, the Airport re-negotiated the terms of this arrangement with the 10 Greater Manchester Authorities; previously the Airport reimbursed all costs, however, from 9 February 2010 the Council receives fixed annual interest of 12% of the amount outstanding at that date (£8.667m). This is on a maturity basis and is due to be repaid in 2055.The underlying debt, shown above, is due to mature in 2027.*

Investments – managing cash flow

5.10 Short term cash flow activity was such that throughout the year the Council was always in a positive investment position. Since interest earned on credit balances with our own bankers is low, and overdraft rates are high, investment and borrowing is carried out through the London Money Markets. The Council invests large sums of money, which helps ensure the interest rates earned are competitive

5.11 The Local Government Act 2003 governs investments made by local authorities. The types of investments that may be made are controlled by guidance from the Department for Levelling Up, Housing and Communities. This guidance has split investments into two main categories – specified and non-specified investments.

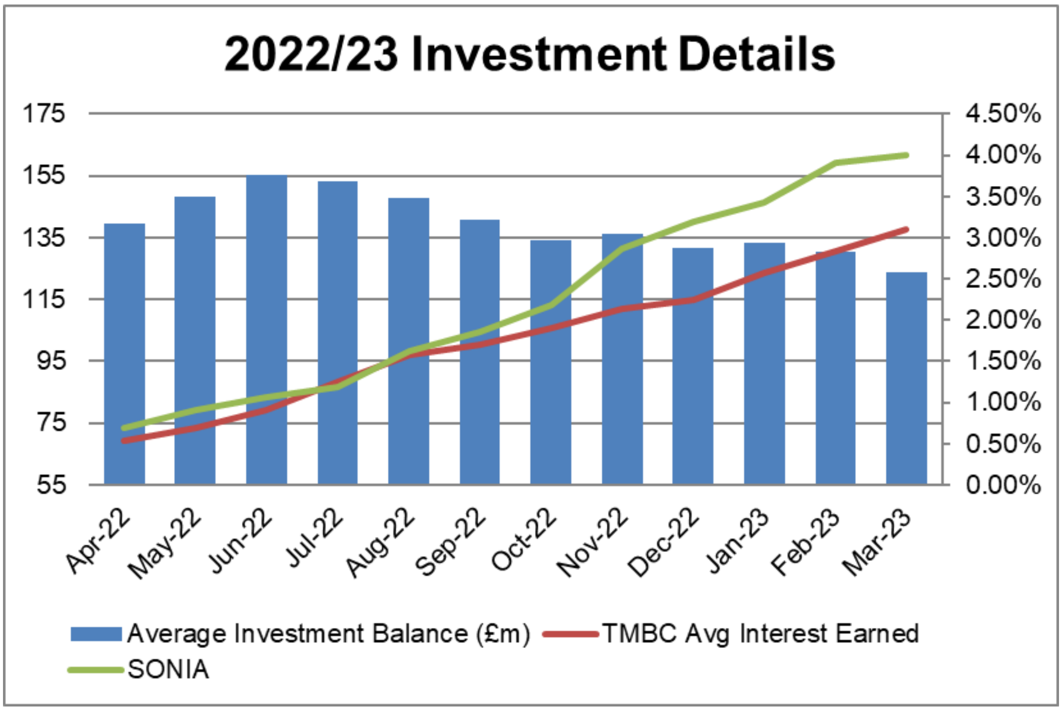
5.12 Specified investments consist mainly of deposits with very highly rated financial institutions and other local authorities for periods of less than one year. The Council's approved "Annual Investment Strategy" for 2022/23 stated that at least 50% of investments would be "specified".

5.13 The Council's counterparty list for 2022/23 mirrored that of the Council's advisors, Link Group. The Link Group creditworthiness service uses a wider array of information than just primary ratings. Furthermore, by using a risk weighted scoring system it does not give undue preponderance to just one agency's ratings.

5.14 Typically, the minimum credit ratings criteria the Council use will be a Short Term rating (Fitch or equivalents) of F1 and a Long Term rating of A-. There may be occasions when the counterparty ratings from one rating agency are marginally lower than these ratings but may still be used. In these instances, consideration is given to the whole range of ratings available, or other topical market information, to support their use.

5.15 All investments placed in the year were in line with the approved strategy. Within this low risk strategy, the aim is to maximise the rate of return for the investments. In order to gauge whether the performance is satisfactory, it is necessary to compare it with a suitable benchmark.

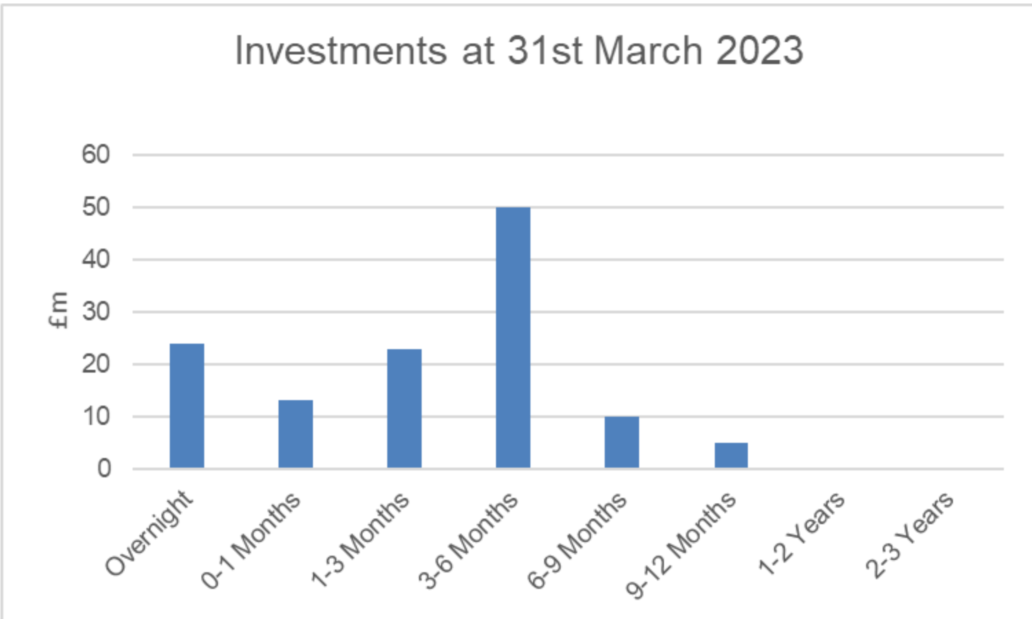
5.16 The following table shows the average investment balances by month, along with the interest rate earned and the Sterling Overnight Interest Average (SONIA) benchmark for comparison.



5.17 Tameside achieved an average investment rate of 1.7% on the average weekly investment of £139.6m, this can be seen in the red line on the chart above starting at around 0.5% in April 2022 and rising to just over 3% in March 2023. In the rapidly increasing interest rate environment, it has not been possible to achieve the SONIA benchmark, as SONIA instantly increases with the market whereas the Council's portfolio includes a number of older investments at fixed rates. It is expected that as the market plateaus and these deals mature returns will begin to exceed SONIA.

5.18 The annual turnover for investments was £445m. A total of 103 individual investments were made, 27 of which were fixed term deals with banks and other Local Authorities.

5.19 As at 31 March 2023 the total investment portfolio was £124.610m. This consisted of £23.910m of Money Market Fund investments and £100.700m of fixed investments. The weighted average rate of the entire portfolio at 31st March 2022 was 3.28%. The maturity profile of the investments was as follows:



Interest payable and receivable in the year

5.20 As detailed above, the £57.168m borrowing requirement has been met from internal borrowing, reducing the level of investment balances placed with banks and financial institutions.

5.21 The overall result of the various activities undertaken during the year was that net interest charge was £2.597m less than the original estimate.

5.22 Interest payments associated with the above activities were:

	Budget	Actual	Variation
	£m	**£m**	**£m**
External Interest			
Paid on Loans etc	5.854	5.762	(0.092)
Interest on day to day investments	(0.295)	(2.425)	(2.130)
Other Interest and Investment Income (including MAG)	(3.263)	(3.638)	(0.375)
Net external Interest paid	**2.492**	**(0.301)**	**(2.597)**

5.23 Accounting rules do not allow interest to be paid on internal funds and revenue balances. Payments however are made in respect of such funds as insurance and trust funds etc. held by the Council on behalf of external bodies. The net effect on the Council is neutral.

6. CURRENT ACTIVITIES

6.1 Since the start of the 2022/23 financial year, no new rescheduling opportunities have been identified. The portfolio of loans held by the Council is reviewed on a regular basis by both the Treasury Management Section and by the Council's treasury management advisors.

6.2 In the 2017/18 Strategy, the Council expanded its counterparty list to include asset backed investments. No investments of this nature have been made to date.

Manchester Airport

6.3 The Council has an historic 3.22% shareholding in Manchester Airport Group. This shareholding has been valued at £24.4m as at 31 March 2023. Prior to the COVID-19 pandemic, the Council was receiving significant dividend income from this investment (£6.4m in 2019) which was a key item in the Council's Medium Term Financial Strategy. No dividends have been received since 2020/21 and the Council's budget was amended to reflect this once it became clear that a dividend payment would not be received in the short-to-medium term.

6.4 In recent years, further additional investment in Manchester Airport has been approved:

- A capital investment of £11.3m in Manchester Airport was approved by Executive Cabinet in February 2018. The investment takes the form of a shareholder loan which was funded from reserves. Interest will be paid at a rate of 10% per annum, which will generate a revenue stream for the Council of approximately £1m (after allowing for the loss of interest earned on cash used to fund the investment) which will support the revenue budget.
- In February 2019, Executive Cabinet approved an equity investment of £5.6m in Manchester

Airport funded by prudential borrowing. The investment is expected to generate revenue income through returns of around 3.25% (after taking account of borrowing costs and debt repayment). It was originally envisaged that this income would begin to be received from 2021/22 onwards, although no amounts are yet assumed in the Medium Term Financial Plan (MTFP). The economic impact of COVID-19 is likely to mean that income from this investment will not be generated for a number of years and will be dependent on the speed and scale of recovery in the Aviation Sector. This additional shareholding has been valued at £4.8m as at 31 March 2022.

- In April 2020, Executive Cabinet approved a further investment of £9.7m in Manchester Airport in the form of an equity loan, funded by prudential borrowing. The loan intends to provide financial stability to Manchester Airport Group and ensure it is best placed to react and rebuild business operations as Covid restrictions are lifted. The investment completed in June 2020 and will generate revenue income through interest earned of 10% per annum.

6.5 The COVID-19 pandemic has had a significant impact on the Aviation Industry. Whilst the expectation is that interest on loans and investments will continue to be accrued, i.e. no payments have been made since the Covid-19 pandemic began, the annual dividend is not expected to be payable for a number of years, placing a £6.4m pressure on the revenue budget.

7. PRUDENTIAL LIMITS

7.1 At the start of the financial year, the Council sets Prudential Indicators and limits in respect of Capital expenditure and borrowing. The outturn position for the Prudential Indicators are shown below. Prudential indicators do not provide an effective comparative tool between Local Authorities, and therefore should not be used for this purpose.

8. TREASURY MANAGEMENT ADVISOR CONTRACT

8.1 The Council's treasury management advice contract with Link Group came to an end on 31st March 2023, and following a tender process (managed by Oldham Council on behalf of GM authorities) the new contract has been awarded to Arlingclose. An update to the Treasury Management Strategy will be issued in order to reflect this.

Prudential Indicators – Actual outturn 2022/2
Ratio of Financing Costs to Net Revenue Stream

Limit/Indicator	Limit	Actual
	%	**%**
Ratio of financing costs to net revenue stream	4.6	3.6

8.2 This ratio represents the total of all financing costs e.g. interest payable and minimum revenue provision (MRP) that are charged to the revenue budget as a percentage of the amount to be met from Government grants and taxpayers (net revenue stream).

Capital Financing Requirement (CFR)

Limit/Indicator	Limit	Actual
	£000	**£000**
Capital Financing Requirement	199,265	199,265

8.3 The Capital Financing Requirement is aimed to represent the underlying need to borrow for a capital purpose and is calculated from the aggregate of specified items on the balance sheet.

8.4 The CFR increases by the value of capital expenditure not immediately financed (i.e. borrowing) and is reduced by the annual MRP repayment.

Capital Expenditure

Limit/Indicator	Limit	Actual
	£000	**£000**
Capital expenditure	105,552	21,365

8.5 This is the total capital expenditure incurred (from all funding sources).

Incremental Impact of Capital Investment Decisions

Limit/Indicator	Limit	Actual
	£	**£**
For the Band D Council Tax	3.18	0.11

8.6 This is the estimate of the net incremental impact of the capital investment decisions, based on the level of borrowing set out in the report and reflects the total cost of this additional borrowing (interest payments and minimum revenue provision), as a cost on Council Tax.

8.7 The actual cost will depend on final funding. For every £1 increase on Band D properties, approximately £0.066m would be raised.

Operational Boundary and Authorised Limit on External Debt and Other Long Term Liabilities

Limit/Indicator	Limit	Actual
	£000	**£000**
Operational Boundary for external debt	206,642	139,471
Authorised Limit for external debt	226,642	139,471

8.9 The Authorised Limit for External Debt sets the maximum level of external borrowing on a gross basis (i.e. excluding investments) for the Council.

8.10 The operational boundary for External Debt comprises the Council’s existing debt plus the most likely estimate of capital expenditure/financing for the year. It excludes any projections for cash flow movements. Unlike the authorised limit, breaches of the operational boundary (due to cash flow movements) are allowed during the year as long as they are not sustained over a period of time.

8.11 These limits include provision for borrowing in advance of the Council's requirement for future capital expenditure. This may be carried out if it is thought to be financially advantageous to the Council.

Upper and lower limits on Interest Rate Exposures

Limit/Indicator	Limit	Actual
	£000	**£000**
Upper limit for fixed interest rate exposure	199,265	8,521
Upper limit for variable interest rate exposure	66,422	6,243

8.12 These limits are in respect of our exposure to the effects of changes in interest rates.

8.13 The limits reflect the net amounts of fixed/variable rate debt (i.e. fixed/variable loans less fixed/variable investments).

Upper Limit for Total Principal Sums Invested for Over 364 Days

Limit/Indicator	Limit	Actual
	£000	£000
Upper limit for sums invested over 364 days	30,000	nil

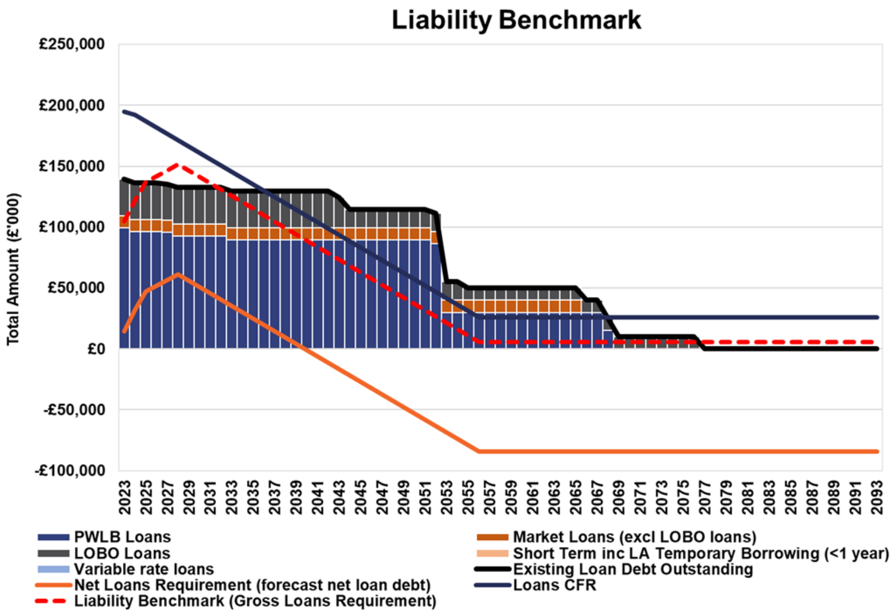
8.14 This limit is in respect of treasury investments made for a duration longer than one year.

Maturity structure for fixed rate borrowing

Indicator	Limit	Outturn
Under 12 months	0% to 15%	0.87%
12 months and within 24 months	0% to 15%	2.41%
24 months and within 5 years	0% to 30%	0.39%
5 years and within 10 years	0% to 40%	2.13%
10 years and above	50% to 100%	94.19%

8.15 This indicator is in respect of all of the Council's fixed rate borrowing with PWLB or other market lenders.

Liability Benchmark



8.16 The liability benchmark is a new prudential indicator introduced by CIPFA, which is mandatory for 2023/24 but has been included here for reference . This gives a long term view of the Council's borrowing needs based on current commitments. This demonstrates that there is currently no borrowing need and the Council currently has a significant level of surplus cash, which makes up its investment portfolio. If further schemes to be funded by borrowing are added to the Capital Programme in future then the benchmark will increase and more borrowing could potentially be required.

9 RECOMMENDATIONS

9.1 The recommendations are as set out at the beginning of this report.