Tonbridge and Malling Borough Council

Treasury Management Annual Report 2022/23

1.1 Introduction

1.1.1 This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activity 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).

1.1.2 During 2022/23 the minimum reporting requirements were that full Council should receive the following treasury reports:

- an annual strategy in advance of the year;
- a mid-year review; and
- an annual review following the end of the year describing the activity compared to the strategy (this report).

In addition, treasury management updates have been presented to each meeting of the Audit Committee throughout the 2022/23 financial year. Treasury performance is also included in the Financial Planning and Control reports to Cabinet or the Finance, Regeneration and Property Scrutiny Select Committee.

1.1.3 Changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is 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.

1.1.4 This Council also 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 full Council.

1.2 Treasury Position 31 March 2023

1.2.1 At the beginning and the end of 2022/23 the Council's debt and investment position was as follows:

	31 March 2022 £m	Rate / Return %	Average duration Days	31 March 2023 £m	Rate / Return %	Average duration Days
Variable rate debt:						
Overdraft	0.0	-	-	0.0	-	-
Total debt	**0.0**	-	-	**0.0**	-	-
Fixed rate investments:						
Cash flow surpluses	0.0	-	-	0.0	-	-
Core cash	21.0	0.69	120	23.0	4.49	147
Variable rate investments:						
Cash flow surpluses	22.1	0.52	5	19.6	4.15	10
Core cash	3.0	0.15	95	3.0	4.30	95
Sub-total	46.1	0.62	63	45.6	4.33	85
Medium term investments:						
Multi-Asset Income Funds	4.3	3.87	-	4.3	4.10	-
Long term investments:						
Property Funds	5.0	3.17	-	5.0	3.44	-
Total investments	**55.4**	**0.82**	-	**54.9**	**2.60**	-

1.2.2 There has been a downward movement in year due to reduction in Short Term Creditors including Government Grants received in advance being paid during 2022/23, which has been offset by the increase in Grants and Contributions in advance held in Long Term Liabilities.

1.3 The Strategy for 2022/23

1.3.1 The treasury management strategy for 2022/23 was based on the November 2021 forecast and assumed bank rates would increase to 1.25% over the next three years. In actuality, energy costs continue to sit at unprecedented levels; the conflict in Ukraine is ongoing and inflationary pressures have remained elevated. Upward inflationary pressures have seen the Bank of England's Monetary Policy Committee opting to apply stepped increase to the Bank Rate of either 0.25% or 0.50% throughout 2022/23. Bank Rates is expected to continue to rise in early 2023/24 before dropping back in late 2024.

1.3.2 This has provided the Council with the challenge of proactively investing surplus cash and maintaining the appropriate balance between cash for liquidity purposes while pursuing opportunities to lock in deposits at favourable rates.

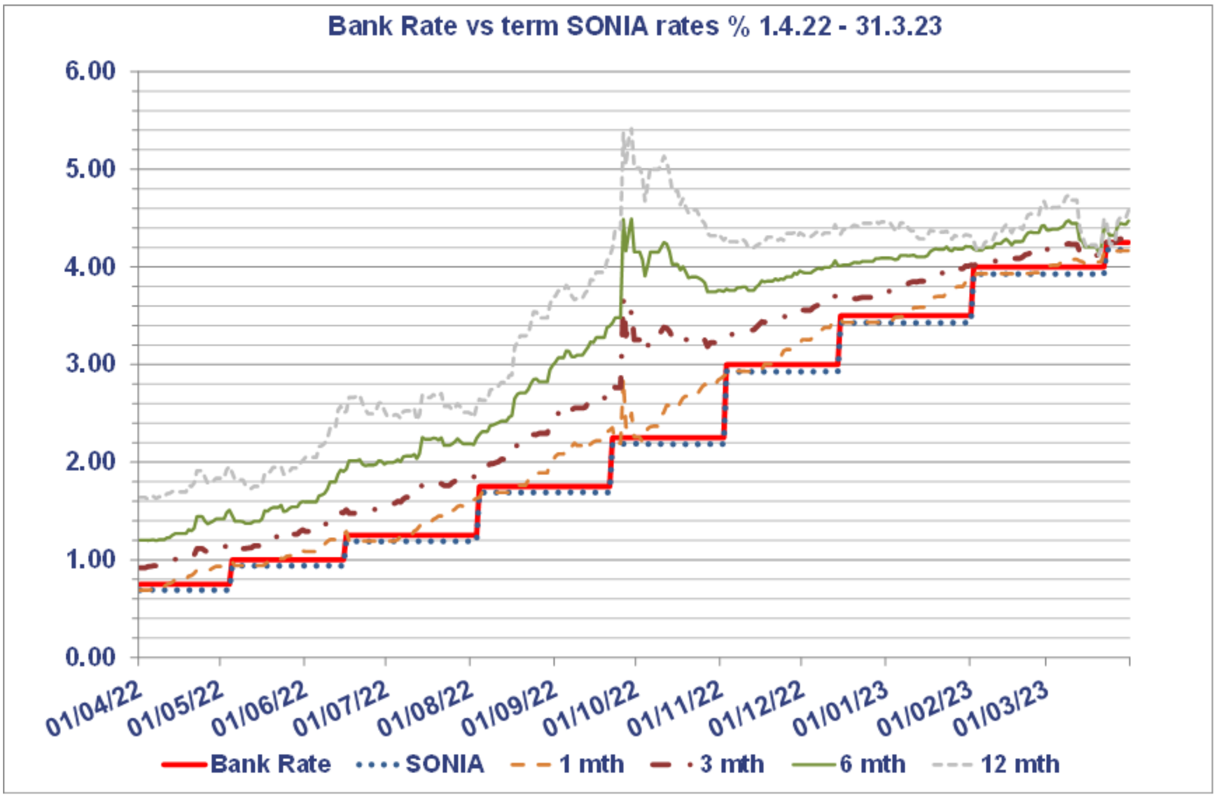
1.3.3 While the Council has taken a cautious approach to investing, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the financial crisis. These requirements have provided a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

1.4 Investment Rates in 2022/23

1.4.1 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 needed.

1.4.2 Starting April at 0.75%, Bank Rate continued to move up in stepped increased 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.

1.4.3 Bank Rate and investment returns across durations of up to 12 months are depicted in the graphs below.



1.5 Investment Outturn for 2022/23

1.5.1 The Council's investment policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies. This is supplemented by additional market information including credit rating outlooks and credit default swap data (CDS). The 2022/23 Annual Investment Strategy was approved by Council in February 2022 and was subjected to a mid-year review in September 2022. In undertaking the review, no changes were made to the Council's minimum counter-party credit requirement (typically Fitch A-, F1 unless UK state owned) or counter-party exposure limits (maximum of 20% of funds per financial institution). Subject to constraints, discretion to extend investment duration for UK regulated financial institutions by up to six months over the Council's external treasury advisor's suggested duration was also retained.

1.5.2 **Cash flow investment**. In 2022/23 cash flow surpluses averaged £32.4m and earned an average rate of return of 2.29%. The benchmark used to compare performance was 2.25%. Cash flow surpluses arise from the timing difference between the receipt of monies (from council tax, business rates, grants, etc.) and its subsequent payment (to Government, precepting authorities, housing benefit recipients, suppliers, staff, etc.). Cash flow surpluses are required to meet regular payment obligations and are invested in bank deposit accounts and money market funds which allow next day access. The opportunity to invest for longer durations and generate additional yield is taken when cash flow surpluses permit.

1.5.3 **Core cash investment**. In 2022/23 core cash averaged £26.0m and earned an average rate of return of 2.59%. The benchmark used to compare performance was 2.73%. Core cash comprises the authority's revenue and capital reserves. Unlike cash flow, core cash is not required to meet regular payment obligations and is available to invest for longer durations including durations exceeding one year. This added flexibility allows core cash to generate a better return relative to cash flow surpluses.

1.5.4 **Medium-term investment**. In recent years multi asset (diversified income) funds have grown in popularity. Like property funds, multi asset funds aim to generate returns over and above inflation and thus preserve spending power.

1.5.5 A total of £3m was initially invested equally across three funds in July and August, with a further £1.25m invested in November 2021 across two of the funds with the proceeds from the sale of River Walk offices. Additional multi asset fund investments may be made in the future as resources become available from asset disposals and other windfalls.

1.5.6 In 2022/23 the investment in multi asset funds generated dividends of £174,311 which represents an annualised return of 4.10%.

1.5.7 As at 31 March 2023, the capital investment has depreciated in value by £550,104. The value of multi asset diversified income funds at 31 March stood at £3.70m. Members are reminded that our muti asset diversified income funds are medium term investments (5+ years) and the funds applied to them are not required to meet day to day spending commitments.

1.5.8 **Long-term investment**. Of the different types of long-term investment (equities, bonds, and commercial property), investment in property funds was considered best suited to meet the Council's more immediate funding need: a sustainable, stable income stream.

1.5.9 This does not however, preclude consideration of an alternative investment opportunity that meets the Council's strategic priorities and objectives, achieves value for money and delivers a financial return commensurate with the Council's risk appetite. Each such opportunity to be considered on a case-by-case basis as appropriate.

1.5.10 At the start of the year £5m was invested in property investment funds and no further sums were invested during the year. Investment was spread across three funds to ensure, as far as is possible, stability of annual income and capital growth over time. Additional property fund investments may be made in the future as resources become available from asset disposals and other windfalls.

1.5.11 In 2022/23 investment in property funds generated dividends of £172,216 which represents an annualised return of 3.44%.

1.5.12 Property funds issue and redeem primary units at a buy and sell price with the difference between the two prices reflecting the costs associated with buying and selling property (legal and other fees, stamp duty, etc.). The price spread varies from fund to fund but is typically in the region of 8% (6% on entry to a fund and 2% on exit). Where units are traded on a secondary market the impact of the spread can be reduced and delays in the purchase or redemption of units avoided. The table below compares the sale value of each investment if sold to the fund manager with the initial purchase price.

Property fund (Primary = units in the fund purchased from the fund manager. Secondary = units purchased from another investor at a discount. Date = first month the investment attracted dividends)	Purchase price (a) £	Sale value at date of purchase (b) £	Sale value March 2023 (c) £	March sale value above (below) purchase price (c-a) £
LAPF (Primary, July 2017)	1,000,000	922,200	914,835	(85,165)
Lothbury (Primary, July 2017)	1,000,000	927,700	819,780	(180,220)
Hermes (Secondary, Oct 2017)	1,000,000	939,000	951,190	(48,810)
LAPF (Primary, June 2018)	1,000,000	922,200	877,145	(122,855)
Lothbury (Secondary, July 2018)	1,000,000	973,000	803,980	(196,020)
Total	5,000,000	4,684,100	4,366,930	(633,070)

1.5.13 As at 31 March 2023, the capital investment has depreciated in value by £633,070. Members are reminded that our property fund investments are long-term (10 years) and the funds applied to them are not required to meet day to day spending commitments.

1.5.14 **Summary**. Investment performance for the year 2022/23 is summarised in the table below:

	2022/23 Average Balance £m	Return %	2022/23 Interest/ dividends earned £	2022/23 Revised Estimate £	Variance Better (worse) £
Cash flow surpluses	32.4	2.29	741,297	218,000	523,297
Core cash	26.0	2.59	676,831	410,900	265,931
Medium term investment	4.3	4.10	174,311	153,000	21,311
Long term investment	5.0	3.44	172,216	170,000	2,216
Total	67.7	2.6	1,764,655	951,900	812,755

1.5.15 The overall performance of the Authority's investments bettered the revised estimates by £812,755 (£1,367,555 when compared to the 2022/23 original estimates).

1.6 Compliance with the Annual Investment Strategy

1.6.1 The Annual Investment Strategy aims to limit the Council's exposure to investment risks by prescribing: minimum counterparty credit criteria; maximum exposure limits in respect of sovereigns, counterparties, and groups of related counterparties; the type of investment instrument that can be used; and investment duration limits. Throughout the period April 2022 to March 2023 the requirements set out in the Annual Investment Strategy for 2022/23, as approved by Council in February 2022, were complied with. No liquidity issues were experienced resulting in nil borrowing throughout 2022/23.

1.7 Treasury and Prudential Codes of Practice

1.7.1 Updates to both the Prudential Code and Treasury Management Code were published by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2021 and uphold a key principle that borrowing primarily for return on investment is not permissible.

1.7.2 Also re-emphasised that the risks associated with investment in '**non-financial assets** which are held primarily for financial returns' are properly evaluated, reported, subject to scrutiny and managed over time. The Council has no material non-financial investments.

1.7.3 The requirements of both the Treasury Management and Prudential Codes of Practice published by CIPFA have been considered and reflected as appropriate in this annual review.

Financial Services
May 2023

Prudential and Treasury Indicators

1 Prudential Indicators	2021/22 Actual £'000	2022/23 Original £'000	2022/23 Actual £'000
Capital expenditure	2,251	3,681	2,496
Ratio of financing costs to net revenue stream	-6.91%	-4.69%	-23.95%
Net borrowing requirement:			
Brought forward 1 April	nil	nil	nil
Carried forward 31 March	nil	nil	nil
In year borrowing requirement	nil	nil	nil
Capital financing requirement as at 31 March	nil	nil	nil
Annual change in capital financing requirement	nil	nil	nil
Incremental impact of capital investment decisions: Increase in Council Tax (Band D) per Annum	£0.05	£0.06	£0.06

2 Treasury Management Indicators	2021/22 Actual £'000	2022/23 Original £'000	2022/23 Actual £'000
Authorised limit for external debt:			
Borrowing	nil	7,000	nil
Other long-term liabilities	nil	nil	nil
Total	nil	7,000	nil
Operational boundary for external debt:			
Borrowing	nil	4,000	nil
Other long-term liabilities	nil	nil	nil
Total	nil	4,000	nil
Actual external debt	nil	nil	nil
Upper limit for fixed rate exposure over one year at year end	nil	0 – 60%	nil
Upper limit for variable rate exposure under one year at the year end	22,131 (40.0%)	40 – 100%	19,620 (35.5%)
Upper limit for total principal sums invested for over 365 days	9,250 (16.7%)	60%	9,250 (16.7%)

3 Maturity structure of new fixed rate borrowing during 2022/23	Upper limit %	Lower limit %
Under 12 months	100	nil
Over 12 months	nil	nil