

# Cabinet Report

## Treasury Management Mid-Year Review 2022/23 25<sup>th</sup> October 2022

### Report of Chief Finance Officer

PURPOSE OF REPORT				
This report seeks Cabinet's consideration of various matters in connection with the Treasury Management Mid-Year Review 2022/23.				
Key Decision	<input type="checkbox"/>	Non-Key Decision	x	Referral from Cabinet Member
Date of notice of forthcoming key decision				
This report is public				

#### RECOMMENDATIONS:

That Cabinet

- (1) Consider the various matters in connection with the Treasury Management Mid-Year Review 2022/23
  
- (2) Forward the Mid-Year Review 2022/23 on to Budget & Performance Panel and Full Council for consideration in accordance with CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

#### 1.0 INTRODUCTION

- 1.1 The Council's Treasury Management Activities are regulated the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003
  
- 1.2.1 During 2022/23 the minimum reporting requirements are that Full Council should receive the following reports:
  - an annual treasury strategy in advance of the year (Council 23 February 2022)
  - a mid-year (minimum) treasury update report (This report).
  - an annual review following the end of the year describing the activity compared to the strategy

- 1.3 In addition, Members will receive treasury management update reports on which are presented to Cabinet and Budget and Performance Panel.

## **2.0 BACKGROUND**

- 2.1 The Mid-Year Review (Appendix A) sets out the performance of treasury operations for the first six months of the 2022/23 financial year in terms of long- and short-term borrowing, investment activities and relevant borrowing limits and prudential indicators.
- 2.2 Under CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) it is a requirement that an information report on these matters be presented to Cabinet and full Council.

## **3.0 SUMMARY DETAILS**

### Investments

- 3.1 The average level of funds available for investment purposes over the six-month period was £44.5M (2021/22 £38.3M). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.
- 3.2 The Council's investments returned an average rate c1.3% on deposit generating c£243K of interest against a profiled budget of c£17K.

### Borrowing

- 3.3 The Capital Financing Requirement (CFR) measures the Council's underlining need to borrow for capital purpose, i.e. its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue
- 3.4 The Council's capital financing requirement (CFR) for 2022/23 was forecast as £104.00M with the current forecast CFR at quarter 2 is, however, £105.86M due to additional capital expenditure approved for decarbonisation works and the solar array and switchgear replacement at Gateway.
- 3.5 If the CFR is positive the Council may borrow from the PWLB, or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council currently has borrowings of £60.04M and has utilised £45.82M of cash flow funds in lieu of borrowing and with current forecasts estimating new borrowing of £10M later in the financial year. However, rising prices and ongoing in-year changes to the capital programme and slippage make this difficult to quantify with certainty at this point in time.
- 3.6 Consideration also needs to be given to the recent volatility in the markets leading to PWLB interest rates being in excess of 5% at the time of writing. In light of this it may be prudent to delay borrowing or consider the use of short-term borrowing as an interim measure.

Changes to Prudential Indicators

- 3.7 In compliance with the Prudential Framework the Council sets an annual Treasury Management Strategy including key indicators, determined under regulation, to assist Members in assessing the affordability of borrowing and in determining that it is prudent and sustainable.
- 3.8 This table shows the current estimates for the General Fund and Housing Revenue Account capital programmes, compared to the original estimates

<b>Capital Expenditure by Service</b>	<b>2022/23</b>	
	<b>Original Estimate £m</b>	<b>Quarter 2 Position £m</b>
Communities and Environment	7.61	15.50
Economic Growth and Regeneration	4.10	4.99
Corporate Services	0.49	0.54
Development Pool	1.65	1.65
<b>Total for General Fund</b>	<b>13.85</b>	<b>22.68</b>
<b>Council Housing (HRA)</b>	<b>5.37</b>	<b>5.37</b>
<b>Total Capital Expenditure</b>	<b>19.22</b>	<b>28.05</b>

- 3.9 Capital Expenditure by service is in line with figures provided with the published Q2 monitoring (Delivering our Priorities Q2). The reduction in capital expenditure reflects programmes predominately within the Development Pool not being delivered.
- 3.10 This table shows the changes in the financing of the capital programmes, and the level of borrowing required

<b>Capital Expenditure</b>	<b>2022/23</b>	
	<b>Original Estimate £m</b>	<b>Quarter 2 Position £m</b>
<b>Total capital expenditure</b>	<b>19.22</b>	<b>28.05</b>
Financed by:		
Capital receipts	0.54	0.54
Capital grants	5.79	8.74
Reserves	5.78	6.15
Revenue	0.00	0.00
<b>Total Financing</b>	<b>12.11</b>	<b>15.43</b>
<b>Borrowing Requirement</b>	<b>7.11</b>	<b>12.62</b>

- 3.11 The table below shows that the capital financing requirement (CFR) is £1.86M higher than the original estimate, due to additional capital expenditure approved for decarbonisation works and the solar array and switchgear replacement at Gateway.

<b>Capital Financing Requirement</b>	<b>2022/23</b>	
	<b>Original Estimate £m</b>	<b>Quarter 2 Position £m</b>
General Fund	68.86	70.72
HRA	35.14	35.14
<b>Total Capital Financing Requirement</b>	<b>104.00</b>	<b>105.86</b>
<b>Net movement in CFR</b>	<b>3.38</b>	<b>1.86</b>

- 3.12 A key control over treasury management activity is to ensure that over the medium term, net borrowing (borrowings less investments) will only be for capital purposes. Gross external borrowing should not, except in the short term, exceed the total capital financing requirement.

- 3.13 The table below shows compliance with this control as the Council's external borrowing £60.04M compared to its CFR £105.86M

<b>External Debt v Borrowing Need (CFR)</b>	<b>2022/23</b>	
	<b>Original Estimate £m</b>	<b>Quarter 2 Position £m</b>
External Debt	70.04	60.04
Expected Change in Other long term liabilities	13.96	0.00
<b>Total Debt</b>	<b>84.00</b>	<b>60.04</b>
<b>Compared to current :</b>		
<b>Capital Financing Requirement</b>	<b>104.00</b>	<b>105.86</b>
<b>Operational Boundary:-</b>		
Debt	<b>105.00</b>	<b>106.15</b>
<b>Authorised Limit:-</b>		
Debt	<b>120.00</b>	<b>121.15</b>

#### 4.0 OPTIONS AND OPTIONS ANALYSIS

- 4.1 As the report is for consideration and progressing to Budget and Performance Panel and Full Council, no alternative options are put forward.

## 5.0 CONCLUSION

- 5.1 Consideration of Treasury Management Mid-Year Review and presentation to Full Council will ensure the Council complies with CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

### RELATIONSHIP TO POLICY FRAMEWORK

Treasury Management forms part of the Councils budget framework

### CONCLUSION OF IMPACT ASSESSMENT

**(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)**

Effective Treasury Management and use of the Councils' resources is fundamental to the delivery of its priorities and outcomes

### LEGAL IMPLICATIONS

None directly arising from this report

### FINANCIAL IMPLICATIONS

There are no financial implications arising directly from this report.

However, due to the financial pressures faced by the Council, and the significant increase in interest rates and borrowing costs areas of capital investment may be delayed, reprofiled or stopped. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal and external advice considered ahead of any borrowing being incurred.

### OTHER RESOURCE IMPLICATIONS

There are no additional resource or risk implications

### SECTION 151 OFFICER'S COMMENTS

The s151 Officer has written this report in his role as Chief Finance Officer

### MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and has no further comments

### BACKGROUND PAPERS

**Contact Officer:** Paul Thompson  
**Telephone:** 01524 582603  
**E-mail:** pthompson@lancaster.gov.uk  
**Ref:** N/A