

## Appendix 5

# South Somerset District Council Annual Treasury Management Outturn Report 2022-23

Executive Member(s): Cllr Leyshon – Executive Lead for Resources

Local Member(s) and Division: All

Lead Officer: Jason Vaughan – Executive Director Resources and Corporate Services (Section 151 Officer)

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- The treasury management position at 31st March 2023 and the change during the year is shown in the table below.

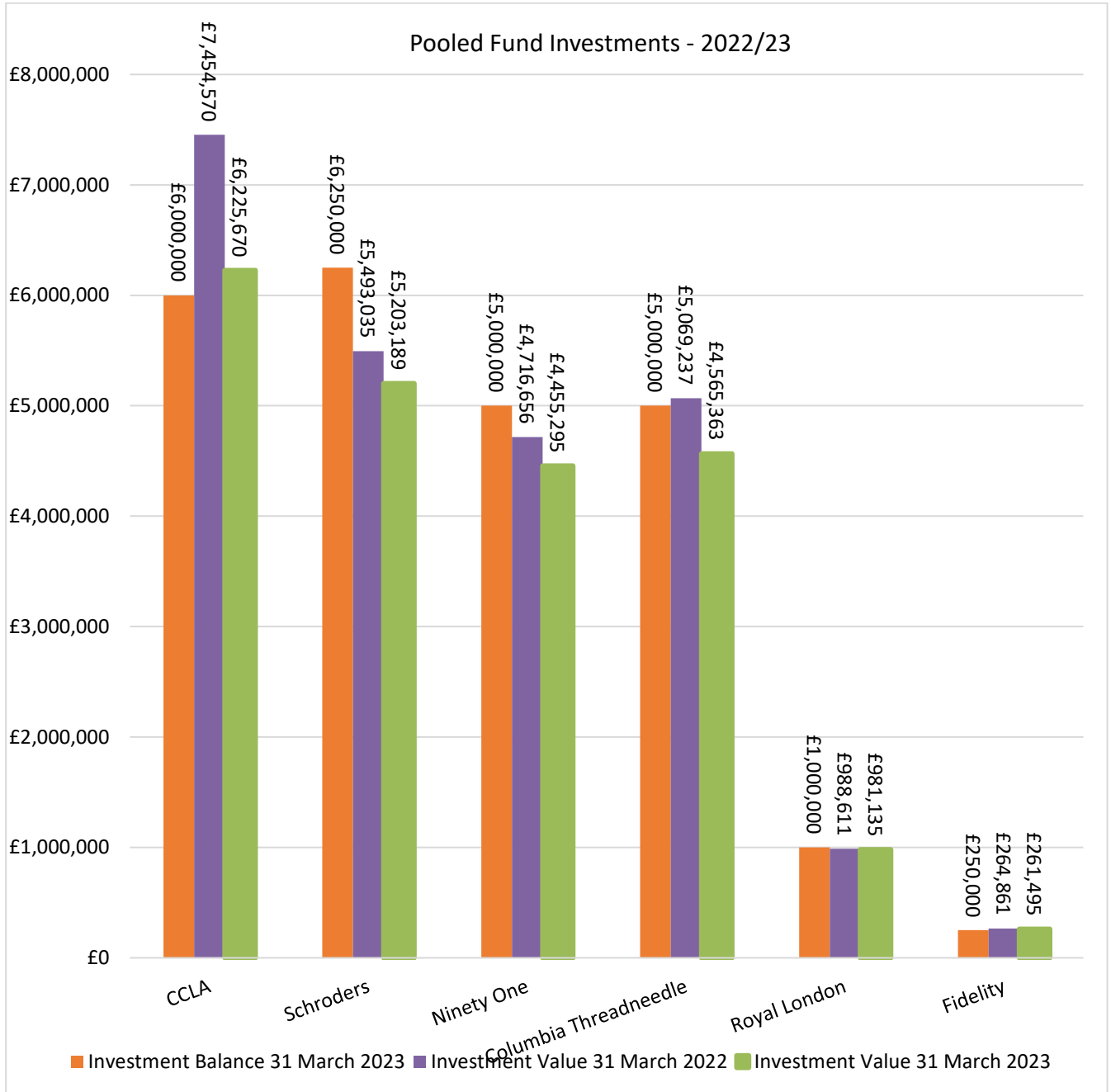
	31/03/2022 Balance £000's	Net Movement £000's	31/03/2023 Balance £000's
Long-term borrowing	-	-	-
Short-term borrowing	(128,500)	(3,000)	(131,500)
<b>Total Borrowing</b>	<b>(128,500)</b>	<b>(3,000)</b>	<b>(131,500)</b>
Long-term Investments	-	-	-
Short-term Investments	16,550	(16,550)	-
Cash and Cash Equivalents	23,500	-	23,500
<b>Total Investment</b>	<b>40,050</b>	<b>(16,550)</b>	<b>23,500</b>
<b>Net Position</b>	<b>(88,450)</b>	<b>(19,550)</b>	<b>(108,000)</b>

- External borrowing has increased by £3m during the year, reflecting the financing of planned capital expenditure. The Treasury Management Mid-Year Performance and Strategy Update report projected the value of external borrowing as at 31 March 2023, this was reported to meeting of the South Somerset District Council Full Council in December 2022.
- The report projected the year end borrowing figure to be £149m, the year end position is £17.5m less than projected. The amount of external borrowing is dependent on the level of capital expenditure incurred in the financial year along with other in and outgoing cash flow requirements.
- The capital spend in the final quarter of 2022/23 was less than expected, an element of capital spend was anticipated to be funded by external borrowing. With the spend being lower than anticipated the borrowing will have reduced in line with the reduced spend.

## **Investment Activity**

5. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represent balances that need to be invested until the cash is required for use in the course of business.
6. The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held.

7. The Council’s best performing investments continue to be the investments in the Pooled Funds (Strategic Investments). Details of the investment balance as at 31 March 2023 and the value of each investment at the same date is detailed in the chart below.



**Note:** Pooled fund investments are revalued at the end of the financial year to reflect the fair value of the investment; the third bar in the graph signifies this value and details the investment value as at 31 March 2023. The first bar represents the investment balance in each fund at that date.

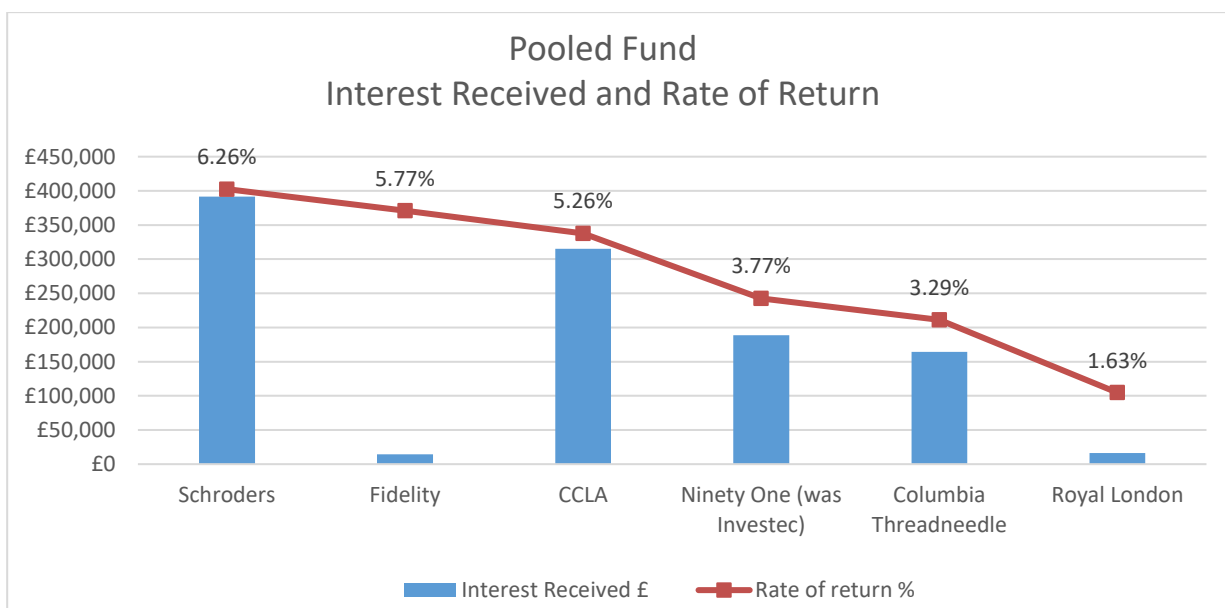
## Pooled Fund Investments 2022/23

8. The table below includes the opening and closing investment balances for each pooled fund investment. The investment fair value signifies the individual value of the investments after the year end revaluation.

Investment Type	Investment Balance				Investment Value		
	01/04/2022 £000's	31/03/2023 £000's	Change £000's		01/04/2021 £000's	31/03/2022 £000's	Change £000's
CCLA	£6,000	£6,000	£0		£7,455	£6,226	(£1,229)
Schroders	£6,250	£6,250	£0		£5,493	£5,203	(£290)
Investec	£5,000	£5,000	£0		£4,716	£4,455	(£261)
Colombia Threadneedle	£5,000	£5,000	£0		£5,069	£4,566	(£503)
Royal London	£1,000	£1,000	£0		£989	£981	(£8)
Fidelity	£250	£250	£0		£265	£261	(£4)
<b>Total</b>	<b>£23,500</b>	<b>£23,500</b>	<b>£0</b>		<b>£23,987</b>	<b>£21,692</b>	<b>(£2,295)</b>

9. It should be noted that the £2.295m decrease in the capital value of the investments will not have an impact on the General Fund as the Council is using the alternative fair value through profit and loss (FVPL) accounting and defers the funds' fair value losses (and gains) to the Pooled Investment Fund Adjustment Account.

10. The income generated from these investments in 2022/23 and the rate of return is detailed in graph and table below.

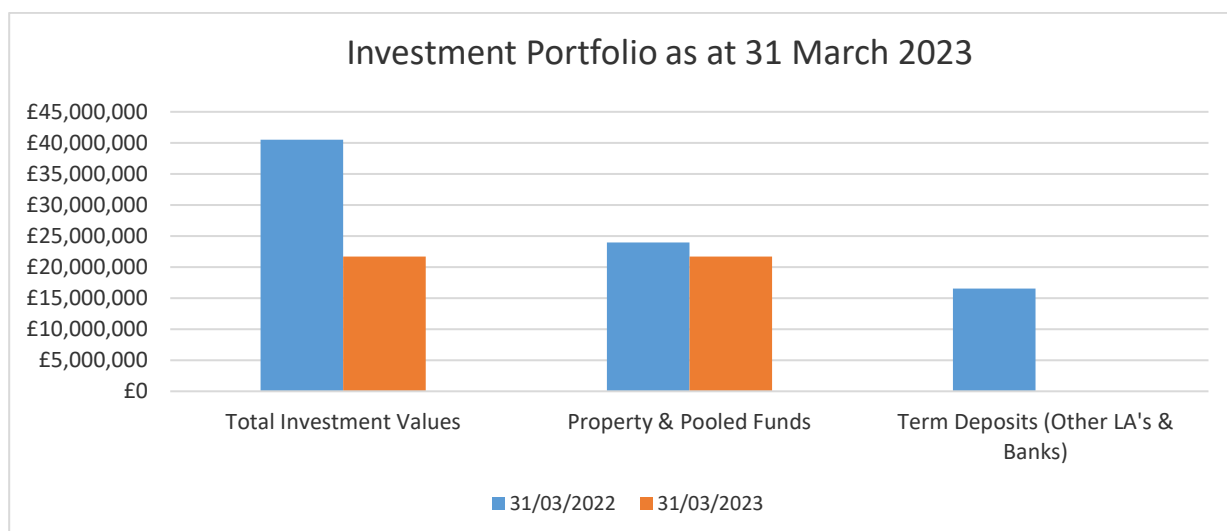


<b>Fund</b>	<b>Interest Received £</b>	<b>Rate of return %</b>
Schroders	£391,305	6.26%
Fidelity	£14,421	5.77%
CCLA	£315,337	5.26%
Ninety One (was Investec)	£188,539	3.77%
Columbia Threadneedle	£164,414	3.29%
Royal London	£16,272	1.63%
<b>Total</b>	<b>£1,090,288</b>	<b>4.64%</b>

11. Pooled funds have no defined maturity date but are available for withdrawal after a notice period. Their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.
12. The investment strategy approved in the 2022/23 Treasury Management Strategy Statement recommended that the Council maintains its investments in the secure and higher yielding asset classes given the increasing risk and very low returns from short-term unsecured bank investments.
13. The graph above and table detailing interest received, and the rate of return on investments demonstrates that the approved policy has met the objectives of the investment strategy. The diversification into strategic investments represents a continuation of the strategy adopted in 2017/18.

## Investment Portfolio – Values and Returns

14. The graph below provides a snapshot of the Council’s portfolio of investments at the end of the 2022/23 financial year, in comparison to the previous year end position.



15. The table below provides additional information on the actual value of investments at the start and end of the 2022/23 financial year:

Investment type	Investment Value as at 31/03/2022	Investment Value as at 31/03/2023	Actual Income	% Rate of return
Property & Pooled Funds	23,986,971	21,692,146	1,090,288	4.64%
Money Market Funds & Business Reserve Accounts	0	0	1,847	1.98%
Term Deposits (Other LAs & Banks)	16,550,000	0	2,714	1.73%
Corporate Bonds	0	0	2,529	2.10%
<b>Total Investment Values</b>	<b>40,536,971</b>	<b>21,692,146</b>	<b>1,097,378</b>	<b>2.77%</b>

16. The types of investment that the Council held at the 31 March 2022 and 31 March 2023 has changed. The continuation of the policy to invest in higher yielding, long term strategic investments has resulted in a large portion of the Council’s investment being concentrated in the pooled and property fund investment type.

## Treasury Investments

17. Security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in its Treasury Management Strategy Statement for 2022/23. The table below lists the investments held on 31 March 2023.

### Breakdown of investments as at 31 March 2023

Counterparty	Nominal Amount £'000	Rate %
<b>Property &amp; Pooled Funds</b>		
Schroders Income Maximiser (UK Equity)	6,250	6.26
Fidelity Global enhanced income (Global Equity)	250	5.77
CCLA Property Fund	6,000	5.26
Ninety One Diversified Income (was Investec)	5,000	3.77
Columbia Threadneedle Strategic Bond	5,000	3.29
Royal London Enhanced Cash Plus Fund	1,000	1.63
<b>Total</b>	<b>23,500</b>	<b>4.64</b>

## Non-Treasury Investments

18. In addition to its treasury investments, the Council also holds £42.55m in other investments in the form of loans to third parties. The loans values are detailed below:
- Loan to Community Organisation - £0.12m
  - Loan to Local Authority Partnership - £3.60m
  - Loan for Commercial Activities - £38.83m
19. The detail of the Council's total investment in commercial investment property is reported separately. As part of its Commercial Strategy, investment in property has increased significantly in the past three years. The value of investment properties held on the SSDC balance sheet (unaudited) as at 31 March 2023 (including some properties held for a substantial period) was £102.36m.

## Borrowing

20. The Council's primary 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 Council's long-term plans change being a secondary objective.
21. The table below summarises the external borrowing position for 2022/23. It details the opening position in respect of external loans, loans repaid, new loans, the average interest rate, and the year-end position.

	<b>Amount £'000</b>	<b>Average Interest Rate %</b>
<b>External Loans as at 1 April 2022</b>	<b>128,500</b>	<b>0.09%</b>
New Loans	293,000	1.58%
Loans Repaid	(290,000)	0.92%
<b>Total External Loans as at 31 March 2023</b>	<b>131,500</b>	<b>1.22%</b>



22. Details of the borrowing are included in the table below.

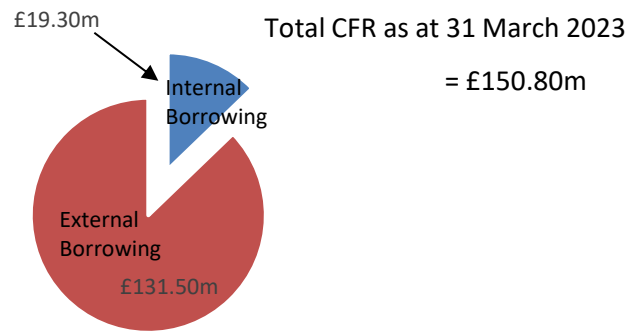
Lender	Date Borrowed	Repayment Date	No of Days	Interest Rate	Amount	2022/23 Interest	Total Interest
West of England Combined Authority	16/05/2022	15/05/2023	364	1.00%	3,000,000	26,301	29,918
West of England Combined Authority	19/05/2022	18/05/2023	364	1.00%	5,000,000	43,425	49,863
West Yorkshire Combined Authority	19/07/2022	19/04/2023	274	1.25%	2,000,000	17,534	18,767
West Yorkshire Combined Authority	20/07/2022	03/04/2023	257	1.25%	10,000,000	87,329	88,014
London Borough of Hackney	20/07/2022	20/04/2023	274	1.25%	5,000,000	43,664	46,918
The Nottinghamshire Office of the Police & Crime Commissioner	18/08/2022	18/04/2023	243	1.70%	8,000,000	84,208	90,542
Halton, Knowsley, Liverpool, St Helens, Sefton and Wirral City Region Combined Authority	15/12/2022	17/04/2023	123	3.40%	3,000,000	29,901	34,373
Wokingham Borough Council	18/01/2023	18/04/2023	90	3.20%	10,000,000	64,000	78,904
Liverpool City Region Combined Authority	18/01/2023	18/05/2023	120	3.65%	3,000,000	21,900	36,000
Maldon District Council	19/01/2023	19/04/2023	90	1.33%	2,000,000	5,247	6,559
Northern Ireland Housing Executive	20/01/2023	04/04/2023	74	3.65%	2,000,000	14,200	14,800
Middlesbrough Borough Council (Pension)	16/02/2023	16/05/2023	89	3.65%	6,000,000	26,400	53,400
Tending District Council	20/02/2023	21/08/2023	182	3.80%	3,000,000	12,493	56,844
Warwickshire County Council	20/02/2023	21/08/2023	182	4.00%	5,000,000	21,918	99,726
Mendip District Council	20/02/2023	20/04/2023	59	4.00%	5,000,000	21,918	32,329
Warwickshire County Council	21/02/2023	21/08/2023	181	4.00%	5,000,000	21,370	99,178
South Lanarkshire Council	21/02/2023	22/05/2023	90	4.10%	5,000,000	21,904	50,548
North Northamptonshire Council	24/02/2023	24/07/2023	150	4.25%	5,000,000	20,959	87,329
South Lanarkshire Council	28/02/2023	28/07/2023	150	4.25%	5,000,000	18,630	87,329
Newport City Council	03/03/2023	03/04/2023	31	3.95%	1,500,000	4,708	5,032
Cambridge City Council	06/03/2023	06/09/2023	184	4.02%	5,000,000	14,318	101,326
West Midlands Combined Authority	17/03/2023	15/09/2023	182	4.60%	5,000,000	9,452	114,685
Basildon Borough Council	20/03/2023	20/06/2023	92	4.50%	5,000,000	7,397	56,712
Amber Valley Borough Council	20/03/2023	20/06/2023	92	4.55%	5,000,000	7,479	57,342
South Lanarkshire Council	20/03/2023	20/09/2023	184	4.60%	10,000,000	15,123	231,890
Somerset County Council	31/03/2023	01/04/2023	1	4.25%	8,000,000	932	932
				<b>Total</b>	<b>131,500,000</b>	<b>662,711</b>	<b>1,629,260</b>

23. The Council's underlying need to borrow is defined as its 'Capital Financing Requirement (CFR)'. The CFR was £143.9m million at the beginning of 2022/23. Capital expenditure during 2022/23 was funded through a combination of capital receipts, revenue reserves, external contributions (e.g. S106 receipts) and borrowing. As a result, the borrowing requirement (CFR) has increased to £150.8 million.

24. However, we have followed a strategy of using our cash reserves to finance this borrowing requirement in the short term – known as “internal borrowing” – as short term investment returns foregone are currently lower than longer term borrowing rates.

Borrowing Type	£'000	%
Internal Borrowing	£19,305	12.80%
External Borrowing	£131,500	87.20%
<b>Total Capital Financing Requirement as at 31 March 2023</b>	<b>£150,805</b>	

## Capital Financing Requirement as at 31 March 2023



## Treasury Management Indicators

25. The Authority measures and manages its exposures to treasury management risks using the following indicators.

**Security:** The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio. 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. Unrated investments are assigned a score based on their perceived risk.

	<b>2022/23 Target</b>	<b>2022/23 Actual</b>
Portfolio average credit rating	5.0	4.9

**Liquidity:** The Authority has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling three-month period.

	<b>2022/23 Target</b>	<b>2022/23 Actual</b>
Total cash available within 3 months	£10m	£23.5m

**Interest Rate Exposures:** This indicator is set to control the Authority's exposure to interest rate risk. The upper limits on the one-year revenue impact of a 1% rise or fall in interests was:

	<b>2022/23 Limit</b>	<b>2022/23 Actual</b>
Upper limit on one-year revenue impact of a 1% change in interest rates	£200,000	£545,718

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

**Maturity structure of borrowing:** This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be:

<b>Refinancing rate risk indicator</b>	<b>2022/23 Upper Limit %</b>	<b>2022/23 Lower Limit %</b>	<b>2022/23 Actual %</b>
Under 12 months	100%	100%	100%
12 months and within 24 months	100%	100%	0%
24 months and within 5 years	100%	100%	0%
5 years and within 10 years	100%	100%	0%
10 years and above	100%	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. Upper and lower limits are set at 100% providing full flexibility to optimise borrowing arrangements.

**Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

<b>Price risk indicator</b>	<b>2022/23</b>
Actual principal invested beyond year end	£0m
Limit on principal invested beyond year end	£30m

The impact of a change in interest rates is calculated on the assumption that maturing loans and investment will be replaced at current rates.

## Prudential Indicators – 2022/23

**Capital Expenditure:** The actual capital expenditure incurred for 2022/23 compared to the revised estimate was:

	2020/21 Outturn £'000	2022/23 Revised Estimate £'000	2022/23 Outturn £'000	2022/23 Variance £'000
Approved capital schemes	35,478	21,258	18,371	(2,887)
<b>Total Expenditure</b>	<b>35,478</b>	<b>21,258</b>	<b>18,371</b>	<b>(2,887)</b>

**Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

	2021/22 Outturn £'000	2022/23 Revised Estimate £'000	2022/23 Outturn £'000	2022/23 Variance £'000
Financing Costs	(655)	1,142	425	(717)
Net Revenue Stream	17,483	19,781	19,212	(569)
%	<b>(3.7%)</b>	<b>5.8%</b>	<b>2.2%</b>	

\*Figures in brackets denote income through receipts and reserves

The financing costs include interest payable and notional amounts set aside to repay debt less interest on investment income. The figure in brackets is due to investment income outweighing financing costs significantly for the Council but is relevant since it shows the extent to which the Council is dependent on investment income.

**Estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) measures the Authority's underlying need to borrow for a capital purpose.

	2021/22 Outturn £'000	2022/23 Revised Estimate £'000	2022/23 Outturn £'000	2022/23 Variance £'000
<b>Opening CFR</b>	<b>134,148</b>	<b>143,887</b>	<b>143,887</b>	<b>-</b>
Capital Expenditure	35,616	21,258	18,371	(2,887)
Capital Receipts*	(17,853)	(4,300)	(4,815)	(515)
Grants/Contributions*	(7,017)	(7,141)	(4,729)	2,412
Minimum Revenue Provision (MRP)	(1,007)	(1,768)	(1,911)	(143)
Additional Leases taken during year	-	-	-	-
<b>Closing CFR</b>	<b>143,887</b>	<b>151,936</b>	<b>150,805</b>	<b>1,133</b>

\*Figures in brackets denote income through receipts or use of revenue resources.

**Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose. The Council should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence.

	2021/22 Outturn £'000	2022/23 Revised Estimate £'000	2022/23 Outturn £'000	2022/23 Variance £'000
Borrowing	128,500	149,000	131,500	(17,500)
Finance Leases	5	20	0	(20)
<b>Total Debt</b>	<b>128,505</b>	<b>149,020</b>	<b>131,500</b>	<b>(17,520)</b>
Capital Financing Requirement	143,887	151,936	150,805	(1,133)

**Credit Risk:** The Council considers security, liquidity and yield, in that order, when making investment decisions.

Credit ratings remain an important element of assessing credit risk, but they are not a sole feature in the Council's assessment of counterparty credit risk. The Council also considers alternative assessments of credit strength, and information on corporate developments of and market sentiment towards counterparties. The following key tools are used to assess credit risk:

- Published credit ratings of the financial institution and its sovereign
- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Economic Fundamentals, such as a country's net debt as a percentage of its GDP
- Corporate developments, news articles, markets sentiment and momentum
- Subjective overlay

The only indicators with prescriptive values remain to be credit ratings. Other indicators of creditworthiness are considered in relative rather than absolute terms.

**Actual External Debt:** This indicator is obtained directly from the Council's balance sheet. It is the closing balance for actual gross borrowing plus other long-term liabilities (this represents our finance leases). This indicator is measured in a manner consistent for comparison with the Operational Boundary and Authorised Limit.

<b>Actual External Debt as at 31/03/2023</b>	<b>£'000</b>
Borrowing	131,500
Other Long-term Liabilities (Finance Leases)	
-Vehicles	0
-Photocopiers	-
<b>Total</b>	<b>131,500</b>

**Authorised Limit for External Debt:** This limit represents the maximum amount that the Council may borrow at any point in time during the year. If this limit is exceeded the Council will have acted ultra vires. It also gives the Council the responsibility for limiting spend over and above the agreed capital programme. A borrowing requirement was identified in year to finance the capital programme and further borrowing may be undertaken to fund the agreed plans to acquire investment properties.

	<b>2021/22 Actual £'000</b>	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Actual £'000</b>
Borrowing	128,500	170,000	131,500
Other Long-term Liabilities	5	25,000	0
<b>Total</b>	<b>128,505</b>	<b>195,000</b>	<b>131,500</b>

**Operational Boundary for External Debt:** The operational boundary sets the limit for short term borrowing requirements for cash flow and must be lower than the previous indicator, the authorised limit for external debt.

Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure.

The S151 Officer has delegated authority, within the total limit for any individual year, to effect movement between the separately agreed limits for borrowing and other long-term liabilities. Decisions will be based on the outcome of financial option appraisals and best value considerations. Any movement between these separate limits will be reported to the next Council meeting.

	<b>2021/22 Actual £'000</b>	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Actual £'000</b>
Borrowing	128,500	160,000	131,500
Other Long-term Liabilities	5	20,000	5
<b>Total</b>	<b>128,505</b>	<b>180,000</b>	<b>128,505</b>

## Compliance

26. The Council operated within all the Prudential Indicators during 2022/23.