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**TREASURY MANAGEMENT – ANNUAL REVIEW OF PERFORMANCE 2022/2023**

**REPORT OF THE FINANCE DIRECTOR**

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**1. Purpose of the Report**

- 1.1 To report on the Treasury Management performance of the Authority for 2022/2023 in line with best practice as prescribed by the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (2011).

**2. Introduction**

- 2.1 Sunderland City Council, as lead authority, performs the treasury management function on behalf of the Authority through a Service Level Agreement arrangement.
- 2.2 This report sets out the annual borrowing and investment performance for the financial year 2022/2023 in accordance with the requirements of the Treasury Management Policy Statement and Treasury Management Strategy approved by the Authority on 14<sup>th</sup> March 2022. The Treasury Management Strategy comprises a Borrowing and Investment Strategy which set out the Authority's strategy for borrowing and its policies for managing its investments (which gave priority to the security and liquidity of funds over yield of those investments).
- 2.3 The Treasury Management Policy Statement and Strategy complies with best practice, including the Ministry of Housing, Communities and Local Government's 'Statutory Guidance on Local Government Investments' updated in February 2018 and also incorporates the recommendations included in the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, updated in December 2017.

**3. Review of Performance 2022/2023 – Summary**

**Cost of Borrowing**

- 3.1 The performance of the Authority's Treasury Management function continues to contribute financial savings that are used to provide funding to support future years' capital programmes and help to support the Authority's revenue budget. The average rate of the lead authority's borrowing at 2.55% compares very favourably when benchmarked against other authorities and has helped to keep

the revenue cost of the Authority's borrowing low in comparison. Section 4 of the report sets out more details of the Authority's Borrowing Strategy, for members information.

- 3.2 Whilst the impact of the pandemic on the financial markets has subsided, this has been replaced by the global fallout of Russia's invasion of Ukraine in February 2022 and heightened tension between China, Taiwan and the United States. Unprecedented pressure on household incomes linked to soaring energy prices and food bills, which haven't been offset by wage growth, has added to tensions in the economy.

### **Rate of Return on Investments**

- 3.3 The Authority has benefitted from the fact that its investment income has been matched to the benchmark rate of 2.24% instead of the average Money Market Fund return that has been used in previous years but which has been adversely impacted by the Covid pandemic. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section 6 of this report in respect of the Authority's Investment Strategy and Performance. The rate of return has also improved significantly from the very low position assumed when the revenue budget was drawn up for 2022/23.

### **Treasury Management Prudential Indicators**

- 3.4 The Authority has not exceeded any of its Treasury Management Prudential Indicators during 2022/2023. These indicators help to control the day to day Treasury Management activity which is closely monitored to ensure limits set each year by the Authority are not exceeded and which means capital expenditure can be appropriately financed and is affordable within the constraints of the revenue budget.
- 3.5 It is also very important that the Authorised Borrowing Limit for External Debt for the Authority, which is a statutory limit which must be set each year under section 3(1) of the Local Government Act 2003, is not exceeded. This limit was set at £52.816m for 2022/2023 and the highest level reached by the Authority of £33.235m during the year was below this limit. More details of all of the Prudential Indicators are set out in Section 5.

## **4. Borrowing Strategy and Performance – 2022/2023**

- 4.1 The basis of the agreed Borrowing Strategy was to:
- continuously monitor prevailing interest rates and forecasts;
  - secure long-term funds to meet the Authority's future borrowing requirement when market conditions were favourable;
  - use a benchmark financing rate of 3.00% for long-term borrowing (i.e. all borrowing for a period of one year or more);
  - take advantage of debt rescheduling opportunities as appropriate.
- 4.2 The Borrowing Strategy has been regularly reviewed by this Committee throughout the year and was updated where necessary to reflect changing

circumstances. The Borrowing Strategy for 2022/2023 was based upon the views of the Lead Authority's Finance Officer, supplemented with market data, market information and leading economic forecasts provided by the Authority's treasury management adviser, Link Asset Services.

- 4.3 The strategy for 2022/2023 was to adopt a pragmatic approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 3.00% for long-term borrowing was set for 2022/2023 in light of the views prevalent at the time the Treasury Management policy was set in March 2022.
- 4.4 Interest rate rises in 2022/2023 were originally expected to be small and gradual but by August 2022 it had become clear that inflation was moving up towards 40-year highs and the Bank of England (BoE) would need to take action. The Base Rate started April 2022 at 0.75% but has risen by between 0.25% and 0.75% at each of the last eight meetings of the Monetary Policy Committee (MPC), reaching 4.25% on 23rd March 2023 in an attempt to combat ongoing inflationary pressures in the economy, even at the risk of hampering growth, without pushing the economy into recession.
- 4.5 Consumer Price Index (CPI) inflation surged during the year, peaking at 11.1% in October 2022 and any hopes for significant falls from this level will largely depend on movements in the gas and electricity markets as well as supply-side factors impacting food prices. Whilst most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023, as at February 2023 the rate was 10.4% which is over five times the BoE target of 2%.
- 4.6 Link Asset Services originally expected a gradual rise in PWLB rates over the course of 2022/2023, reflecting an easing of Covid restrictions and the anticipated return to normality. However the escalating conflict in Ukraine, other geo-political tensions, the fallout from the government's huge fiscal loosening plans announced by the then Chancellor and spiralling inflation meant volatility in the financial markets continued. 50-year PWLB interest rates started the financial year in April 2022 at 2.42% (inclusive of the 0.20% discount available to Local Authorities) and rose steadily until reaching a peak of 5.51% on 28th September 2022. From then rates fell to 3.58% at the end of November 2022 before gradually rising to end the financial year at 4.41%.
- 4.7 The table overleaf shows the average PWLB borrowing rates for each quarter in 2022/2023.

<b>2022/2023</b>	<b>Qtr 1 (Apr - June) %</b>	<b>Qtr 2 (July – Sept) %</b>	<b>Qtr 3 (Oct – Dec) %</b>	<b>Qtr 4 (Jan – Mar) %</b>
SONIA Overnight Rate	0.89	1.55	2.75	3.77
1 year	2.32*	3.27*	4.16*	4.48*
5 year	2.58*	3.25*	4.38*	4.22*
10 year	2.84*	3.41*	4.44*	4.31*
25 year	3.08*	3.79*	4.67*	4.70*

<b>2022/2023</b>	<b>Qtr 1 (Apr - June) %</b>	<b>Qtr 2 (July – Sept) %</b>	<b>Qtr 3 (Oct – Dec) %</b>	<b>Qtr 4 (Jan – Mar) %</b>
50 year	2.81*	3.52*	4.20*	4.39*

\* Rates take account of the 0.20% discount to PWLB rates available to eligible authorities from 1<sup>st</sup> November 2012.

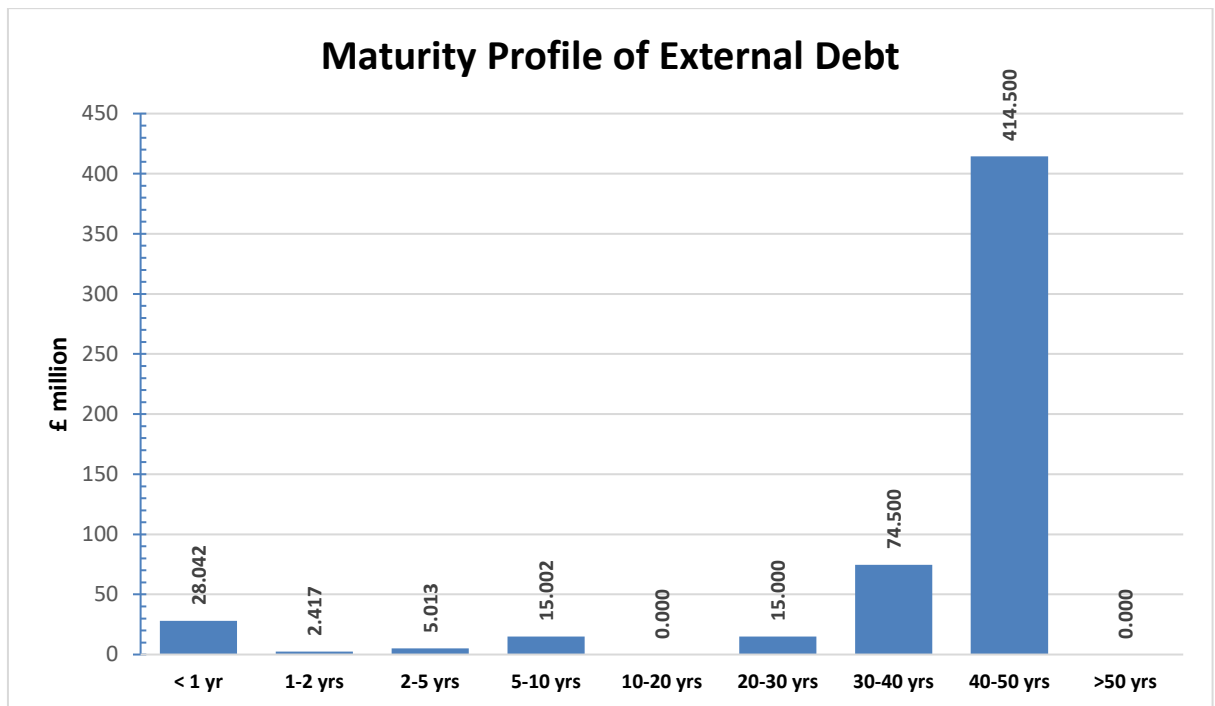
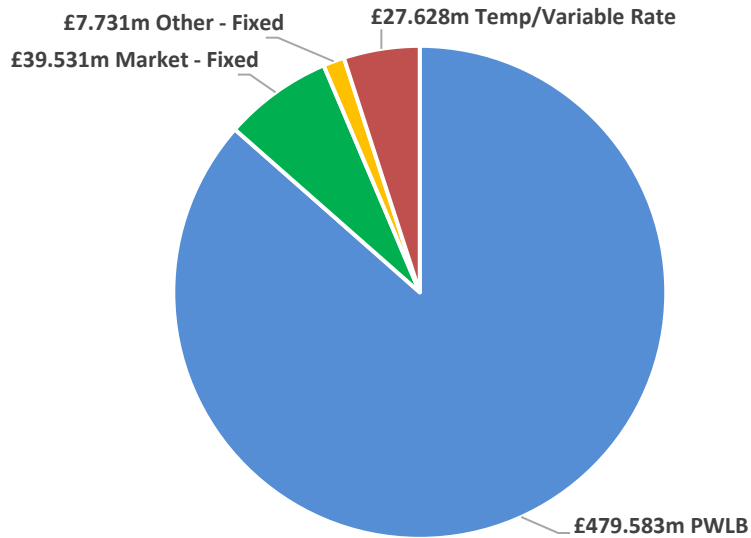
- 4.8 In line with discussions with the Authority’s Treasury Management adviser, Sunderland City Council took advantage of low borrowing rate troughs that have occurred and which will benefit the revenue budget over the longer term. £50 million of new borrowing was taken out during the financial year as the rate was considered opportune. The new borrowing is summarised in the following table:

<b>Duration</b>	<b>Date of the transaction</b>	<b>Start</b>	<b>Matures</b>	<b>Rate %</b>	<b>Loan Amount £m</b>
48 years	02/08/2022	09/08/2022	09/08/2070	2.79*	50.0

\*rate takes account of the 0.20% discount to PWLB rates available.

- 4.9 The Treasury Management Strategy for 2022/2023 included provision for debt rescheduling but also stated that because of the proactive approach taken by the Authority in recent years, and because of the very low underlying rate of the Lead authority’s long-term debt, it would be difficult to refinance long-term loans at interest rates lower than those already in place.
- 4.10 The lead authority’s borrowing portfolio position (of which the Authority forms a part £10.760m) at 31<sup>st</sup> March 2023 is set out below.

<b>Borrowing Summary at: 31 March 2023</b>		
	<b><u>Principal</u></b>	<b><u>Ave rate</u></b>
<b><u>Fixed</u></b>		<b>%</b>
PWLB	479,583,333	2.46
Market – Fixed	39,531,020	4.41
Other – Fixed	7,731,391	0.00
	<hr/> 526,845,744	<hr/> 2.57
<b><u>Variable</u></b>		
Temporary/Other - Variable	27,627,962	2.24
	<hr/> 27,627,962	<hr/> 2.24
<b>TOTAL BORROWING:</b>	<hr/> <b>554,473,706</b>	<hr/> <b>2.55</b>



## 5. Prudential Indicators – 2022/2023

- 5.1 All external borrowing and investments undertaken in 2022/2023 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Prudential Indicators as follows.
- 5.2 The statutory limit under section 3(1) of the Local Government Act 2003 (known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2022/2023 in total as £52.816m which is detailed as follows:

	<b>£m</b>
Borrowing	38.359
Other Long-Term Liabilities	<u>14.457</u>
<b>Total</b>	<b><u>52.816</u></b>

The Operational Boundary for External Debt for 2022/2023 was set at £47.816m as follows:

	<b>£m</b>
Borrowing	33.359
Other Long-Term Liabilities	<u>14.457</u>
<b>Total</b>	<b><u>47.816</u></b>

- 5.3 Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).
- 5.4 The Authority's maximum external debt in 2022/2023 was £33.235 million and is within the borrowing limits set by both of these indicators.
- 5.5 The table below shows that all other Treasury Management Prudential Indicators for the lead authority have been complied with during 2022/2023.

Prudential Indicators		2021/2022	
		Limit	Actual (max)
<b>P9</b>	<b>Maturity Pattern</b>	Upper Limit	
	Under 12 months	50%	6.74%
	12 months and within 24 months	60%	0.44%
	24 months and within 5 years	80%	0.99%
	5 years plus	100%	93.68%
	A lower limit of 0% for all periods		
<b>P10</b>	<b>Upper limit for total principal sums invested for over 365 days</b>	£75m	0

- 5.6 The Lead Authority is currently within the limits set for all of its TM Prudential Indicators.

## 6. Investment Strategy and Performance – 2022/2023

- 6.1 The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:
- The **security** of capital;
  - The **liquidity** of its investments and then;
  - The Authority aims to achieve the **optimum yield** on its investments but this is commensurate with the proper levels of security and liquidity.

6.2 The Annual Investment Strategy has been fully complied with in 2022/2023.

6.3 At 31<sup>st</sup> March 2023 the Authority had outstanding investments of £27.514 million. The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Authority uses to assess its performance.

		<b>2022/2023 Return</b> %	<b>2022/2023 Benchmark</b> %
<b>In-house Funds</b>	<b>Managed</b>	<b>2.24</b>	<b>2.24</b>

6.4 All investments placed in 2022/2023 have been made in accordance with the approved Investment Strategy and comply with the Criteria and the Approved Lending List set by the Authority on 14<sup>th</sup> March 2022.

6.5 The investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions to the benefit of the Authority. As reported during the year, the rate of return available on investments has remained at very low levels.

6.6 Due to the continuing high volatility within the financial markets, particularly in the Eurozone, advice from our Treasury Management adviser is to continue to restrict investments to shorter term periods.

6.7 As Members will be aware, the regular updating of the Authority's Authorised Lending List and Criteria is required in the light of financial institution mergers and changes in institutions' credit ratings. The Lead Authority Finance Officer has the delegated authority to vary the Lending List Criteria and Lending List itself should circumstances dictate, on the basis that changes be reported via the Finance Director to the Authority and the Governance Committee retrospectively, in accordance with normal Treasury Management reporting procedures. Changes made during 2022/2023 have been reported to Members previously.

## **7. Recommendation**

7.1 The Committee is requested to note and comment upon the Treasury Management performance of the Authority for 2022/2023.

