ISLE OF ANGLESEY COUNTY COUNCIL	
Report to:	**EXECUTIVE**
Date:	**24 OCTOBER 2023**
Subject:	**ANNUAL TREASURY MANAGEMENT REVIEW FOR 2022/23**
Portfolio Holder(s):	**COUNCILLOR R WILLIAMS – DEPUTY LEADER & FINANCE PORTFOLIO HOLDER**
Head of Service / Director:	**R MARC JONES**
Report Author: Tel: E-mail:	**JEMMA ROBINSON** **01248 752675** **JemmaRobinson@anglesey.gov.wales**
Local Members:	**n/a**

A –Recommendation/s and reason/s

- To note that the outturn figures in the report will remain provisional until the audit of the 2022/23 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in the report will be reported as appropriate.
- To note the provisional 2022/23 prudential and treasury indicators in the report.
- Consider the Annual Treasury Management Report for 2022/23 and pass on to the next meeting of the full Council with any comments.

B – What other options did you consider and why did you reject them and/or opt for this option?

n/a

C – Why is this a decision for the Executive?

- To comply with regulations issued under the Local Government Act 2003 and with the Council's Treasury Management Scheme of Delegation for 2022/23 (Appendix 8 of the Treasury Management Strategy Statement 2022/23). In accordance with the Scheme of Delegation, this report was scrutinised by the Governance & Audit Committee on 21 September 2023. The report will be presented to the full Council once it has been accepted by this Committee.

CH – Is this decision consistent with policy approved by the full Council?

Yes

D – Is this decision within the budget approved by the Council?

N/A

	DD – Who did you consult?	**What did they say?**
1	**Chief Executive / Senior Leadership Team (SLT)**(mandatory)	
2	**Finance / Section 151**(mandatory)	n/a – this is the Section 151 Officer's report
3	**Legal / Monitoring Officer** (mandatory)	
4	**Human Resources (HR)**	
5	**Property**	
6	**Information Communication Technology (ICT)**	

7	**Procurement**	
8	**Scrutiny**	
9	**Local Members**	
10	**Other**	The Governance & Audit Committee resolved to: • To note that the outturn figures in the report will remain provisional until the audit of the 2022/23 Statement of Accounts is completed and signed off; any resulting significant adjustments to the figures included in the report will be reported as appropriate. • To note the provisional 2022/23 prudential and treasury indicators in the report. • To consider the Treasury Management Annual Review report for 2022/23, and to recommend it to the full Council without comment.
E –	**Assessing the potential impact (if relevant)**	
1	**How does this decision impact on our long term needs as an Island**	
2	**Is this a decision which it is envisaged will prevent future costs / dependencies on the Authority. If so, how:-**	
3	**Have we been working collaboratively with other organisations to come to this decision, if so, please advise whom:**	
4	**Have Anglesey citizens played a part in drafting this way forward? Please explain how:-**	
5	**Note any potential impact that this decision would have on the groups protected under the Equality Act 2010**	
6	**If this is a strategic decision, note any potential impact that the decision would have on those experiencing socio-economic disadvantage.**	
7	**Note any potential impact that this decision would have on opportunities for people to use the Welsh language and on treating the Welsh language no less favourably than the English language.**	

F - Appendices:
Appendix A – Annual Treasury Management Review for 2022/23
FF - Background papers (please contact the author of the Report for any further information):
• Treasury Management Strategy Statement 2022/23 • Prudential and Treasury Indicators 2022/23 • Treasury Management Mid-Year Review Report 2022/23 • Capital Outturn Report 2022/23

1. Introduction

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

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

- an annual treasury strategy in advance of the year (received on 10 March 2022);
- a mid-year treasury update report (received on 09 March 2023);
- an annual review following the year describing the activity compared to the strategy (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, 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.

This Council 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 Governance & Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken on 14 September 2022 in order to support members' scrutiny role.

The Section 151 Officer confirms that borrowing was only taken out for capital purposes and the statutory borrowing limit (the authorised limit) was not breached.

Furthermore, the report sets out to the following outcomes in the financial year 2022/23:-

- External factors – including a review on the economy, the interest rate performance during the year and the impact of Covid 19;
- Internal factors – including the performance of capital expenditure, the impact on the reserves and cash balances, risk appetite to investments, the borrowing taken by the Council and the impact on the Capital Financing Requirement (CFR);
- The Treasury Management Strategy in 2022/23 – including the debt management of the council, the implementation on the new MRP policy, and the councils borrowing and investments during the year;
- Controlling Treasury Management – What are the Prudential Indicators and how are they measured;
- Comparison in Prudential Indicators – A comparison on the actual Prudential Indicators compared to the forecast at the beginning of the year;
- Looking forward to 2023/24 and beyond; and
- Conclusion.

2. A Review of the Year – External Factors

2.1 Interest Rates – By March 2022, Bank Rate had finished at 0.75%. Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

2.2 The Economy – United Kingdom - Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was, in part, due to a 1.3% q/q rise in real household disposable incomes. A big part of that reflected the £5.7bn payments received by households from the government under the Energy Bills Support Scheme.

Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October, although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of February 2023, CPI was 10.4%.

The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of c500k. The fact remains, however, that with many economic participants registered as long-term sick, the UK labour force shrunk by c500k in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity, and with average wage increases running at over 6% the MPC will be concerned that wage inflation will prove just as sticky as major supply-side shocks to food (up 18.3% y/y in February 2023) and energy that have endured since Russia's invasion of Ukraine on 22 February 2022.

In the interim, following a Conservative Party leadership contest, Liz Truss became Prime Minister for a tumultuous seven weeks that ran through September and October. Put simply, the markets did not like the unfunded tax-cutting and heavy spending policies put forward by her Chancellor, Kwasi Kwarteng, and their reign lasted barely seven weeks before being replaced by Prime Minister Rishi Sunak and Chancellor Jeremy Hunt. Their Autumn Statement of the 17th of November gave rise to a net £55bn fiscal tightening, although much of the "heavy lifting" has been left for the next Parliament to deliver. However, the markets liked what they heard, and UK gilt yields have reversed the increases seen under the previous tenants of No10/11 Downing Street, although they remain elevated in line with developed economies generally.

As noted above, GDP has been tepid throughout 2022/23, although the most recent composite Purchasing Manager Indices for the UK, US, EZ and China have all surprised to the upside, registering survey scores just above 50 (below suggests economies are contracting, and above suggests expansion). Whether that means a shallow recession, or worse, will be avoided is still unclear. Ultimately, the MPC will want to see material evidence of a reduction in inflationary pressures and a loosening in labour markets. Realistically, that is an unlikely outcome without unemployment rising and wage settlements falling from their current levels. At present, the bigger rise in employment kept the ILO unemployment rate unchanged at 3.7% in January. Also, while the number of job vacancies fell for the ninth consecutive month in February, they remained around 40% above pre-pandemic levels.

Our economic analysts, Capital Economics, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession this year involving a 1.0% peak-to-trough fall in real GDP.
The £ has remained resilient of late, recovering from a record low of $1.035, on the Monday following the Truss government's "fiscal event", to $1.23. Notwithstanding the £'s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

3. A Review of the Year – Internal Factors

3.1 Capital Expenditure and financing 2022/23 - The Council undertakes capital expenditure on long-term assets. These activities may either be:-

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- Financed from borrowing: If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

	2022/23 Estimate (£'m)	**2022/23 Actual (£'m)**
General Fund capital expenditure	40	30
HRA capital expenditure	15	11
Total capital expenditure	**55**	**41**
General Fund financed in year by Grants & Contributions	19	19
HRA financed in year by Grants & Contributions	3	4
General Fund financed in year by Council Resources	8	3
HRA financed in year by Council Resources	10	7
General Fund capital expenditure financed by borrowing	**13**	**8**
HRA capital expenditure financed by borrowing	**2**	**0**

The main reason for the underspend was the large underspend against the projects listed below.

Scheme	**Underspend £'m**	**Comment**
Refurbishment of school buildings	1.186	In the latter part of 2022/23, the Authority was awarded £1.189m of additional grant funding for school capital maintenance works. The grant funding was used to fund capital expenditure on education buildings in 2022/23, replacing funding from the Authority's own resources. The funding saved by the Authority from this grant will now be used to fund school capital works in 2023/24.
Free School Meals	0.600	In the latter part of 2022/23, the Authority was awarded £0.832m of additional grant funding for schools in relation to the preparation of the free school meals roll out. The grant funding was used to fund locally determined capital schemes in 2022/23, replacing funding from the Authority's own resources. There was also £0.013m of expenditure that the Authority deemed to be revenue in nature, although eligible as per the terms of the grant, therefore £0.013m of this funding was transferred to revenue, leaving the capital budget to be £0.819m. The funding saved by the Authority from this grant will now be used to fund free school meals preparation works in 2023/24

Scheme	Underspend £'m	Comment
Community Focussed Schools (CFS) Grant	0.451	In 2022/23, the Authority was awarded £0.476m of grant funding to support small and medium scale practical projects to open schools outside the traditional hours, specifically to safely adapt and effectively open schools outside traditional hours, to enable community use of the existing facilities. There was minimal expenditure in 2022/23 and due to the timing of the funding, the scheme was expected to underspend as per previous monitoring reports. The grant funding was used to fund locally determined capital schemes in 2022/23, replacing funding from the Authority's own resources. There was also £0.025m of expenditure that the Authority deemed to be revenue in nature, although eligible as per the terms of the grant, therefore £0.025m of this funding was transferred to revenue, leaving the capital budget to be £0.451m. The funding saved by the Authority from this grant will now be used to fund CFS projects in 2023/24.
Additional Learning Needs (ALN) Grant	0.436	In 2022/23, the Authority was awarded £0.476m of grant funding to support learners with ALN. There was minimal expenditure in 2022/23 and due to the timing of the funding, the scheme was expected to underspend as per previous monitoring reports. The grant funding was used to fund locally determined capital schemes in 2022/23, replacing funding from the Authority's own resources. The funding saved by the Authority from this grant will now be used to fund ALN projects in 2023/24.
Disabled Access Education Building	0.145	This is due to disabled adaptations being completed in all secondary schools except one. The remaining secondary school is on hold pending the outcome of feasibility studies. Works to primary schools are completed as and when required. Though substantial investment has been undertaken, further work maybe required in the future to address the needs of individuals not yet known to us and therefore the underspend is required to be slipped to 2023/24.
Various Flood schemes	1.198	Some schemes are ongoing and span across different financial years. Others have seen delays and time extensions for completion agreed by Welsh Government to carry forward the funding and other schemes have completed.
Local Transport Fund – Infrastructure enhancements	0.416	Due to the nature of the works and lead time on delivery of infrastructure, time extension has been secured until June 2023.
Maritime Infrastructure	0.178	Work in Amlwch is being prioritised and, while background work has begun and consultants have been appointed, the full budget is still required, and the majority of the work will take place in 2023/24.

Scheme	Underspend £'m	Comment
Visitor Infrastructure	0.199	As per previous monitoring reports, this scheme was expected to slip, with the majority of the works anticipated to take place in 2023/24.
Sustainable Communities for Learning – Band B	1.191	Experienced a delay of 18 weeks due to extremely wet ground conditions. Additional drainage works have had to be carried out. Trench excavations and concrete foundations have commenced. Awaiting confirmation of cost increases due to delay, drainage works, poor ground conditions and deeper concrete foundations.
Disabled Facilities Grant	0.466	There has been a slowing down of referrals coming through from Social Services, as a hangover from the pandemic, coupled with a lack of contractors. There were more approvals but with a smaller pool of contractors, the jobs are not being turned around as quickly. This issue is being addressed in the forthcoming financial year.
Residential Site for Gypsies & Travellers	0.491	The initial tender prices received exceeded the funding available. Work is ongoing to redesign the scheme to reduce the costs to match the available funding.
Capital works to existing assets	0.476	The remaining budget has been committed to works that span 22/23 and 23/24. Works include substantial investment at Holyhead and Amlwch Leisure Centres
Upgrade Public Conveniences	0.361	The service is in the process of developing a public conveniences improvement plan which will give a better idea of the capital requirements in the next financial year. It is also envisaged that further grant funding for capital works to public conveniences may be forthcoming in the next financial year, and part of this budget could again be used as match funding if the opportunity arises.
Vehicles	0.510	A plan is being put in place to deliver electric vehicle charging points in the compound, however, they have not yet been finalised and, until finalisation is achieved, orders for electric vehicles have been postponed. Other vehicles have been ordered before year end, however, due to the lead time in delivery, they will be received post year end and so the budget will be required to slip to financial year 2023/24.
Integrated Care Fund (ICF)	0.694	£0.852m was claimed through the ICF in the prior year and through displaced funding, for the projects to slip into 2022/23 to be completed. Some of the projects will continue in 2023/24 and it has been agreed with the regional team that the funding can be carried forward to fund completion in 2023/24.

3.2 **Reserves and Cash balances** - the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:-

Usable Reserves and Provisions	Draft 31-Mar-23 £’m	Final 31-Mar-22 £’m
Council fund general reserve	13.967	12.278
Earmarked reserves	19.637	23.181
Housing Revenue Account (HRA) reserve	12.107	12.333
School reserves	6.716	7.827
Capital receipts Reserves	1.908	2.381
Capital Grant Unapplied	0.407	0.000
Total Usable Reserves	**54.742**	**58.000**
Provisions	**5.037**	**4.915**
Total Usable Reserves and Provisions	**59.779**	**62.915**

3.3 Externalisation of borrowing – The Council’s underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council’s debt position. The CFR results from the capital activity of the Council and the resources utilised to pay for the capital spend. It represents the 2022/23 capital expenditure financed by borrowing, and prior years’ capital expenditure funded by borrowing which has not yet been paid for by revenue or other resources. Part of the Council’s treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the Treasury Service organises the Council’s cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board (PWLB) or the money markets) or utilising temporary cash resources within the Council. There was no externalisation of borrowing in 2022/23 financial year.

3.3.1 Gross borrowing and the CFR - In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the 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 essentially means that the Council is not borrowing to support revenue expenditure.

The internal borrowing strategy has now been implemented over the last few years. The gross borrowing of £123.8m at 31 March 2023 is less than the forecast CFR for the following two years.

	Actual 2022/23 £'m	Estimated 2023/24 £’m	Estimated 2024/25 £’m
Capital Financing Requirement	144.1	173.9	202.7

3.3.2 Internal borrowing - is when over the medium term, the investment rates are expected to continue to be below long-term borrowing rates. This means that value for money considerations would indicate that value could best be obtained by avoiding new external borrowing and by using internal cash balances to finance new capital expenditure, or to replace maturing external debt. This would maximise short term savings. The Internal borrowing figure is the difference between the CFR and the Gross Borrowing Position. As can be seen in the table below, at the beginning of the year the internal borrowing position was £12.5m. There were no new PWLB loans in the year and £2.285m principal repayments, with an interest free loan of £1.123m received in the year (as per 3.4 and 3.5 below). This has resulted in the Internal borrowing position at 31 March 2023 now being £20.3m:

	31 March 2022 Actual £'m	31 March 2023 Actual £'m
Gross borrowing position	125.3	123.8
CFR	137.8	144.1
(Underfunding) / overfunding of CFR	(12.5)	(20.3)

3.4 **Other Borrowing-** During the year, the Council did not enter into any other short-term borrowings. An interest free loan of £1.123m was received during 2022/23 to fund capital expenditure on energy saving projects and will be repaid in annual instalments.

3.5 **Debt Repayments** – There were three PWLB loans that matured during the year. £1m matured 19 August 2022. The loan was originally taken in July 2007 at an interest rate of 5.35%. £1.0m matured 16 January 2023. The loan was originally taken in May 1995 at an interest rate of 8.5%. £0.285m matured 31 March 2023. The loan was originally taken in May 1995 at an interest rate of 8.5%. There are no short term borrowings outstanding.

3.6 **Investments –** The expected investment strategy was to keep to shorter term deposits (up to 364 days) although the ability to invest out to longer periods was retained. Cash balances were expected to be up to £65m, ranging between £38m and £65m. The interest budget of £5k that was set for 2022/23 was based on the previous year's interest received, taking into account the low interest rates, limited investments in other Local Authorities and the fact investment returns remained at close to zero at the time of producing the interest receivable budget for 2022/23. However, with interest rates rising to above what was anticipated at the time of producing the 2022/23 budget and hence providing more opportunities for investment of surplus cash, average balances of £55.8m returned £0.863m at an average interest rate of 1.55%.

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 called for. Starting April at 0.75%, Bank Rate moved up in stepped increases 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.

Part of the Council's deposits were held in no notice deposit accounts which pay interest at rates near the prevailing base rate, £11.521m at 1.25% on 31 March 2023 (31 March 2022 £38.616m at 0.05%). There were four other short-term investments as at 31 March 2023 - £30.0m at an interest rate of 3.96% (£7.5m at 0.77% as at 31 March 2022). All investments were for under 1 year.

On 22 July 2022 a £7.5m investment with Goldman Sachs (that was outstanding as at 31 March 2022) matured, and was reinvested on the same date. Details of all new investments in the year with their respective interest rates, are detailed in the table below:

Counter Party	Start Date	End Date	Interest Rate %	Amount £
National Westminster Bank	11/04/2022	11/10/2022	1.30	10,000,000
Santander	10/05/2022	10/11/2022	1.47	7,500,000
Nationwide Building Society	17/05/2022	17/08/2022	0.97	7,500,000
Goldman Sachs	22/07/2022	22/12/2022	2.18	7,500,000
Nationwide Building Society	17/08/2022	17/11/2022	1.87	7,500,000
National Westminster Bank	11/10/2022	11/01/2023	2.70	10,000,000
Wrexham County Borough Council	25/10/2022	25/04/2023	3.80	5,000,000
Santander	10/11/2022	10/02/2023	3.24	7,500,000
Nationwide Building Society	17/11/2022	17/02/2023	3.03	7,500,000
Cornwall Council	25/11/2022	27/02/2023	3.06	5,000,000
Goldman Sachs	22/12/2022	22/06/2023	3.83	7,500,000
National Westminster Bank	11/01/2023	11/07/2023	4.10	10,000,000
Santander	10/02/2023	10/05/2023	4.00	7,500,000
Cornwall Council	27/02/2023	24/03/2023	3.90	5,000,000

3.7 **Treasury Position at 31 March 2023** – The Council's debt and investment position is organised by the Treasury Management Service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity in accordance with the Treasury Management Strategy 2022/23. The upper limits for fixed rate and variable rate exposures were not breached during the year. The borrowing and investment figures for the Council as at the end of the 2021/22 and 2022/23 financial years are as follows: -

	31 MARCH 2022			**31 MARCH 2023**		
	£'m	**Average Rate (%)**	**Average Maturity (years)**	**£'m**	**Average Rate (%)**	**Average Maturity (years)**
Debt PWLB Debt Non-PWLB **Total**	121.9 3.4 **125.3**	4.58 0	29.58 4.03	119.6 4.2 **123.8**	4.54 0	29.15 3.73
CFR	137.8			144.1		
Over / (under) borrowed	(12.5)			(20.3)		
Fixed term investments (all < 1 year, managed in house and fixed rate) No notice investments (all managed in house)	7.500 38.616	0.765 0.05		30.000 11.521	3.96 1.25	
Total Investments	**46.116**	**0.17**		**41.521**	**3.21**	

Borrowing is further broken down by maturity as:-

	31 MARCH 2022		31 MARCH 2023	
	£'m	**% of total**	**£'m**	**% of total**
Total borrowing	125.3	100	123.8	100
Under 12 months	2.7	2.2	2.3	1.9
1 – 3 years	3.4	2.7	3.3	2.7
4 – 6 years	4.5	3.6	5.6	4.5
7 – 10 years	4.9	3.9	3.8	3.1
10 years and above	109.8	87.6	108.8	87.8

There have been no new borrowings taken out in the year (long or short term), with an interest free loan being received in the year as per 3.4 above. Debt repayments have been as described in point 3.5 above. Therefore, the movement in the categories above are simply as per the loan maturity dates.

4. The Council's Treasury Management Strategy in 2022/23

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

4.2 Borrowing in advance of need – During the year, the Council did not borrow more than, or in advance of its needs, purely to profit from the investment of the extra sums borrowed.

4.3 Investment Policy – the Council's investment policy is governed by Welsh Government investment guidance, which has been implemented in the annual Treasury Management Strategy Statement approved by the Council on 10 March 2022. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.). The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties. When the Council invests its surplus cash, the most important aspect of the investment is security, followed by liquidity and then the yield. This essentially means that the main priority is the safety of the cash, followed by how readily available the cash is should the Council require it followed by the percentage interest rate return that the Council will receive for the investment. The strategy on investing surplus cash would be to borrow short term with other Local Authorities to maximize returns in a secure way.

4.4 Borrowing strategy and control of interest rate risk - During 2022/23, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were very low and minimising counterparty risk on placing investments also needed to be considered.

4.5 MRP Policy – In 2022/23 the Council implemented its new MRP policy after seeking advice from its Treasury advisor. The new policy is a more prudent measure with the MRP charge reflecting more closely the change in asset values. The new policy can be seen in Appendix 6 of the Treasury Management Strategy Statement 2023/24 that was approved by full Council on 09 March 2023.

5. Controlling Treasury Management

The following Prudential indicators are contained in Appendix 11 of the Treasury Management Strategy Statement. See below a brief explanation of what the indicators are and how they are calculated. Section 6 of this report analyses the differences between the Actual and the forecast Prudential Indicators for 2022/23.

- **Capital expenditure – Estimates of Capital Expenditure -** This is the forecast Capital Expenditure from 2022/23 to 2025/26 and is based on the Capital Programme for 2022/23 and the Capital Strategy for 2023/24.

- **The Council's borrowing need (the Capital Financing Requirement) -** Another prudential indicator is the Council's Capital Financing Requirement (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's underlying borrowing need. Any capital expenditure above, which has not immediately been paid for through a revenue or capital resource, will increase the CFR. The CFR does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the borrowing need in line with each asset's life, and so charges the economic consumption of capital assets as they are used.

- **Prudence - Gross Debt and the CFR -** The Council needs to ensure that its gross debt does not, except in the short term, exceed the total of the CFR in the preceding year plus the estimates of any additional CFR for 2022/23 and the following two financial years. This allows some flexibility for limited early borrowing for future years but ensures that borrowing is not undertaken for revenue purposes.

- **External Debt - The authorised limit for external debt -** A further key prudential indicator represents a control on the maximum level of borrowing. This represents a limit beyond which external debt is prohibited, and this limit needs to be set or revised by the full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003. The Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised. The S151 Officer reports that the Council complied with this prudential indicator in the current year and does not envisage difficulties for the future. This view takes into account current commitments, existing plans, and the proposals in the budget report. The Authorised Limit is set annually in the Treasury Management Strategy Statement and is approved by full Council.

- **The operational boundary** - This is the limit beyond which external debt is not normally expected to exceed. In most cases, this would be a similar figure to the CFR, but may be lower or higher depending on the levels of actual debt and the ability to fund under-borrowing by other cash resources. Periods where the actual position is either below or over the boundary are acceptable subject to the authorised limit not being breached. The Operational Limit is set annually in the Treasury Management Strategy Statement and is approved by full Council.

- **Affordability - Ratio of financing costs to net revenue stream -** This indicator identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

6. Prudential Indicators Actual vs Expected

6.1 During 2022/23, the Council complied with its legislative and regulatory requirements. The key data for actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:-

Data for actual prudential and treasury indicators	2021/22 Actual £'m	2022/23 Original £'m	2022/23 Actual £'m
Capital Expenditure			
• Non-HRA	23.734	17.177	29.510
• HRA	9.723	18.784	11.180
• **Total**	**33.457**	**35.961**	**40.690**
Total Capital Financing Requirement:			
• Non-HRA	99.387	107.867	105.824
• HRA	38.415	43.646	38.287
• **Total**	**137.802**	**151.513**	**144.111**
Gross Borrowing	124.348	144.335	123.800
External Debt	124.348	144.335	123.800
Investments			
• Longer than 1 year	0	0	0
• Under 1 year	46.116	15.000	41.522
• **Total**	**46.116**	**15.000**	**41.522**
Financing costs as a proportion of net revenue stream – CF	4.50%	4.40%	2.78%
Financing costs as a proportion of net revenue stream – HRA	9.12%	13.40%	7.18%

6.2 The first Prudential Indicator in the above table is the Capital Expenditure. The forecast Capital Expenditure at the time of producing the Prudential indicators for 2022/23 was £35.961m. However, the actual expenditure was £40.690m. The prudential indicator was based on the capital budget approved for 2022/23 (£35.961m). However, this budget does not include any slippage amounts from the previous year and also that fact that throughout the year, additional schemes are added to the capital programme, hence why the non-HRA capital expenditure is higher than was what originally budgeted for. Please refer to paragraph 3.1 in this report for the final non-HRA capital budget compared with the actual expenditure and the reasons for the actual underspend against budget. The HRA capital expenditure is significantly underspent, mainly due to unforeseen works, planning delays, tender issues and/or difficulties in obtaining external agency approval for certain aspects of a scheme.

6.3 The second Prudential indicator in the above table in the Capital Financing Requirement. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge called the Minimum Revenue Provision, MRP, to reduce the CFR. This is, effectively, a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR. The total CFR can also be reduced by: -

- the application of additional capital financing resources (such as unapplied capital receipts); or
- charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).

The forecast CFR at the time of producing the Prudential indicators for 2022/23 was £151.513m. However, the actual CFR was significantly lower at £144.111m. The reduction in the HRA CFR is due to the underspend against the HRA budget, meaning there was no borrowing in 2022/23 for HRA. One of the reasons for the reduced Non-HRA CFR was the reduced amount of Unsupported Borrowing needed in relation to the Sustainable Communities for Learning programme in 2022/23. The expenditure was mainly funded by grant, hence reducing the need for borrowing. Another reason was that additional grants were awarded during the year to subsidise other funding sources such as Supported Borrowing. This meant less Supported Borrowing was needed and therefore reducing the CFR figure. However, in future years, this subsidised funding source will be used to fund the Capital Expenditure in 2023/24 and will increase the CFR.

6.4 The Authorised Borrowing Limit (£185m) and the Operational Boundary (£180m) were not breached during the year, with the amount of External debt peaking at £125.273m only.

6.5 The Financing costs as a proportion of net revenue stream for the General Fund (2.78%) was below the anticipated total (4.40%) which is due to financing costs being lower, attributed to both the change in MRP calculation, resulting in a lower MRP charge and additional interest earned being higher than expected than when the prudential indicator for 22/23 was produced. The Financing costs as a proportion of net revenue stream for the HRA (7.18%) was lower than the anticipated total (13.40%) which is due to the financing costs being significantly lower than expected at the time of producing the proposed indicator for 2022/23 (attributed to both the change in MRP calculation, resulting in a lower MRP charge and reduced borrowing requirements). The underspend on HRA reduced the amount of Revenue contributions needed to fund the capital programme in 2022/23 from £10.1m to £7.4m.

7. Looking forward to 2023/24 and beyond

7.1 On 09 March 2023 the full Council approved the Treasury Management Strategy Statement for 2023/24. The Strategy Statement was based on the Capital Strategy, and it is forecast that the Council will need to borrow an additional £26.1m in 2023/24 for the General Fund and HRA, a total of £30.7m in 2024/25 and a further total of £21.4m in 2025/26 to fund its Capital Programme, noting that the majority of the borrowing s forecast to fund the HRA capital programme. This additional borrowing will affect the Minimum Revenue Provision (MRP) being charged to fund the capital financing costs. In 2023/24 the forecast MRP is £1.6m, in 2024/25 £2.0m and £2.1m in 2025/26.

7.2 On 06 April 2023 the Isle of Anglesey County Council invested £5m with Nationwide Building Society with an interest rate of 4.17%. The investment matured on 06 July 2023 and was rolled over for a further 6 months with an interest rate of 5.47%.

7.3 On 25 April 2023 a £5m investment with Wrexham County Borough Council matured and was rolled over for a further 6 months with an interest rate of 4.3%

7.4 On 10 May 2023 a £7.5m investment with Santander matured and was rolled over for a further 6 months with an interest rate of 4.76%.

7.5 On 22 June 2023 a £7.5m investment with Goldman Sachs matured and was rolled over for a further 6 months with an interest rate of 5.52%.

7.6 On 11 July 2023 a £10m investment with NatWest matured and was rolled over for a further 6 months with an interest rate of 5.88%.

7.7 To date, there have been no principal repayments of PWLB borrowing by the Isle of Anglesey County Council. There is £1.854m due to be repaid later in the 2023/24 financial year.

7.8 The interest receivable budget of £1.424m that was set for 2023/24 was based on the increase in interest rates, hence providing more opportunities for investment of surplus cash. Interest received to quarter 1 of 2023/24 was £379k and is anticipated that the interest receivable budget can be met in 2023/24.

7.9 The latest interest rate forecast from Link Group (as at 18 July 2023) can be seen in the table below.

Interest Rate Forecasts								
Bank Rate	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25
Link	5.50%	5.50%	5.50%	5.25%	4.75%	4.25%	3.75%	3.25%

8. Conclusion

The Council's Treasury Management performance during the year was in line with the strategy of low risk, low return investments and a planned approach to borrowing designed to minimise interest charges.

The performance against the Prudential Indicators set by the Council show that the Council's Treasury Management activities are being undertaken in a controlled way which ensure the financial security of the Council and do not place the Council at any significant financial risk in terms of unaffordable or excessive borrowing.

The Council's Treasury Management Strategy and its performance against the strategy take into account the external economic factors and it is constantly reviewed to ensure that it is the most appropriate strategy moving forward.

R MARC JONES
DIRECTOR OF FUNCTION (RESOURCES) & SECTION 151 OFFICER