MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1ST April 2022 – 30TH September 2022

A. TREASURY MANAGEMENT REPORT

1. Introduction

The Treasury Management Policy and Strategy for 2022-2023 was approved by Council on 2nd March 2022. Section B 1.1(2) stated that Treasury Management activity reports would be made during the year. This report outlines the Treasury Management activities in the period 1st April 2022 to 30th September 2022 and satisfies the reporting requirement stated above.

There was one policy change to the Treasury Management Policy and Strategy for this period. Due to the increased level of income and cash available for investment, the Director of Corporate Services made the decision in April 2022 under emergency powers to increase the counterparty limits for the DMADF and Money Market Funds (as per section A. 4). To reflect these changes, the limits for Interest Rate Exposure have been updated for 2022-2023 (as per section B. 2.1.1).

2. Economic update

In August 2022, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 1.75%, and in September 2022 moved rates up a further 50 basis points to 2.25%. The MPC continues to work through the challenges of getting inflation back on track over a three-year period.

The core of the government's new policies are tax cuts and regulatory simplification. This position has now been superseded following the change of Chancellor, who has announced a reversal of the planned tax cuts and changes to the level of Government spending. It is currently too early to say how these revised policies will impact growth and inflation, but the expectation is that the plans will reduce the concerns about the level of unfunded expenditure that had previously alarmed the markets.

The Bank Rate forecast set out below will be dependent on joint communications from the Bank of England and the government.

The US Federal Open Market Committee (FOMC) has increased its rate by 3% this year to date and is expected to increase rates further before the end of 2022. Similarly, the European Central Bank (ECB) has also started to tighten monetary policy, albeit from a low starting point, as have all the major central banks apart from Japan. It is US monetary policies that are having the greatest impact on global bond markets.

What happens in Ukraine will also impact the global economy, but particularly in Europe. The search for alternative providers of energy, other than Russia, will take both time and effort.

3. Prospects for Interest Rates

Based on the average projection from a number of sources we can expect the trend in base rates over the year to be as follows:

	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
Base Rate %	4.00	5.00	5.00	5.00	4.50

(Source: LINK Asset Services)

Link Asset Services undertook its last review of interest rate forecasts on 27th September 2022 after the MPC meeting on 22nd September 2022, where the decision was made to increase the Bank Rate to 2.25% from 1.75%.

The revised 3 year projection based on this review is:

	2022-23	2023-24	2024-25
	%	**%**	**%**
Revised Average Bank Rate	3.13	4.63	3.19
Original Average Bank Rate (TM Strategy 2022-23)	1.13	1.25	1.25

4. Investments

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily on the London Money Markets. The security of the investments is the main priority; appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence, appropriate counterparties are limited.

The total investments at 1st April 2022 and 30th September 2022 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.22				30.09.22			
	Call and notice £m	Fixed Term £m	Total £m	%	Call and notice £m	Fixed Term £m	Total £m	%
Banks	39.50	0.00	39.50	25	27.50	14.00	41.50	21
Building Societies	0.00	7.00	7.00	4	0.00	7.00	7.00	4
Money Market Funds	25.00	0.00	25.00	16	40.00	0.00	40.00	21
DMADF (DMO)	0.00	57.00	57.00	36	0.00	76.50	76.50	39
Local Authorities	0.00	32.00	32.00	20	0.00	30.00	30.00	15
TOTAL	**64.50**	**96.00**	**160.50**	**100**	**67.50**	**127.50**	**195.00**	**100**

Investments on call are available immediately on demand. Fixed term investments are fixed to a maturity date. The current longest investment is maturing on 7th July 2023.

The DMADF (DMO) limit was increased in April 2022 to £125m from £100m by the Director of Corporate Services under Emergency powers. The limits on Money Market Funds were also increased to £10m (each) from £5m.

During the period the total investments made by the Council and repaid to the Council (turnover) amounted to £1,060.50m. This averaged approximately £40.57m per week or £5.80m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2022	160.50
Investments made during the period	547.50
Sub Total	**708.00**
Investments Repaid during the period	(513.00)
Total Investments 30th September 2022	**195.00**

The main aims of the Treasury Management Strategy is to appropriately manage the cash flows of the Council, the required short term and longer term market transactions and the risks associated with this activity. Lending on the money market secures an optimum rate of return and also allows for diversification of investments and hence reduction of risk, which is of paramount importance in today's financial markets.

Benchmarks are widely used to assess investment performance. Previously, the "7 day LIBID rate" was the recognised rate which the Council would aim to exceed when lending money, however the LIBID rates ceased from 31st December 2021. Following discussions with our Treasury advisors at Link, a decision was made to utilise the "90 day uncompounded SONIA rate" (backward looking) to benchmark our investment performance going forward. This benchmark will be reviewed periodically with our advisors.

For the period under review the average "90-day uncompounded SONIA rate" was 0.91% whereas the actual rate the Council earned was 0.94%, an out performance of 0.03%. This outperformance can be quantified as £29k additional interest earned compared to the "90-day uncompounded SONIA rate".

The average gross interest earned on investments for the period amounted to £920k. This includes £220k interest on monies held for the Swansea Bay City Deal region.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

5. Security, Liquidity and Yield (SLY)

Within the Treasury Management Strategy Statement for 2022-2023, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover short term cash flow needs but also to seek out value available in significantly higher rates in periods up to 12 months with highly credit rated financial institutions.

Attached at Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings as at 30th September 2022.

6. Borrowing

One of the methods used to fund capital expenditure is long term borrowing. The principal lender for Local Authorities is the Public Works Loan Board (PWLB).

Under the Treasury Management Strategy, it was agreed to borrow when interest rates are at their most advantageous.

The total loans at 1st April 2022 and 30th September 2022 are shown in the following table:

Loans	Balance at 01.04.22 £m	Balance at 30.09.22 £m	Net Increase/ (Net Decrease) £m
Public Works Loan Board (PWLB)	387.61	398.61	11.00
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	10.13	10.11	(0.02)
TOTAL	**400.74**	**411.72**	**10.98**

The Salix interest free loans have been provided by an independent publicly funded company dedicated to providing the public sector with loans for energy efficiency projects.

The interest free ‘Invest-2-Save’ funding is to assist in the conversion of traditional street lighting to LED, which will help deliver a legacy of reduced energy costs and associated carbon taxes.

The Home Improvement Loan Scheme (HILS) repayable funding is provided by the Welsh Government to help individual homeowners, small portfolio landlords, developers and charities to improve homes and increase housing supply.

The Town Centre Loan (TCL) repayable funding is provided by the Welsh Government to provide loans to reduce the number of vacant, underutilised and redundant sites and premises in town centres and to support the diversification of the town centres by encouraging more sustainable uses for empty sites and premises, such as residential, leisure and for key services.

6.1 New Borrowing

The following loans were borrowed during the period:

Loan Reference	Amount (£m)	Interest Rate	Start Date	Period	Maturity Date
PWLB 548866	5.00	3.91%	12th September 2022	47yrs	28th September 2069
PWLB 548868	5.00	3.90%	12th September 2022	48yrs	28th September 2070
PWLB 548870	5.00	3.90%	12th September 2022	49yrs	28th September 2071
PWLB 548872	5.00	3.89%	12th September 2022	49yrs 10mths	31st July 2072
Total	**20.00**				

6.2 Interest Paid

Interest paid on loans during the period was:

PWLB Interest Paid £m	Market Loan Interest Paid £m	Total Interest Paid £m
8.11	0.07	8.18

7. Rescheduling and Premature Loan Repayments

No rescheduling opportunities arose during the period and there were no premature loan repayments. However, due to the current economic climate and the consequential structure of interest rates opportunities may arise in the future.

8. Leasing

No leases were negotiated during the period 1st April 2022 to 30th September 2022.

B. PRUDENTIAL INDICATOR REPORT

1. Prudential Indicators

As part of the 2022-2023 Budget and the Treasury Management Policy and Strategy 2022-2023, the Council adopted a number of Prudential Indicators. These Indicators are designed to ensure that any borrowing or other long-term liabilities entered into for capital purposes were affordable, sustainable and prudent.

The indicators are required by the Local Government Act 2003 and the Revised Prudential Code of Practice in order to control Capital Finance. The Prudential Code also required that those Prudential Indicators that were forward looking should be monitored and reported. Some of the indicators are monitored by officers monthly and are only reported if they are likely to be breached, others are to be monitored quarterly by the Executive Board.

1.1 Affordability Prudential Indicator

1.1.1 Ratio of Financing Costs to Net Revenue Stream

The indicator set for 2022-2023 in the Budget was:

	2022-2023 %
Non-HRA	3.95
HRA	30.90

An examination of the assumptions made in calculating this indicator concluded that there have been no changes in this period.

1.2 Prudence Prudential Indicators

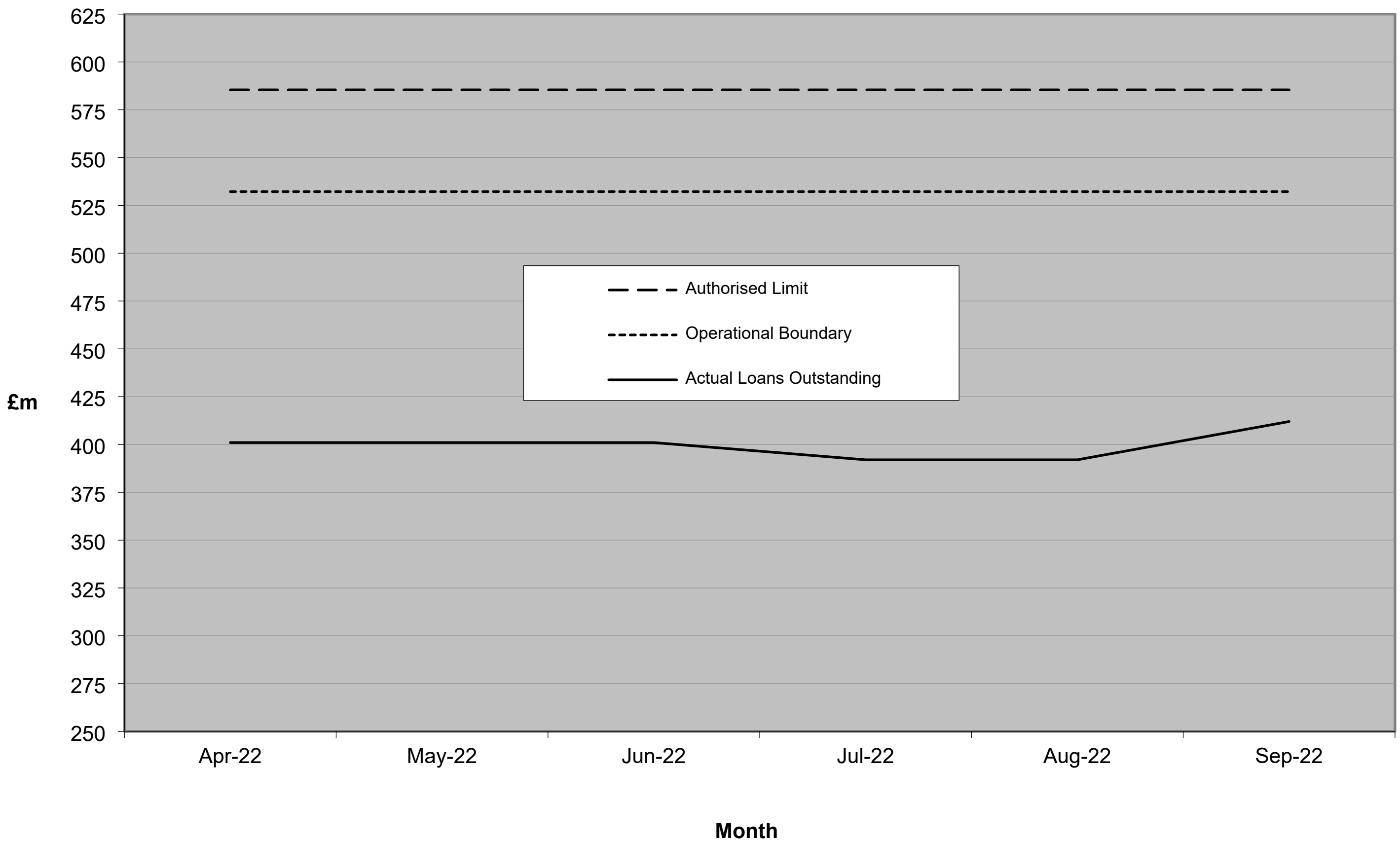
1.2.1 Capital Financing Requirement (CFR)

The Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2022-2023 Estimate £m	As at 30.09.22 £m	2022-2023 Forecast £m
Capital Financing Requirement			
CFR – non housing	285	283	283
CFR – housing	178	170	170
CFR - housing subsidy buy-out	69	69	69
Total CFR	**532**	**522**	**522**

1.2.2. Authorised Limit and Operational Boundary

The actual value of loans outstanding must not exceed the Authorised Limit. In normal activity actual loans outstanding should be close but less than the Operational Boundary. The Operational Boundary can be breached in the short term due to adverse cash flows.



	Authorised Limit for External Debt		Operational Boundary for External Debt	
	2022-23	2022-23	2022-23	2022-23
	Estimate	Forecast	Estimate	Forecast
	£m	£m	£m	£m
Borrowing	584.9	584.9	532.1	532.1
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
Total	585.4	585.4	532.2	532.2

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22
	£m	£m	£m	£m	£m	£m
Authorised Limit	585.4	585.4	585.4	585.4	585.4	585.4
Operational Boundary	532.2	532.2	532.2	532.2	532.2	532.2
Loans Outstanding	401	401	401	392	392	412

Neither the Authorised Limit nor the Operational Boundary have been breached.

2.1 Treasury Management Prudential Indicators

2.1.1 Interest Rate Exposure

Position as at 30th September 2022:

	Fixed Interest Rate £m	Variable Interest Rate £m	TOTAL £m
Borrowed	408.72	3.00	411.72
Invested	(127.50)	(67.50)	(195.00)
Net	**281.22**	**(64.50)**	**216.72**
Limit	512.00	51.00	
Proportion of Net Borrowing Actual	**129.76%**	**(29.76)%**	**100.00%**
Limit	150.00%*	5.00%	

*Revised limit, increased from 125.00%.

The authority is within limits set by the 2022-2023 indicators.

2.1.2 Maturity Structure of Borrowing

	Structure at 30.09.22 %	Upper Limit %	Lower Limit %
Under 12 months	0.52	15	0
12 months to 2 years	1.77	15	0
2 years to 5 years	6.76	50	0
5 years to 10 years	8.89	50	0
10 years to 20 years	20.80	50	0
20 years to 30 years	20.28	50	0
30 years to 40 years	22.52	50	0
40 years and above	18.46	50	0

The authority is within the limits set by the 2022-2023 indicators.

2.1.3 Maximum Principal Sums Invested Longer than 365 Days

	2022-2023 £m
Limit	10
Actual as at 30th September 2022	NIL

RECOMMENDATION

That Cabinet considers and approves the report including changes to the limits for Interest Rate Exposure (as per section B. 2.1.1)