

## **AGENDA ITEM NO.**

### **CORPORATE PERFORMANCE AND RESOURCES COMMITTEE**

**DATE: 18/10/2023**

## **QUARTERLY TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT**

**1<sup>st</sup> April 2023 – 30<sup>th</sup> June 2023**

### **A QUARTERLY TREASURY MANAGEMENT REPORT**

#### **1. Introduction**

The Treasury Management Policy and Strategy for 2023-2024 was approved by Council on 1<sup>st</sup> March 2023. 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 1<sup>st</sup> April 2023 to 30<sup>th</sup> June 2023 and satisfies the reporting requirement stated above.

#### **2. Economic Update**

In May 2023, the Bank of England's Monetary Policy Committee (MPC) increased the Bank Rate by 25 basis points to 4.50%, and in June 2023 moved the rate up a further 50 basis points to 5.00%.

Since the end of this reporting period, the MPC increased the bank rate by a further 25 basis points in August 2023 to 5.25%, where it still currently stands.

With UK inflation significantly higher than in other G7 countries, the MPC will have a difficult task in convincing investors that they will be able to dampen inflation pressures anytime soon. Talk of the Bank's inflation models being "broken" is perhaps another reason why gilt investors are demanding a premium relative to US and Euro-zone bonds, for example.

The recent resilience of the economy has been due to a number of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. However, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year.

The central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024.

### 3. 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 return on investments the 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 1<sup>st</sup> April 2023 to 30<sup>th</sup> June 2023 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.23				30.06.23			
	Call and notice £m	Fixed Term £m	Total £m	%	Call and notice £m	Fixed Term £m	Total £m	%
Banks	27.50	14.00	41.50	28	34.50	7.00	41.50	21
Building Societies	0.00	7.00	7.00	5	0.00	7.00	7.00	5
Money Market Funds	40.00	0.00	40.00	27	40.00	0.00	40.00	21
DMADF (DMO)	0.00	20.00	20.00	13	0.00	80.00	80.00	41
Local Authorities	0.00	40.00	40.00	27	0.00	25.00	25.00	13
<b>TOTAL</b>	<b>67.50</b>	<b>81.00</b>	<b>148.50</b>	<b>100</b>	<b>74.50</b>	<b>119.00</b>	<b>193.50</b>	<b>100</b>

Investments on call are available immediately on demand.  
Fixed term investments are fixed to a maturity date.

During the period the total investments made by the Council and repaid to the Council (the turnover) amounted to £459.00m. This averaged approximately £35.31m per week or £5.04m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2023	148.50
Investments made during the quarter	252.00
Sub Total	400.50
Investments Repaid during the quarter	(207.00)
<b>Total Investments at 30 June 2023</b>	<b>193.50</b>

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. For the period under review the average "90-day un compounded SONIA rate" was 4.10% whereas the actual rate the Council earned was 4.06%, a marginal under performance of 0.04%.

The gross interest earned on investments for the period amounted to £2.06m.

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

#### **4. Security, Liquidity and Yield (SLY)**

Within the Treasury Management Strategy Statement for 2023-2024, 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 in Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings as at 30<sup>th</sup> June 2023.

## 5. 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 1<sup>st</sup> April 2023 and 30<sup>th</sup> June 2023 are shown in the following table:

<b>Loans</b>	<b>Balance at 01.04.23 £m</b>	<b>Balance at 30.06.23 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	397.61	397.61	0.00
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	9.96	9.82	(0.14)
<b>TOTAL</b>	<b>410.57</b>	<b>410.43</b>	<b>(0.14)</b>

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.

This 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 home owners, 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.

### 5.1 New Borrowing

No new loans were borrowed during the period.

## **5.2 Interest Paid**

Interest paid on loans in the period was:

<b>PWLB Interest Paid £m</b>	<b>Market Loan Interest Paid £m</b>	<b>Total Interest Paid £m</b>
0.85	0.07	0.92

## **6. Rescheduling and Premature Loan Repayments**

No rescheduling opportunities arose during the period and there were no premature repayments of debt.

## **7. Leasing**

No leases were negotiated in the period ended 30<sup>th</sup> June 2023.

## **8. Conclusion**

The Treasury Management function for the period ended 30<sup>th</sup> June 2023 has been carried out within the policy and guidelines set in the Treasury Management Policy and Strategy 2023-2024.

## **B. QUARTERLY PRUDENTIAL INDICATOR REPORT**

### **1. Introduction**

As part of the 2023-2024 Budget and the Treasury Management Policy and Strategy 2023-2024, 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 Cabinet.

### **2. The Monitored Prudential Indicators**

#### **2.1 Affordability Prudential Indicator**

##### **2.1.1 Ratio of Financing Costs to Net Revenue Stream**

The indicator set for 2023-2024 in the Budget was:

	<b>2023-2024</b>
	<b>%</b>
Non –HRA	3.45
HRA	28.03

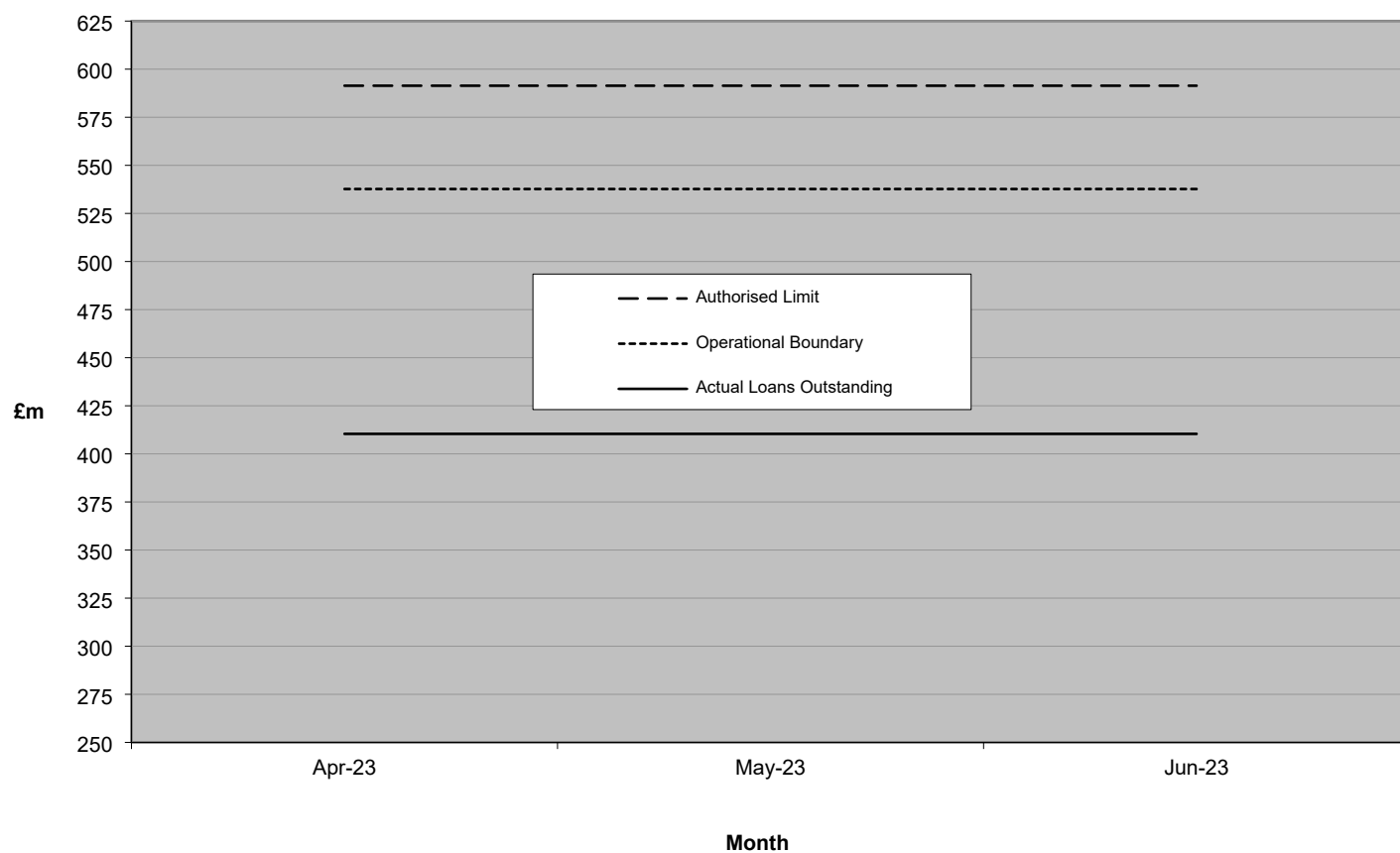
An examination of the assumptions made in calculating this indicator concluded that there have been no changes in the period.

#### **2.2 Prudence Prudential Indicators**

##### **2.2.1 The Gross Borrowing and Capital Finance Requirement (CFR) indicator**

The indicator set by the Budget for Gross Borrowing and CFR was that the Section 151 Officer envisaged no difficulty in meeting the requirement of the Gross Borrowing being less than the accumulated CFR for 2023-2024. An examination of assumptions made when calculating the Prudential Indicator show that there have been no material changes.

## 2.2.2 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.

	<b>Apr-23</b> <b>£m</b>	<b>May-23</b> <b>£m</b>	<b>Jun-23</b> <b>£m</b>
Authorised Limit	591.4	591.4	591.4
Operational Boundary	537.7	537.7	537.7
Loans Outstanding	410.4	410.4	410.4

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

## **2.3 Treasury Management Prudential Indicators**

### **2.3.1 Interest Rate Exposure**

Position as at 30<sup>th</sup> June 2023:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL £m</b>
Borrowed	407.43	3.00	410.43
Invested	(119.00)	(74.50)	(193.50)
<b>Net</b>	<b>288.43</b>	<b>(71.50)</b>	<b>216.93</b>
Limit	518.00	52.00	
<b>Proportion of Net Borrowing Actual</b>	<b>132.96%</b>	<b>(32.96)%</b>	<b>100.00%</b>
of which:			
Borrowing	99.27%	0.73%	100.00%
Invested	61.50%	38.50%	100.00%
<b>Limit</b>	<b>125.00%</b>	<b>5.00%</b>	

The Section 151 Officer reports that the authority exceeded this requirement in this period due to increased investments in Variable Interest Rate products such as Money Market Funds.

### **2.3.2 Maturity Structure Of Borrowing**

	<b>Structure at 30.06.23 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	1.98	15	0
12 months to 2 years	2.79	15	0
2 years to 5 years	6.01	50	0
5 years to 10 years	8.39	50	0
10 years to 20 years	21.20	50	0
20 years to 30 years	21.68	50	0
30 years to 40 years	21.12	50	0
40 years and above	16.83	50	0

The authority is within the limits set by the 2023-2024 indicators.



### **2.3.3 Maximum principal sums invested longer than 365 days**

	<b>2023-2024 £m</b>
Limit	10
Actual as at 30 <sup>th</sup> June 2023	NIL

### **3. Conclusion**

This report demonstrates compliance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

### **RECOMMENDATION**

**It is recommended that this report be received by the Corporate Performance and Resources Scrutiny Committee.**

## **Glossary of terms:**

**CFR - Capital Financing Requirement** - a measure of the Council's underlying need to borrow to fund capital expenditure.

**DMADF - Debt Management Agency Deposit Facility** - deposit facility run by the Debt Management Office (**DMO**) which is part of the HM Treasury, taking deposits at fixed rates for up to 6 months.

**MMF - Money Market Fund** - a 'pool' of different types of investments managed by a fund manager that invests in lightly liquid short term financial instruments with high credit rating.

**MPC - Monetary Policy Committee** - is a committee of the Bank of England, which meets for three and a half days, eight times a year, to decide the official interest rate in the United Kingdom (the Bank of England Base Rate).

**PWLB – Public Works Loans Board** - an Executive Government Agency of HM Treasury from which local authorities and other prescribed bodies may borrow.

**SONIA - Sterling Overnight Interbank Average Rates** – is a widely used benchmark based on actual transactions and reflects the average of the interest rates that banks pay to borrow Sterling overnight from other financial institutions and other institutional investors.