CORPORATE PERFORMANCE AND RESOURCES COMMITTEE
DATE: 12TH DECEMBER 2023

MID YEAR TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1ST April 2023 – 30TH September 2023

A. TREASURY MANAGEMENT REPORT

1. Introduction

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

2. Economic update

In its latest monetary policy meeting on 20 September 2023, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough.

As the growing drag from higher interest rates intensifies over the next six months, our advisors think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. With CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. It is expected that the Bank of England will keep interest rates at the probable peak of 5.25% until the second half of 2024.

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 2023	Mar 2024	Jun 2024	Sep 2024	Dec 2024
Base Rate %	5.25	5.25	5.25	5.00	4.50

(Source: LINK Asset Services)

Link Asset Services undertook its last review of interest rate forecasts on 27th September 2023 after the MPC meeting on 20th September 2023, where the decision was made to leave the Bank Rate unchanged at 5.25%.

The revised 3 year projection based on this review is:

	2023-24	2024-25	2025-26
	%	**%**	**%**
Revised Average Bank Rate	5.19	4.69	3.00
Original Average Bank Rate (TM Strategy 2023-24)	4.44	3.63	2.69

4. <u>Investments</u>

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 2023 and 30th September 2023 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.23				30.09.23			
	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	27.50	14.00	41.50	23
Building Societies	0.00	7.00	7.00	5	0.00	7.00	7.00	4
Money Market Funds	40.00	0.00	40.00	27	45.00	0.00	45.00	25
DMADF (DMO)	0.00	20.00	20.00	13	0.00	67.50	67.50	37
Local Authorities	0.00	40.00	40.00	27	0.00	20.00	20.00	11
TOTAL	**67.50**	**81.00**	**148.50**	**100**	**72.50**	**108.50**	**181.00**	**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 5th July 2024.

During the period the total investments made by the Council and repaid to the Council (turnover) amounted to £879.50m. This averaged approximately £33.64m per week or £4.81m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2023	148.50
Investments made during the quarter	456.00
Sub Total	604.50
Investments Repaid during the quarter	(423.50)
Total Investments at 30 September 2023	**181.00**

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. For the period under review the average "90-day uncompounded SONIA rate" was 4.44% whereas the actual rate the Council earned was 4.40%, a marginal under performance of 0.04%.

The average gross interest earned on investments for the period amounted to £4.63m. This includes £859k interest on the average balance of £39m 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 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 at Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings as at 30th September 2023.

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 2023 and 30th September 2023 are shown in the following table:

Loans	**Balance at 01.04.23 £m**	**Balance at 30.09.23 £m**	**Net Increase/ (Net Decrease) £m**
Public Works Loan Board (PWLB)	397.61	389.61	(8.00)
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	9.96	9.82	(0.14)
TOTAL	**410.57**	**402.43**	**(8.14)**

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

No new loans were borrowed during the period.

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
7.99	0.07	8.06

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 2023 to 30th September 2023.

B. PRUDENTIAL INDICATOR REPORT

1. Prudential Indicators

As part of the 2023-2024 Budget and the Treasury Management Policy and Strategy 2023-2024, 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 2023-2024 in the Budget was:

	2023-2024 %
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 this period.

1.2 Prudence Prudential Indicators

1.2.1 Capital Financing Requirement (CFR)

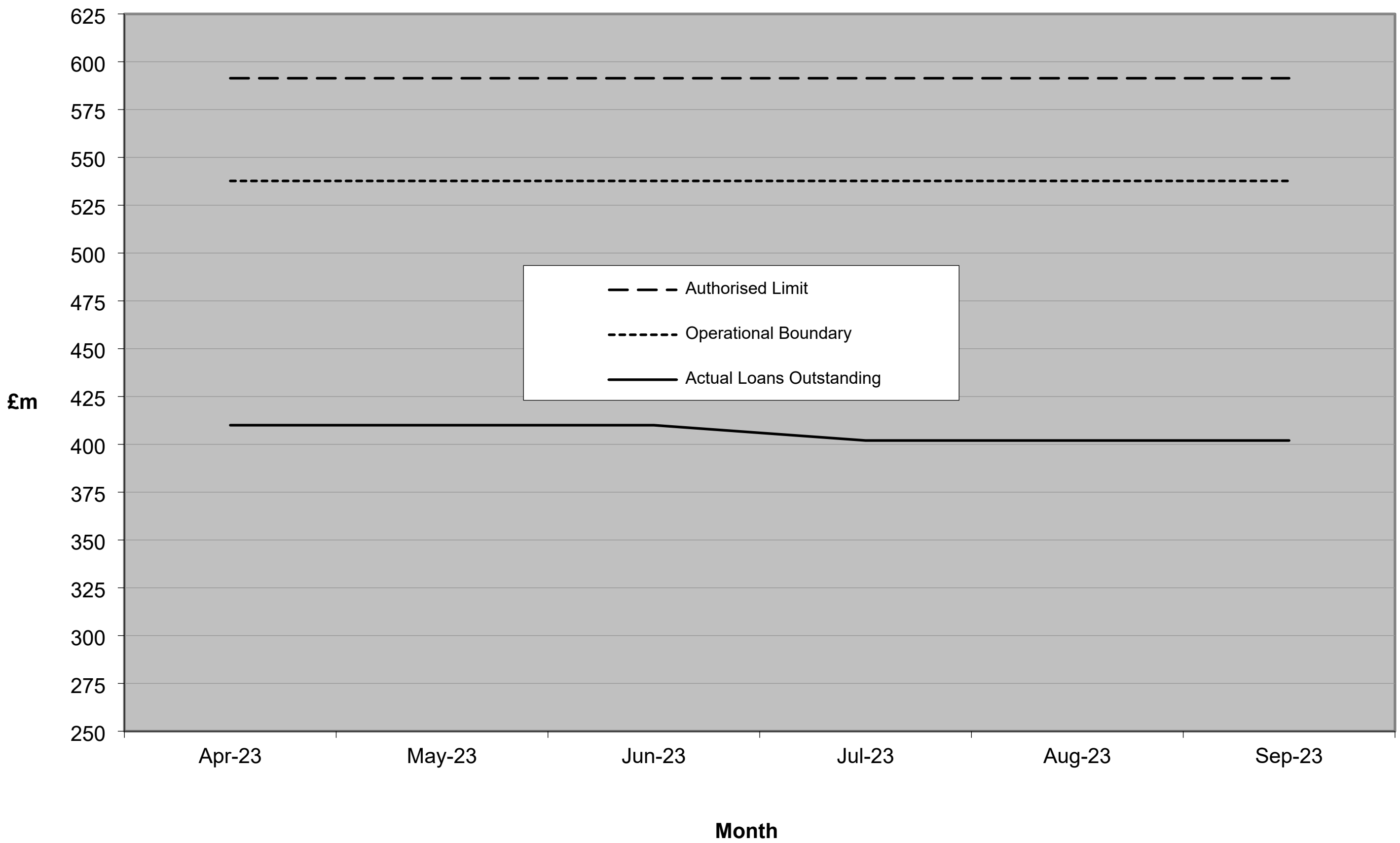
The Director of Corporate Services reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

	2023-2024 Estimate £m	**As at 30.09.23 £m**	**2023-2024 Forecast £m**
Capital Financing Requirement			
CFR - non housing	305	290	290
CFR - housing	166	167	167
CFR - housing subsidy buy-out	67	67	67
Total CFR	**538**	**524**	**524**

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	
	2023-24 Estimate £m	2023-24 Forecast £m	2023-24 Estimate £m	2023-24 Forecast £m
Borrowing	590.9	590.9	537.6	537.6
Other Long-Term Liabilities	0.5	0.5	0.1	0.1
Total	591.4	591.4	537.7	537.7



	Apr-23 £m	May-23 £m	Jun-23 £m	Jul-23 £m	Aug-23 £m	Sep-23 £m
Authorised Limit	591.4	591.4	591.4	591.4	591.4	591.4
Operational Boundary	537.7	537.7	537.7	537.7	537.7	537.7
Loans Outstanding	410	410	410	402	402	402

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

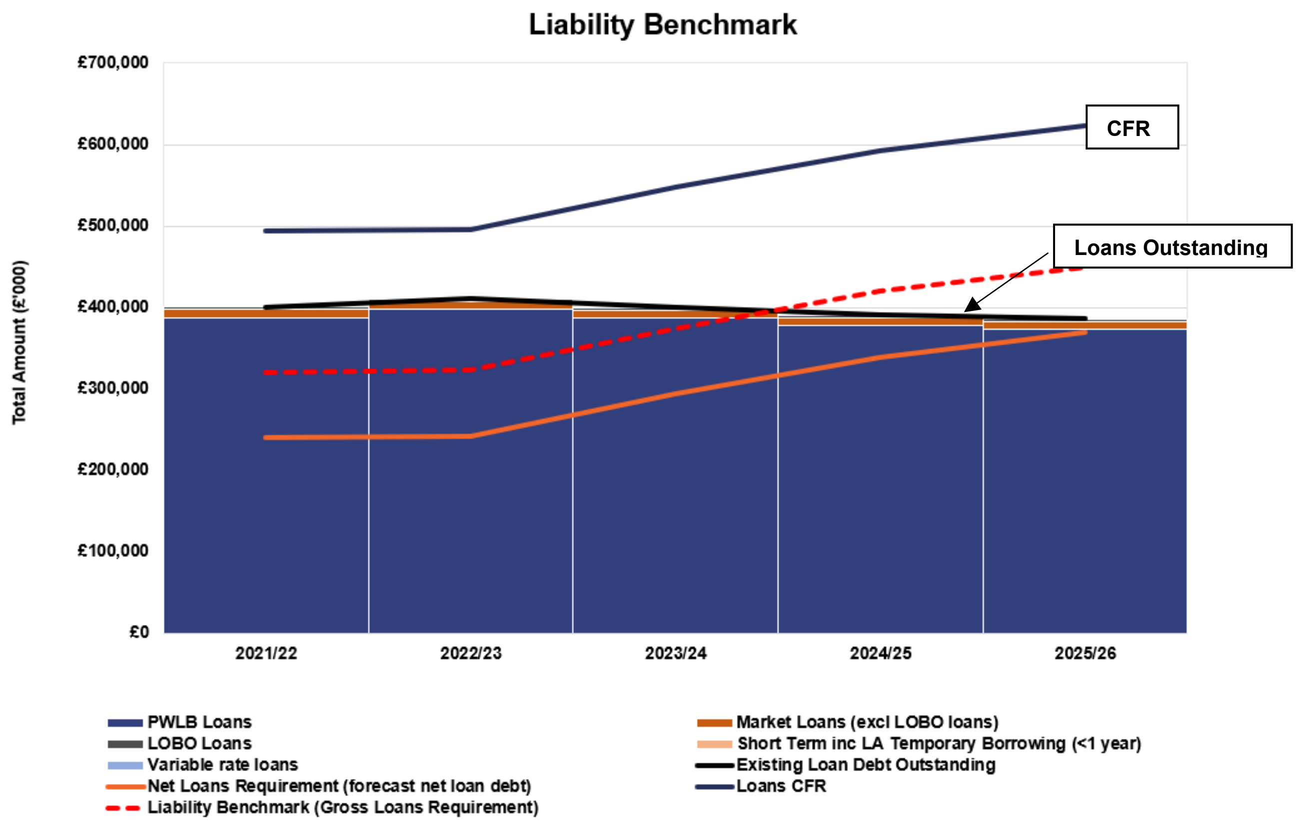
1.3 Liability Benchmark

1.3.1 Liability Benchmark

A new Prudential Indicator for 2023/2024 is the Liability Benchmark. The Council is required to estimate and measure the Liability Benchmark for the forthcoming year and the following two years. The liability benchmark is a measure of how well the existing loans portfolio matches the Council's planned borrowing needs.

There are four components to the Liability Benchmark:

- **Existing Loan Debt Outstanding:** The Council's existing loans that are still outstanding in future years.
- **Loans CFR:** This is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP).
- **Net Loans Requirement:** This will show the Council's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecasted.
- **Liability Benchmark:** This equals net loans requirement plus short-term liquidity allowance.



The purpose of this prudential indicator is to compare the Council's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the red line). If the black line is below the red line, the existing portfolio outstanding is less than the loan debt required, and the Council will need to borrow to meet the shortfall. If the black line is above the red line, the Council will (based on its current plans) have more debt than it needs, and the excess will have to be invested. The chart therefore tells a Council how much it needs to borrow, when, and to want maturities to match its planned borrowing needs.

2.1 Treasury Management Prudential Indicators

2.1.1 Interest Rate Exposure

Position as at 30th September 2023:

	Fixed Interest Rate £m	Variable Interest Rate £m	TOTAL £m
Borrowed	399.42	3.00	402.42
Invested	(108.50)	(72.50)	(181.00)
Net	**290.92**	**(69.50)**	**221.42**
Limit	512.00	51.00	
Proportion of Net Borrowing Actual	**131.38%**	**(31.38)%**	**100.00%**
Limit	150.00%*	5.00%	

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

2.1.2 Maturity Structure of Borrowing

	Structure at 30.09.23 %	Upper Limit %	Lower Limit %
Under 12 months	0.04	15	0
12 months to 2 years	2.84	15	0
2 years to 5 years	6.13	50	0
5 years to 10 years	8.56	50	0
10 years to 20 years	21.62	50	0
20 years to 30 years	22.12	50	0
30 years to 40 years	21.54	50	0
40 years and above	17.15	50	0

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

2.1.3 Maximum Principal Sums Invested Longer than 365 Days

	2023-2024 £m
Limit	10
Actual as at 30th September 2023	NIL

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.