

1st April 2022 – 31st December 2022

A QUARTERLY 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 31st December 2022 and satisfies the reporting requirement stated above.

2. Economic Update

On the 3rd November 2022, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 75 basis points to 3.00%, and on 15th December 2022 moved rates up a further 50 basis points to 3.50%.

The UK government appears more settled now. However, the continued strikes across several public services and the continued cost-of-living squeeze is going to make for a difficult backdrop to maintain fiscal integrity without pushing the economy into anything worse than a mild recession.

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. The weather will also play a large part in how high energy prices stay and for how long.

The CPI measure of inflation looks to have peaked at 11.1% in Q4 2022 (currently 10.7%). Despite the cost-of-living squeeze that is still taking shape, the Bank of England will want to see evidence that wages are not spiralling upwards in what is evidently a very tight labour market.

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 1st April 2022 to 31st December 2022 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.22				31.12.22			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks	39.50	0.00	39.50	25	25.50	14.00	39.50	22
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	15	40.00	0.00	40.00	23
DMADF (DMO)	0.00	57.00	57.00	36	0.00	65.50	65.50	37
Local Authorities	0.00	32.00	32.00	20	0.00	25.00	25.00	14
TOTAL	64.50	96.00	160.50	100	65.50	111.50	177.00	100

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

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 (the turnover) amounted to £1,384.50m. This averaged approximately £35.24m per week or £5.03m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2022	160.50
Investments made during the quarter	700.50
Sub Total	861.00
Investments Repaid during the quarter	(684.00)
Total Investments at 31 December 2022	177.00

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 un compounded 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 un compounded SONIA rate” was 1.31% whereas the actual rate the Council earned was 1.37%, an out performance of 0.06%. This outperformance can be quantified as £98k additional interest earned compared to the “90-day un compounded SONIA rate”.

The average gross interest earned on investments for the period amounted to £2.183m. This includes £534k 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.

4. 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 in Appendix 1 is the Investment Summary and Top 10 Counterparty Holdings as at 31st December 2022.

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 1st April 2022 and 31st December 2022 are shown in the following table:

Loans	Balance at 01.04.22 £m	Balance at 30.12.22 £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	9.96	(0.17)
TOTAL	400.74	411.57	10.83

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

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				

5.2 Interest Paid

Interest paid on loans in the period was:

PWLB Interest Paid £m	Market Loan Interest Paid £m	Total Interest Paid £m
8.97	0.14	9.11

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 31st December 2022.

8. Conclusion

The Treasury Management function for the period ended 31st December 2022 has been carried out within the policy and guidelines set in the Treasury Management Policy and Strategy 2022-2023.

B. QUARTERLY PRUDENTIAL INDICATOR REPORT

1. Introduction

As part of the 2022-2023 Budget and the Treasury Management Policy and Strategy 2022-2023, 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 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 2022-2023 in the Budget was:

	2022-2023 %
Non -HRA	3.95
HRA	30.90

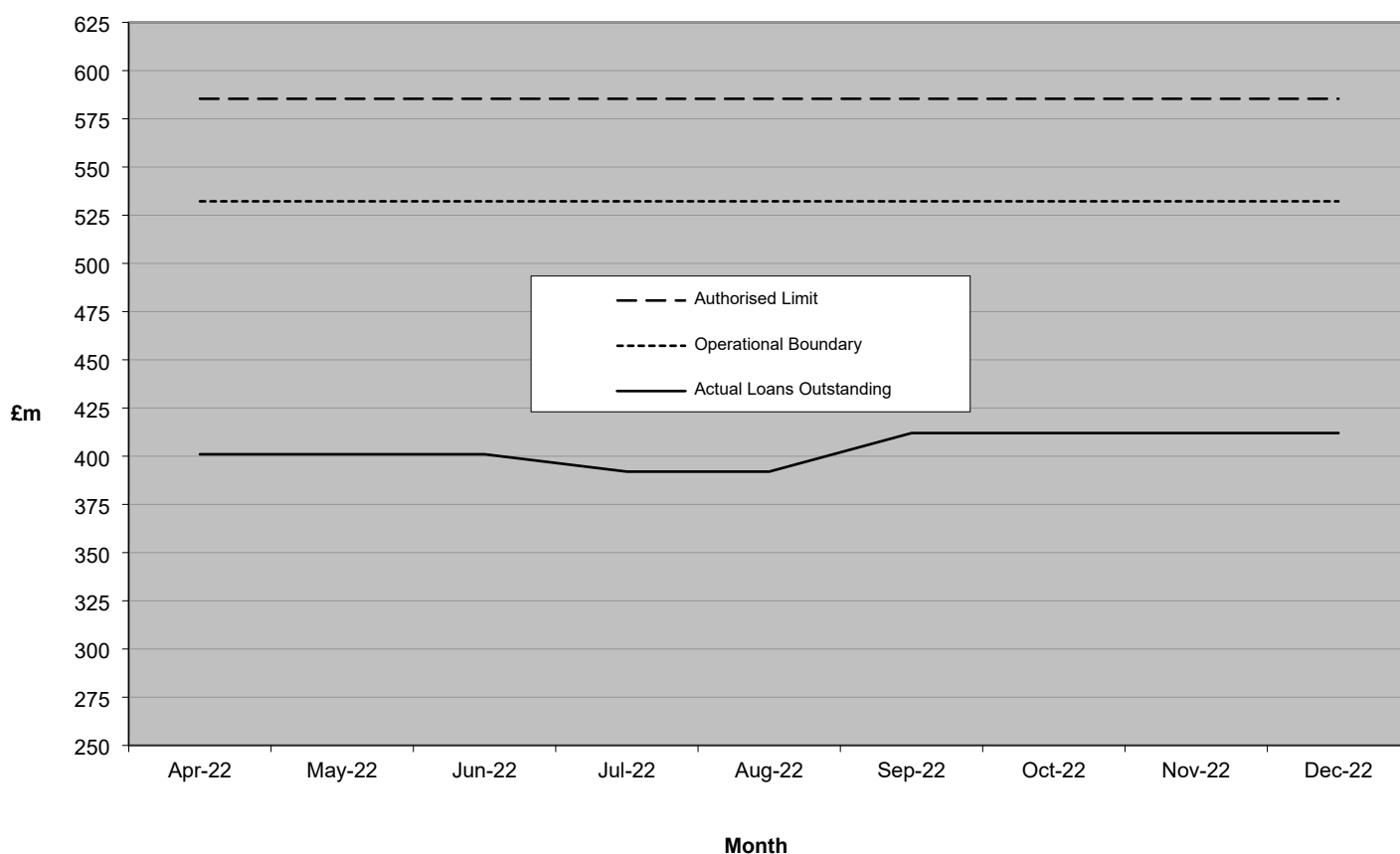
An examination of the assumptions made in calculating this indicator concluded that there have been no changes in the period.

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 2022-2023. 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.

	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Authorised Limit	585.4	585.4	585.4	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	532.2	532.2	532.2
Actual Loans Outstanding	401	401	401	392	392	412	412	412	412

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 31st December 2022:

	Fixed Interest Rate £m	Variable Interest Rate £m	TOTAL £m
Borrowed	408.57	3.00	411.57
Invested	(104.50)	(72.50)	(177.00)
Net	304.07	(69.50)	234.57
Limit	512.00	51.00	
Proportion of Net Borrowing Actual	129.63%	(29.63)%	100.00%
Limit	150.00%*	5.00%	

*Revised limit, increased from 125.00% and reported during the mid-year report.

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

2.3.2 Maturity Structure Of Borrowing

	Structure at 31.12.22 %	Upper Limit %	Lower Limit %
Under 12 months	0.49	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	8.90	50	0
10 years to 20 years	20.80	50	0
20 years to 30 years	20.29	50	0
30 years to 40 years	22.52	50	0
40 years and above	18.47	50	0

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

2.3.3 Maximum principal sums invested longer than 365 days

	2022-2023 £m
Limit	10
Actual as at 31 st December 2022	NIL

3. Conclusion

For the period 1st April 2022 to 31st December 2022 the actual Prudential Indicators to be monitored by the Cabinet are within the limits set by the Budget 2022-2023 and the Treasury Management Policy and Strategy 2022-2023. This is also true for the indicators being monitored by officers.

RECOMMENDATION

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