

**CABINET**  
**03/10/2022**

# QUARTERLY TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR REPORT

1<sup>st</sup> April 2022 – 30<sup>th</sup> June 2022

## **A QUARTERLY TREASURY MANAGEMENT REPORT**

### **1. Introduction**

The Treasury Management Policy and Strategy for 2022-2023 was approved by Council on 2<sup>nd</sup> 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 1<sup>st</sup> April 2022 to 30<sup>th</sup> June 2022 and satisfies the reporting requirement stated above.

### **2. Economic Update**

In June 2022, the Monetary Policy Committee (MPC) voted 6-3 in favour of a 0.25% increase to 1.25%, which was the first time in its 25-year history that the MPC had raised rates at five consecutive meetings. Nonetheless, over Q2, it is clear central banks in the developed economies have placed the dampening down of inflation pressures front and centre of their primary objectives, even if it comes at the cost of sluggish growth or, indeed, recession. The MPC is in step with this approach although the UK economy is dragging its feet to a greater extent than that seen in the US.

The CPI measure of inflation is already at 9.1%, and the Bank of England anticipates it will peak near to 11% just before the end of 2022. Given the number of geopolitical factors we would caution against taking a strong view on how interest rate movements evolve and instead focus on optimising balance sheet management and the risk management of investment and debt portfolios.

### **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 2022 to 30<sup>th</sup> June 2022 analysed between Banks, Building Societies, Local Authorities and Money Market Funds, are shown in the following table:

Investments	01.04.22				30.06.22			
	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	7.00	34.50	16
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	17	20.00	0.00	20.00	10
DMADF (DMO)	0.00	57.00	57.00	36	0.00	116.50	116.50	55
Local Authorities	0.00	32.00	32.00	20	0.00	32.00	32.00	15
<b>TOTAL</b>	<b>64.50</b>	<b>96.00</b>	<b>160.50</b>	<b>100</b>	<b>47.50</b>	<b>162.50</b>	<b>210.00</b>	<b>100</b>

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 £633.50m. This averaged approximately £48.73m per week or £6.96m per day. A summary of turnover is shown below:

	£m
Total Investments 1st April 2022	160.50
Investments made during the quarter	341.50
Sub Total	502.00
Investments Repaid during the quarter	(292.00)
<b>Total Investments at 30 June 2022</b>	<b>210.00</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.

The investment rate the Council earned during the period was 0.60%.

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. Work is currently progressing with our Treasury advisors at Link and their clients to replace this rate with a suitable alternative for benchmarking. We will monitor the situation closely and an update will be provided in future Quarterly Reports.

The gross interest earned on investments for the period amounted to £334k.

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 30<sup>th</sup> June 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 1<sup>st</sup> April 2022 and 30<sup>th</sup> June 2022 are shown in the following table:

<b>Loans</b>	<b>Balance at 01.04.22 £m</b>	<b>Balance at 30.06.22 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	387.61	387.61	0.00
Market Loan	3.00	3.00	0.00
Salix, Invest to Save, HILS & TCL	10.13	10.11	(0.02)
<b>TOTAL</b>	<b>400.74</b>	<b>400.72</b>	<b>(0.02)</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 2022.

## **8. Conclusion**

The Treasury Management function for the period ended 30<sup>th</sup> June 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:

	<b>2022-2023</b>
	<b>%</b>
Non –HRA	3.95
HRA	30.90

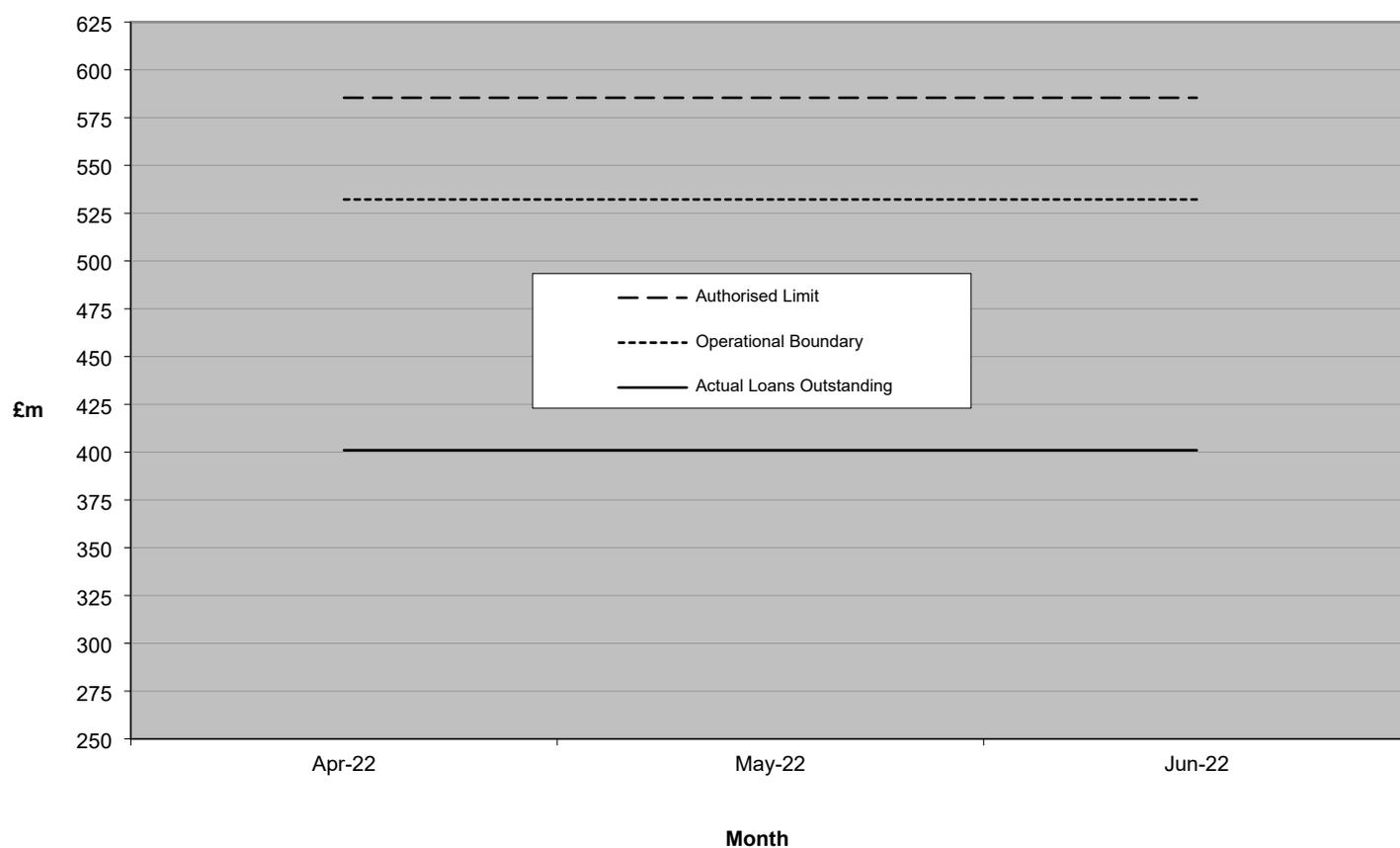
An examination of the assumptions made in calculating this indicator concluded that there have been no changes in the period.

#### **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.

	<b>Apr-22 £m</b>	<b>May-22 £m</b>	<b>Jun-22 £m</b>
Authorised Limit	585.4	585.4	585.4
Operational Boundary	532.2	532.2	532.2
Loans Outstanding	401	401	401

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 2022:

	<b>Fixed Interest Rate £m</b>	<b>Variable Interest Rate £m</b>	<b>TOTAL £m</b>
Borrowed	397.72	3.00	400.72
Invested	(162.50)	(47.50)	(210.00)
<b>Net</b>	<b>235.22</b>	<b>(44.50)</b>	<b>190.72</b>
Limit	512.00	51.00	
<b>Proportion of Net Borrowing Actual</b>	<b>123.33%</b>	<b>(23.33)%</b>	<b>100.00%</b>
Limit	125.00%	5.00%	

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

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

	<b>Structure at 30.06.22 %</b>	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	2.78	15	0
12 months to 2 years	1.82	15	0
2 years to 5 years	6.95	50	0
5 years to 10 years	9.14	50	0
10 years to 20 years	21.37	50	0
20 years to 30 years	20.84	50	0
30 years to 40 years	23.13	50	0
40 years and above	13.98	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**

	<b>2022-2023 £m</b>
Limit	10
Actual as at 30 <sup>th</sup> June 2022	NIL

### **3. Conclusion**

For the period 1<sup>st</sup> April 2022 to 30<sup>th</sup> June 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.

### **RECOMMENDATIONS**

- 1. That Cabinet considers and approves the report.**
- 2. That the increases in the limits by the Director of Corporate Services in April 2022 for the DMADF (DMO) to £125m from £100m and the Money Market Funds to £10m (each) from £5m are confirmed.**