

# CEREDIGION COUNTY COUNCIL

<b>Report to:</b>	<b>Cabinet</b>
<b>Date of meeting:</b>	<b>6th December 2022</b>
<b>Title:</b>	<b>Mid-year review of the Treasury Management Strategy for 2022/23</b>
<b>Purpose of the report:</b>	<b>To report on the 2022/23 Treasury Management Strategy</b>
<b>For:</b>	<b>INFORMATION</b>
<b>Cabinet Portfolio Cabinet Member:</b>	<b>Cllr Gareth Davies, Cabinet Member for Finance and Procurement Services</b>

## 1. INTRODUCTION

This report is presented in accordance with the revised CIPFA Code of Practice on Treasury Management in the Public Services (the code). It is a requirement of the code to report to Cabinet on the expected treasury activity for the forthcoming year, a mid-year review and the performance of the Council's treasury management activities at the end of the year.

Treasury management is defined by CIPFA as:

*“The management of the authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities and the pursuit of the optimum performance consistent with those risks.”*

## 2. PORTFOLIO POSITION

The Council's summarised debt and investment position is shown below, with further details analysed in Appendix A (Investments) and Appendix B (Debt).

	<u>As at</u> <u>30/09/2022</u> <u>£m</u>	<u>As at</u> <u>31/03/2022</u> <u>£m</u>
<u>External Borrowing</u>		
PWLB loans	101.7	108.9
Market loan	5.8	5.8
WG Repayable loan funding	0.9	0.9
<b>Total Debt</b>	<b>108.4</b>	<b>115.6</b>
<u>Investments held</u>		
In-house	42.2	55.5

<b>Total Investments</b>	<b>42.2</b>	<b>55.5</b>
<b>Net Debt</b>	<b>66.2</b>	<b>60.1</b>

### 3. ECONOMIC UPDATE

**As can be appreciated information and data regarding the economic position has been changing rapidly during 2022. The update below has been written at the end of September 2022.**

- The second quarter of 2022/23 saw:
  - GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has avoided recession at the end of September.
  - Signs of economic activity losing momentum as production fell due to rising energy prices.
  - CPI inflation ease to 9.9% y/y in August, having been 10.1% in July, but domestic price pressures show little sign of abating in the near-term.
  - The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply.
  - Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% (this has increased during quarter 3) with further rises expected.
  - Gilt yields surge and sterling fall following the “mini-budget” announced on the 23rd September.
- There are signs of higher energy prices creating more persistent downward effects in economic activity. With the drag on real activity from high inflation having grown in recent months, GDP is at risk of contracting through the autumn and winter months.
- The labour market has remained exceptionally tight. Data for August and September provided further evidence that the weaker economy is leading to a cooling in labour demand.
- CPI inflation increased from 9.9% in August to 10.1% in September, though inflation has not peaked yet. However utility price inflation is expected to add 0.7% to CPI in October when the Ofgem unit price cap increases to, typically, £2,500 per household.
- The Monetary Policy Committee has now increased interest rates six times (up to September) in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. The UK’s status as a large importer of commodities, which have jumped in price, means that households in the UK are now facing a much larger squeeze on their real incomes.

- After a shaky start to the year, the S&P 500 and FTSE 100 climbed in the first half of Q2 2022/23 before falling to their lowest levels since November 2020 and July 2021 respectively. The S&P 500 is down 7.2% at the end of September compared to its level at the start of July, whilst the FTSE 100 has reduced by 5.2% during the same period as the fall in the pound has boosted the value of overseas earnings in the index. The decline has, in part, been driven by the rise in global real yields and the resulting downward pressure on equity valuations as well as concerns over economic growth leading to a deterioration in investor risk appetite.
- Bank Rate has further increased to 3.0% at the Bank's November meeting

#### **4. STRATEGY FOR 2022/23**

The Council's Treasury Management strategy for the current year was approved by Full Council in March 2022. The Council's Investment Strategy outlined the Council's investment priorities as being security of capital and liquidity, with the aim of achieving the optimum return on investments commensurate with the proper levels of security and liquidity. Generally, it was anticipated that investments for core cashflow requirements would be for periods of up to 3 months, but with scope to invest for longer periods (up to 1 year) if surplus investment balances are available. All Investments in the year to date have been in line with the strategy.

On the borrowing side, the Council has a fairly significant cash balance and is maintaining an internal borrowing position which is helping to deliver revenue savings.

#### **5. INVESTMENT PORTFOLIO**

A full list of investments held as at 30/09/2022 is shown in Appendix A. The majority of investments are short term, ensuring that the key dates relating to salaries, housing benefit and creditor payment runs are covered within a month. Where funds allow, these investments are supplemented with longer dated maturities to take advantage of increased returns.

#### **6. BORROWING PORTFOLIO**

During 2022/23, no new PWLB loans have so far been taken out. There has been one PWLB loan maturity due during the year so far with no more due for the remainder of the year.

##### Maturities

Maturity Loan (Matured 30/09/2022)	£6.7m
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A full list of loans held as at 30/09/2022 is shown in Appendix B.

## **7. DEBT RESCHEDULING**

As the economy continues to move into a higher interest rate environment debt rescheduling opportunities may become available, which hasn't been the case for over a decade. The Council will monitor this situation and evaluate opportunities that become available if balances allow.

No premature repayment of debt, or debt rescheduling, has taken place to date in this financial year.

## **8. COMPLIANCE WITH TREASURY LIMITS**

During the financial year to date the Council has operated within the Treasury limits and Prudential Indicators set out in the Council's approved Treasury Management Strategy report for the year.

## **9. TREASURY ADVISORS**

The Council employs Link Treasury Solutions Ltd as the Council's external Treasury advisor on a contract that runs until 30/08/2026. Link support by providing an analysis of investment counterparty creditworthiness, provide forecasts of movements in PWLB rates, undertake Balance Sheet reviews, they provide regular updates on economic and political changes together with advice on any changes to legislation or accounting standards.

## **10. BANKING CONTRACT**

The Council has a contract with Barclays for the delivery of banking services, which runs until 29/02/2024. Barclays is a UK based bank, with a long-term credit rating of A1 (Moody's) and continues to provide the Council with an excellent service, in particular during the Covid 19 Pandemic. Barclays has operated local government sector specialism for over 15 years, currently providing transactional banking services to just under 25% of all local authorities and holding treasury relationships with close to 70% in the UK.

The number of providers of banking services to the local government sector is very limited and it should be noted Barclays was the only bank that expressed an interest in the Council's business last time the contract was procured. There is high confidence in the measures Barclays has in place to counter fraud, a critical consideration in present times. Barclays has delivered high quality cyber fraud awareness training to Council officers that was free of charge. This a good example of the extra support services received under the contract. Barclays are committed to being a net Carbon zero bank by 2050, via a phased approach. This includes a target of 2030 in relation to direct greenhouse gas emissions.

## 11.MEMBERS TRAINING

Members attended an online training webinar which Link delivered on 8<sup>th</sup> November. The objectives of the webinar were to:

- Gain an appreciation of what Treasury Management involves and how it is undertaken
- Understand the role of Officers and Councillors in Treasury Management decisions
- Understand the risks and opportunities in Treasury Management and how they should be managed
- Develop the skills and knowledge required to take Treasury Management decisions
- Review current integrated Treasury Management strategy (debt and investments)
- Gain an understanding of the Authority's balance sheet position including its asset base and borrowing exposure
- Gain a broad appreciation of the impact of the COVID-19 pandemic and subsequent inflation pressures on the economic outlook and Treasury Management decision-making

	<b>Has an Integrated Impact Assessment been completed? If, not, please state why</b>	No: Report for information
<b>Wellbeing of Future Generations:</b>	<b>Summary:</b> <b>Long term:</b> <b>Integration:</b> <b>Collaboration:</b> <b>Involvement:</b> <b>Prevention:</b>	
<b>Recommendation(s):</b>	<b>To note the contents of the report</b>	
<b>Reasons for decision:</b>	None required	
<b>Overview and Scrutiny:</b>	Considered during the Strategy approval process	
<b>Policy Framework:</b>	2022/23 Treasury Management Strategy	
<b>Corporate Priorities:</b>	Treasury Mgmt underpins all Corporate Priorities	
<b>Financial Implications:</b>	Finance: Investment Income/External interest paid	
<b>Statutory Powers:</b>	Local Government Act 2003	
<b>Background Papers:</b>	2022/23 Treasury Management Strategy report to Full Council (March 2022)	
<b>Appendices:</b>	Appendix A - Investment Portfolio Appendix B - Debt Portfolio	

**Corporate Lead Officer:** Duncan Hall (Finance & Procurement)

**Reporting Officer:** Justin Davies (Corporate Manager - Core Finance)

**Date:** 14/11/2022

## Appendix A

### INVESTMENT PORTFOLIO AS AT 30/09/2022:

Details	Value	Interest Rate	Investment	
	£	%	From	To
<b>Fixed Term Investments</b>				
DMADF	£2,000,000	1.41%	05/07/2022	07/10/2022
DMADF	£1,500,000	1.62%	26/07/2022	28/10/2022
DMADF	£2,500,000	1.63%	03/08/2022	04/10/2022
DMADF	£1,000,000	1.64%	03/08/2022	10/10/2022
DMADF	£2,000,000	1.65%	03/08/2022	14/10/2022
DMADF	£3,000,000	1.66%	03/08/2022	21/10/2022
DMADF	£1,000,000	1.76%	09/08/2022	28/10/2022
DMADF	£1,500,000	1.78%	10/08/2022	31/10/2022
DMADF	£500,000	1.81%	24/08/2022	11/10/2022
DMADF	£500,000	1.88%	24/08/2022	25/10/2022
DMADF	£1,000,000	1.91%	24/08/2022	31/10/2022
DMADF	£400,000	1.89%	25/08/2022	31/10/2022
DMADF	£2,000,000	2.14%	30/08/2022	30/11/2022
DMADF	£3,000,000	1.93%	01/09/2022	31/10/2022
DMADF	£1,000,000	1.95%	01/09/2022	04/11/2022
DMADF	£300,000	1.97%	01/09/2022	07/11/2022
DMADF	£700,000	1.98%	02/09/2022	07/11/2022
DMADF	£2,000,000	2.09%	05/09/2022	22/11/2022
DMADF	£3,000,000	2.15%	05/09/2022	30/11/2022
Nationwide Building Society	£2,000,000	2.22%	05/09/2022	09/12/2022
Nationwide Building Society	£2,000,000	2.31%	15/09/2022	16/12/2022
Nationwide Building Society	£1,000,000	2.40%	20/09/2022	20/12/2022
Nationwide Building Society	£1,000,000	2.40%	23/09/2022	23/12/2022
	<b>£34,900,000</b>			
<b>Deposits in Barclays Reserve a/c</b>				
Barclays Bank	£7,346,179	2.00%	-	-
<b>Deposits in Notice Account</b>				
Nat West	£965	0.40%	-	-

**Total Investments as at 30/09/22**

**£42,247,143**

**DEBT PORTFOLIO AS AT 30/09/2022:****Appendix B**

Loan Ref	Repayment Method	Start Date	Maturity Date	Original Interest rate	Balance as at 30/09/22
<b><u>PWLB Loans</u></b>					
417195	A	24-Dec-71	02-Dec-31	8.000%	18,554
419325	A	21-Mar-72	02-Dec-31	7.750%	12,995
427730	A	12-Jun-73	02-Jun-33	9.875%	19,667
478179	M	26-Sep-96	31-Mar-56	8.125%	5,000,000
478585	M	10-Dec-96	30-Sep-56	7.500%	3,000,000
480055	M	13-Oct-97	30-Sep-57	6.375%	6,000,000
480689	M	27-Mar-98	30-Sep-52	5.875%	2,000,000
481159	M	20-Jul-98	31-Mar-53	5.500%	3,500,000
490819	M	24-Nov-05	31-Mar-31	4.250%	2,000,000
490981	M	11-Jan-06	31-Mar-51	3.900%	2,000,000
491703	M	07-Jun-06	30-Sep-41	4.350%	2,700,000
491819	M	07-Jul-06	30-Sep-31	4.500%	5,300,000
491837	M	12-Jul-06	02-Jun-39	4.450%	2,000,000
492936	M	20-Feb-07	06-Aug-32	4.550%	6,000,000
493733	M	10-Aug-07	30-Sep-37	4.750%	9,551,120
501411	A	10-Jul-12	31-Mar-32	2.860%	1,255,058
501928	A	01-Mar-13	31-Mar-29	2.630%	1,337,987
502054	A	28-Mar-13	06-Feb-33	2.860%	1,368,530
502477	A	13-Aug-13	30-Sep-28	3.110%	1,333,801
502596	M	10-Oct-13	09-Oct-36	4.210%	5,000,000
502827	M	06-Feb-14	10-Jan-25	3.660%	3,000,000
502828	M	06-Feb-14	10-Jan-27	3.840%	2,000,000
502981	A	09-Apr-14	31-Mar-34	3.680%	1,521,588
502982	A	09-Apr-14	30-Sep-28	3.230%	1,882,583
503489	M	25-Nov-14	31-Mar-45	3.670%	5,000,000
503490	A	25-Nov-14	31-Mar-44	3.400%	1,153,760
503728	M	09-Feb-15	31-Mar-60	2.750%	4,000,000
503729	M	09-Feb-15	31-Mar-61	2.750%	4,000,000
504645	A	04-Feb-16	30-Sep-45	2.760%	2,183,114
506318	M	06-Sep-17	01-Sep-28	1.970%	2,000,000
506319	M	06-Sep-17	01-Sep-46	2.560%	6,000,000
507963	M	30-Oct-18	31-Mar-34	2.500%	2,000,000
507964	M	30-Oct-18	30-Sep-48	2.460%	1,800,000
508214	M	13-Dec-18	30-Sep-39	2.520%	2,000,000
509622	M	08-Aug-19	30-Sep-58	1.970%	2,000,000
509623	M	08-Aug-19	30-Sep-34	1.730%	1,800,000
					<b>101,738,757</b>
<b><u>Market Loan</u></b>					
Barclays	M	20-Jun-16	13-Sep-66	3.660%	5,750,000
<b><u>WG Repayable Loan funding</u></b>					
Housing Improvement & Empty Property Loan 1	M	06-Mar-15	31-Mar-30	0.000%	556,075
Housing Improvement & Empty Property Loan 2	M	27-Mar-20	31-Mar-35	0.000%	250,000
Housing Improvement & Empty Property Loan 3	M	19-Feb-21	31-Mar-27	0.000%	80,000
					<b>886,075</b>
<b>TOTAL</b>					<b>108,374,832</b>

Key: A = Annuity M = Maturity