CYNGOR SIR CEREDIGION COUNTY COUNCIL

Report to:	**Cabinet**
Date of meeting:	**5th December 2023**
Title:	**Mid-year review of the Treasury Management Strategy for 2023/24**
Purpose of the report:	**To report on the 2023/24 Treasury Management Strategy**
For:	**Information**

Cabinet Portfolio and Cabinet Member:
Councillor Gareth Davies, Cabinet Member for Finance and Procurement

1. INTRODUCTION

This report is presented in accordance with the CIPFA Code of Practice on Treasury Management 2021 (the Code). It is recommended by the code that from 2023/24 treasury management activities are reported at least quarterly.

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 shown in Appendix A (Investments) and Appendix B (Debt).

	As at 30/09/2023 £m	**As at 31/03/2023 £m**
External Borrowing		
PWLB loans	100.6	101.1
Market loan	5.8	5.8
WG Repayable loan funding	0.8	0.9
Total Debt	**107.2**	**107.8**
Investments held		
In-house	51.9	38.7
Total Investments	**51.9**	**38.7**
Net Debt	**55.3**	**69.1**

3. ECONOMIC UPDATE

As can be appreciated information and data regarding the economic position has been changing rapidly during 2023. The update below has been written at the end of September 2023.

- The second quarter of 2023/24 saw:
  - Interest rates rise by a further 100bps, taking the Bank Rate from 4.25% to 5.25%. Subsequent Bank of England Monetary Policy Committee (MPC) meetings in September 23 and November 23 have kept the Bank Rate at 5.25%.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% month on month decline in real GDP in July, which was attributed in the main to ongoing strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7. By October 2023 CPI inflation is down to 4.6%.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (3 month year on year growth of average earnings rose to 7.8% in August, excluding bonuses).

- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since the COVID-19 pandemic, indicating a more pessimistic sentiment from companies within the economy.
- Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, our Treasury Advisors expect the economy will continue to lose momentum and soon fall into a mild recession. Even though the worst of the falls in real household disposable incomes has past, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly.
- 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. Mortgage rates are likely to stay above 5.0% for around a year also.
- In its latest monetary policy meetings on The Bank of England has left interest rates unchanged at 5.25%. The weakening of CPI inflation and 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.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September.

4. INTEREST RATE FORECASTS

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points).

The latest forecast, made on 7th November 2023, sets out a view that both short and long-dated interest rates will be elevated for some time as the Bank of England seeks to squeeze inflation out of the economy, against a backdrop of a stubbornly robust economy and a tight labour market.

Link Treasury Services Interest Rate Forecast – as at 7th November 2023

	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Bank Rate Forecast	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%
PWLB Borrowing Rate								
5 yr PWLB	5.10%	5.00%	4.90%	4.70%	4.40%	4.20%	4.00%	3.90%
10 yr PWLB	5.00%	4.90%	4.80%	4.60%	4.40%	4.20%	4.00%	3.80%
25 yr PWLB	5.40%	5.20%	5.10%	4.90%	4.70%	4.40%	4.30%	4.10%
50 yr PWLB	5.20%	5.00%	4.90%	4.70%	4.50%	4.20%	4.10%	3.90%

5. STRATEGY FOR 2023/24

The Council's Treasury Management strategy for the current year was approved by Full Council in March 2023. The Investment Strategy outlined the 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.

6. INVESTMENT PORTFOLIO

A full list of investments held as at 30/09/2023 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.

Investments for the first six months of 2023/24 has led to income of £1.332m against a budget of £667k resulting in a favourable variance of £665k. This is due to higher interest rates than anticipated when the budget was set.

The full year budget for investment income is £1.3m and it is forecast that income of £2.4m will be achieved which will result in a £1.1m favourable variance for the year.

7. BORROWING PORTFOLIO

During 2023/24, no new PWLB loans have been taken out to date, although significant borrowing is expected to be carried out later in the year. The Aberaeron Coastal Protection Scheme requires circa £26.9m of prudential borrowing during the next two years which will be fully funded by Welsh Government. The timing and profile of this borrowing requirement is currently being finalised. Overall it is anticipated that there will be a full year underspend of £600k for borrowing costs this year.

There are no PWLB loan maturities due during the year.

A full list of loans held as at 30/09/2023 is shown in Appendix B.

8. 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.

9. 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. The 2023/24 Prudential indicators are shown in Appendix C.

10. 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.

11. BANKING CONTRACT

A separate report will be taken to Cabinet to provide an update on the tender for Banking Services.

12. MEMBERS TRAINING

Members attended an online training webinar which Link delivered on 8th November 2022. 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

Wellbeing of Future Generations:
Has an Integrated Impact Assessment been completed? If, not, please state why.

No: Report for information only

Summary of Integrated Impact Assessment:

Long term:	N/A – Information only
Collaboration:	N/A – Information only
Involvement:	N/A – Information only
Prevention:	N/A – Information only
Integration:	N/A – Information only

Recommendation(s):
To note the contents of the report.

Reasons for decision:
No decision required.

Overview and Scrutiny:
Considered during the 2023/24 Treasury Management Strategy approval process.

Policy Framework:
2023/24 Treasury Management Strategy

Corporate Well-being Objectives:
Treasury Management underpins all Corporate Priorities

Finance and Procurement implications:
Reporting information regarding Treasury Management activities and in year investment income and external interest paid.

Legal Implications:
None

Staffing implications:
None

Property / asset implications:
Reporting performance of investment balances held by the Council.

Risk(s):
None

Statutory Powers:
Local Government Act 2003

Background Papers:
2023/24 Treasury Management Strategy report to Full Council (March 2023)

Appendices:
Appendix A - Investment Portfolio
Appendix B - Debt Portfolio
Appendix C – Prudential Indicators

Corporate Lead Officer:
Duncan Hall, Corporate Lead Officer- Finance & Procurement

Reporting Officer:
Justin Davies, Corporate Manager - Core Finance

Date:
15th November 2023

Appendix A

INVESTMENT PORTFOLIO AS AT 30/09/2023:

Details	Value	Interest Rate	Investment	
	£	%	From	To
Fixed Term Investments				
Lloyds Bank Corporate Markets	£2,000,000	4.87%	04/04/2023	04/10/2023
Standard Chartered Sustainable Deposit	£2,000,000	5.23%	06/06/2023	06/12/2023
Lloyds Bank Corporate Markets	£1,000,000	5.49%	16/06/2023	15/12/2023
Lloyds Bank Corporate Markets	£1,500,000	5.65%	21/06/2023	21/12/2023
Lloyds Bank Corporate Markets	£1,000,000	5.95%	28/06/2023	28/12/2023
Goldman Sachs International	£2,000,000	5.53%	18/07/2023	20/10/2023
Bank of Scotland	£500,000	5.33%	19/07/2023	20/10/2023
Santander UK	£1,000,000	5.39%	19/07/2023	20/10/2023
Santander UK	£1,000,000	5.39%	19/07/2023	24/10/2023
Goldman Sachs International	£2,000,000	5.60%	01/08/2023	01/11/2023
NatWest Markets	£5,000,000	5.42%	09/08/2023	09/11/2023
DMADF	£1,000,000	5.20%	30/08/2023	03/10/2023
DMADF	£2,000,000	5.21%	30/08/2023	06/10/2023
DMADF	£1,000,000	5.22%	30/08/2023	09/10/2023
DMADF	£1,000,000	5.22%	30/08/2023	10/10/2023
DMADF	£1,000,000	5.24%	30/08/2023	13/10/2023
DMADF	£1,000,000	5.23%	31/08/2023	13/10/2023
DMADF	£1,000,000	5.24%	01/09/2023	17/10/2023
DMADF	£1,500,000	5.27%	01/09/2023	27/10/2023
DMADF	£2,000,000	5.22%	05/09/2023	05/10/2023
DMADF	£2,500,000	5.27%	05/09/2023	23/10/2023
Nationwide Building Society	£2,500,000	5.37%	05/09/2023	08/12/2023
Standard Chartered Sustainable Deposit	£2,000,000	5.76%	05/09/2023	05/03/2024
Leeds Building Society	£1,000,000	5.38%	07/09/2023	07/12/2023
Leeds Building Society	£1,000,000	5.38%	11/09/2023	12/12/2023
Leeds Building Society	£1,000,000	5.40%	14/09/2023	14/12/2023
DMADF	£1,000,000	5.32%	18/09/2023	27/10/2023
DMADF	£2,500,000	5.18%	22/09/2023	31/10/2023
DMADF	£3,500,000	5.18%	25/09/2023	31/10/2023
DMADF	£500,000	5.18%	26/09/2023	31/10/2023
DMADF	£500,000	5.17%	28/09/2023	31/10/2023
	£48,500,000			
Deposits in Barclays Reserve a/c				
Barclays Bank	£3,429,510	4.90%	-	-
Total Investments as at 30/09/23	**£51,929,510**			

DEBT PORTFOLIO AS AT 30/09/2023: Appendix B

Loan Ref	Repayment Method	Start Date	Maturity Date	Original Interest rate	Balance as at 30/09/23
PWLB Loans					
417195	**A**	24-Dec-71	02-Dec-31	8.000%	17,186
419325	**A**	21-Mar-72	02-Dec-31	7.750%	12,026
427730	**A**	12-Jun-73	02-Jun-33	9.875%	18,613
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%	1,138,317
501928	**A**	01-Mar-13	31-Mar-29	2.630%	1,146,639
502054	**A**	28-Mar-13	06-Feb-33	2.860%	1,255,058
502477	**A**	13-Aug-13	30-Sep-28	3.110%	1,128,292
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%	1,413,119
502982	**A**	09-Apr-14	30-Sep-28	3.230%	1,593,406
503489	**M**	25-Nov-14	31-Mar-45	3.670%	5,000,000
503490	**A**	25-Nov-14	31-Mar-44	3.400%	1,116,593
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%	2,114,052
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
					100,604,421
Market Loan					
Barclays	**M**	20-Jun-16	13-Sep-66	3.660%	**5,750,000**
WG Repayable Loan funding					
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
					806,075
TOTAL					**107,160,496**

Key: A = Annuity   M = Maturity

Appendix C

Treasury Management related Prudential Indicators

Gross debt and the Capital Finance Requirement
In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that gross external debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. The Section 151 officer reports that the authority did not have any difficulty in meeting this requirement in 2022/23, nor are there any difficulties envisaged for the current or future years. This view takes into account current commitments, existing plans, and the proposals in the 3 year capital programme.

Authorised Limit for External Debt			
	2023/24	**2024/25**	**2025/26**
	£m	**£m**	**£m**
Borrowing	155	163	168
Other long term liabilities	7	12	12
Total	**162**	**175**	**180**

Operational Boundary for External Debt			
	2023/24	**2024/25**	**2025/26**
	£m	**£m**	**£m**
Borrowing	149	157	162
Other long term liabilities	6	11	11
Total	**155**	**168**	**173**

Maturity Structure of Borrowing		
	Upper limit	**Lower limit**
Under 12 months	20%	0%
12 months & within 24 months	20%	0%
24 months & within 5 years	50%	0%
5 years & within 10 years	75%	0%
10 years & above	95%	25%
Sub-category within 10 years and above 50 years & above	20%	0%

Upper limit for total principal sums invested for more than 1 year		
2023/24	**2024/25**	**2025/26**
£2.5m	£2.5m	£2.5m

Liability Benchmark

A new prudential indicator for 2023/24 is the Liability Benchmark. The Liability Benchmark is effectively the Net Borrowing Requirement of a local authority plus a liquidity allowance. In its simplest form, it is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

There are four components to the Liability Benchmark: -

• Existing loan debt outstanding: the Authority'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 MRP.

• Net loans requirement: this will show the Authority'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 forecast.

• Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.