

CYNGOR SIR CEREDIGION COUNTY COUNCIL

Report to: Cabinet

Date of meeting: 19th March 2024

Title: Quarterly Treasury Management Performance Report 2023/24

Purpose of the report: To report on 2023/24 Quarter 3 Treasury Management Performance

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

	<u>As at</u> <u>31/03/2023</u> <u>£m</u>	<u>As at</u> <u>31/12/2023</u> <u>£m</u>
<u>External Borrowing</u>		
PWLB loans	101.1	100.6
Market loan	5.8	5.8
WG Repayable loan funding	0.9	0.8
Total Debt	107.8	107.2
<u>Investments held</u>		
In-house	38.7	43.5
Total Investments	38.7	43.5
Net Debt	69.1	63.7

3. ECONOMIC UPDATE

The third quarter of 2023/24 saw:

- a) Month on month GDP in October declined by 0.3%, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was revised downwards to minus 0.1% and growth on an annual basis was also revised downwards, to 0.3%.
- b) Wage growth saw a sharp fall, with the headline 3 month year on year rate declining from 8.0% in September to 7.2% in October, although the ONS rate of unemployment has remained low at 4.2%.
- c) CPI inflation continues its downward trajectory, from 8.7% in April to 3.9% in November.
- d) Core CPI inflation decreasing from May's 31 year high of 7.1% to 5.1% in November, the lowest rate since January 2022. Similar to the CPI, core inflation measures the price of a selection of goods and services but strips out volatile prices such as food and energy.
- e) The Bank of England held the base interest rate at 5.25% in November and December.
- f) 10-year gilt yields fell steadily as investors revised their interest rate expectations lower.

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 8th January 2024, sets out a view that both short and long-dated interest rates will be elevated in the short term but will start to fall during the second half of the 2024 calendar year.

Link Treasury Services Interest Rate Forecast – as at 8th January 2024

	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sept-25	Dec-25
Bank Rate Forecast	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%	3.00%	3.00%
<u>PWLB Borrowing Rate</u>								
5 yr PWLB	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.80%	3.70%
10 yr PWLB	4.70%	4.50%	4.40%	4.30%	4.20%	4.10%	4.00%	3.90%
25 yr PWLB	5.20%	5.10%	4.90%	4.80%	4.60%	4.40%	4.30%	4.20%
50 yr PWLB	5.00%	4.90%	4.70%	4.60%	4.40%	4.20%	4.10%	4.00%

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 31/12/2023 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 during the nine-month period covering 1st April 2023 to the 31st December 2023 has led to interest income of £2.0m against a budget of £1.0m resulting in a favourable variance of £1.0m. This is due to higher interest rates than anticipated when the 2023/24 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 in the near term. The Aberaeron Coastal Protection Scheme requires circa £27m of prudential borrowing during the next two years which will be fully funded by Welsh Government. Considerations around the lender, timing and profile of this borrowing requirement is currently being finalised.

There are no PWLB loan maturities due during the year.

A full list of loans held as at 31/12/2023 is shown in Appendix B.

8. DEBT RESCHEDULING

As the economy continues adjust to 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

The banking contract with Barclays expired on 29th February 2024. The Council carried out a full tender exercise during the Autumn of 2023 inviting banking service providers to tender for the Council's corporate banking services contract. After a robust evaluation exercise Barclays were awarded the contract for a period of seven years with the option to extend for an additional two years.

Barclays are a UK based bank, with a long-term credit rating of A1 (Moody's) and continues to provide the Council with an excellent service. 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.

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 Office: Finance & Procurement

Reporting Officer:

Justin Davies, Corporate Manager: Core Finance

Date:

10th February 2024

Appendix A

INVESTMENT PORTFOLIO AS AT 31/12/2023:

Details	Value	Interest Rate	Investment	
	£	%	From	To
<u>Fixed Term Investments</u>				
Standard Chartered Sustainable Deposit	£2,000,000	5.76%	05/09/2023	05/03/2024
Lloyds Bank Corporate Markets	£2,000,000	5.66%	05/10/2023	05/04/2024
Bank of Scotland	£500,000	5.38%	06/11/2023	10/01/2024
Goldman Sachs International	£2,000,000	5.37%	08/11/2023	08/02/2024
Goldman Sachs International	£2,000,000	5.37%	09/11/2023	09/02/2024
NatWest Markets	£5,000,000	5.27%	14/11/2023	14/02/2024
Santander UK	£2,000,000	5.33%	15/11/2023	16/02/2024
DMADF	£500,000	5.18%	20/11/2023	05/01/2024
DMADF	£1,000,000	5.18%	22/11/2023	22/01/2024
DMADF	£500,000	5.19%	27/11/2023	05/01/2024
DMADF	£1,000,000	5.19%	28/11/2023	29/01/2024
DMADF	£1,000,000	5.19%	28/11/2023	30/01/2024
DMADF	£1,000,000	5.18%	30/11/2023	05/01/2024
DMADF	£1,000,000	5.18%	30/11/2023	09/01/2024
DMADF	£2,000,000	5.18%	01/12/2023	12/01/2024
DMADF	£500,000	5.20%	05/12/2023	22/01/2024
DMADF	£5,000,000	5.20%	05/12/2023	31/01/2024
DMADF	£2,000,000	5.20%	06/12/2023	31/01/2024
DMADF	£2,000,000	5.20%	07/12/2023	02/02/2024
DMADF	£500,000	5.20%	08/12/2023	19/01/2024
DMADF	£1,500,000	5.20%	11/12/2023	19/01/2024
DMADF	£700,000	5.20%	14/12/2023	13/02/2024
Leeds Building Society	£1,000,000	5.22%	19/12/2023	19/03/2024
Lloyds Bank Corporate Markets	£1,000,000	5.38%	19/12/2023	19/06/2024
DMADF	£500,000	5.19%	20/12/2023	16/01/2024
DMADF	£500,000	5.20%	21/12/2023	22/02/2024
Leeds Building Society	£1,000,000	5.22%	21/12/2023	21/03/2024
	£39,700,000			
<u>Deposits in Barclays Reserve a/c</u>				
Barclays Bank	£3,841,069	4.90%	-	-

Total Investments as at 30/06/23

£43,541,069

DEBT PORTFOLIO AS AT 31/12/2023:**Appendix B**

Loan Ref	Repayment Method	Start Date	Maturity Date	Original Interest rate	Balance as at 31/12/23
<u>PWLB Loans</u>					
417195	A	24-Dec-71	02-Dec-31	8.000%	16,461
419325	A	21-Mar-72	02-Dec-31	7.750%	11,513
427730	A	12-Jun-73	02-Jun-33	9.875%	18,046
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
					100,602,616
<u>Market Loan</u>					
Barclays	M	20-Jun-16	13-Sep-66	3.660%	5,750,000
<u>WG Repayable Loan funding</u>					
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					107,158,691

Key: A = Annuity M = Maturity

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%
<u>Sub-category within 10 years and above</u> 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.

