



**SUBJECT: TREASURY MANAGEMENT – FIRST QUARTERLY REVIEW 2023/2024**

**REPORT OF THE FINANCE DIRECTOR**

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**1. Purpose of Report**

- 1.1 To report on the Treasury Management performance for the first quarter of 2023/2024.

**2. Introduction**

- 2.1 Sunderland City Council performs the treasury management function on behalf of the Authority.
- 2.2 This report sets out the Treasury Management performance for the first quarter of the financial year 2023/2024, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Authority. This information is based on the data for Sunderland City Council, which incorporates the investment and borrowing figures for the Authority.

**3. Summary of Treasury Management Performance for 2023/2024 – Quarter 1**

- 3.1 The Authority's Treasury Management function continues to look at ways to maximise financial savings and increase investment returns to the revenue budget, whilst maintaining a balanced risk position. Public Works Loan Board (PWLB) rates have gradually risen since the start of the financial year but continue to be volatile. No new borrowing has been required to date during 2023/2024 but the position continues to be monitored closely.
- 3.2 No refinancing of debt has been carried out in 2023/2024 during the period as rates have not been considered sufficiently favourable. The Authority's average interest rate on borrowing is low, currently 2.71%, and as such the Authority already benefits from this low cost of borrowing and from the ongoing savings from past debt rescheduling exercises. Based on advice from the Authority's treasury management advisor, performance continues to see the Authority's average borrowing rate compare favourably to other authorities.

- 3.3 Treasury Management Prudential Indicators are regularly reviewed and the Authority is within the limits set for all its Treasury Management Prudential Indicators for 2023/2024. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £54.607m for 2023/2024. The Authority's maximum external debt during the financial year to 31<sup>st</sup> May 2023 was £31.083m and is within this limit. More details of all of the Treasury Management Prudential Indicators are set out in Section 2 of Appendix A for information.
- 3.4 The Authority's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Authority.
- 3.5 The Authority has benefitted from the fact that its investment income has been matched to the benchmark rate, currently 4.26% for 2023/2024 to 31<sup>st</sup> May 2023, instead of the average Money Market Fund (MMF) return. Whilst historic returns have been higher than the benchmark rate, the MMF rate has been adversely impacted by market volatility linked to Covid and now the continuing conflict in Ukraine. The investment policy continues to reflect the priority to 'protect' the funds of the Authority first and foremost. More details are set out in Section A3 of this report in respect of the Authority's Investment Strategy and Performance.
- 3.6 More detailed Treasury Management information is included in Appendix A for information.
- 3.7 The regular updating of the Authority's Authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings since the last report. The updated Approved Lending List is shown in Appendix C for information.

#### **4. Recommendation**

- 4.1 The Committee is requested to note the Treasury Management performance during the first quarter of 2023/2024.
- 4.2 Members are requested to note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

**Detailed Treasury Management Performance – Quarter 1 2023/2024****A1 Borrowing Strategy and Performance – 2023/2024**

- A1.1 The Borrowing Strategy for 2023/2024 was approved by the Authority on 13<sup>th</sup> March 2023.
- A1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view at the time of drafting the Treasury Management Policy and Strategy was that the Bank of England (BoE) Base Rate would rise to 4.00% in February 2023, 4.25% in March 2023 and peak at 4.50% in May 2023, before gradually falling to 2.50% by September 2025. PWLB borrowing rates were believed to have reached their peak and were expected to steadily fall over the three year forecast timescale. However, these projections were subject to significant volatility as a consequence of emerging economic data and future BoE Monetary Policy Committee (MPC) announcements.
- A1.3 The Bank of England's Monetary Policy Committee (MPC) announced for a twelfth consecutive meeting on 11th May 2023 it had raised the Base Rate, with a 0.25% rise taking the rate to 4.50%. Notes from the meeting indicate the peak in rates is close but if there were to be evidence of more persistent price pressures, then further tightening in monetary policy would be required to return inflation to the BoE's target of 2%.
- A1.4 Although annual CPI inflation fell to 8.7% in April 2023, down from 10.1% in March, this was still higher than some analysts had expected and reflects little movement in underlying inflationary pressures. Markets will be waiting to assess the impact on CPI inflation of the energy price caps announced by Ofgem in July and October 2023. The BoE now expects inflation to fall to 5.1% by the end of 2023, compared to 3.9% it forecast previously.
- A1.5 GDP forecasts were subject to the largest ever upside revision in growth since the BoE gained independence in 1997. Whilst GDP is expected to remain flat for the first half of 2023, latest forecasts reverse previous expectations that the economy would enter recession this year and instead the economy will be 2.25% bigger by mid-2026. This was based on lower energy prices and the impact of fiscal support measures outlined in the Chancellor's Spring Budget.
- A1.6 Following increases in the BoE Base Rate, investment rates of return have increased significantly compared to previous years. However long-term borrowing rates are also currently high, and above our benchmark borrowing rate of 4.50%. Therefore, investment balances will be temporarily used where necessary pending borrowing rates reducing.
- A1.7 Link Asset Services, the Authority's treasury advisors, reviewed their interest rate forecasts in March 2023 and again in May 2023 following MPC announcements of increases in the Base Rate and continued volatility in the financial markets. They believe with inflation remaining elevated, the MPC will need to increase the Base Rate to at least 5%, if not higher, to sufficiently slow the UK economy and combat on-going inflationary and wage pressures. Link expect the rate to remain at its peak until at least the Spring of 2024.

A1.8 The following table shows the average PWLB rates for Quarter 1 compared to the SONIA Overnight Rate used to benchmark investment returns.

<b>2023/2024</b>	<b>Qtr 1* (Apr - May) %</b>
SONIA Overnight Rate	4.26
1 year	5.02*
5 years	4.57*
10 years	4.58*
25 years	4.96*
50 years	4.70*

\*rates take account of the 0.2% discount to PWLB rates available to eligible authorities.

A1.9 High levels of volatility in the financial markets continue in 2023/2024 as economic data is released and Government clarifies its fiscal policies. Add to this the on-going conflict between Russia and Ukraine and heightened tensions between China, Taiwan and the United States which all have the potential to have a wider and negative economic impact. The overall balance of risks to economic growth in the UK is to the downside due to a number of factors. The risk that the BoE acts too soon or too far over the next year in raising the Base Rate could hamper economic growth and not have the intended impact on inflation.

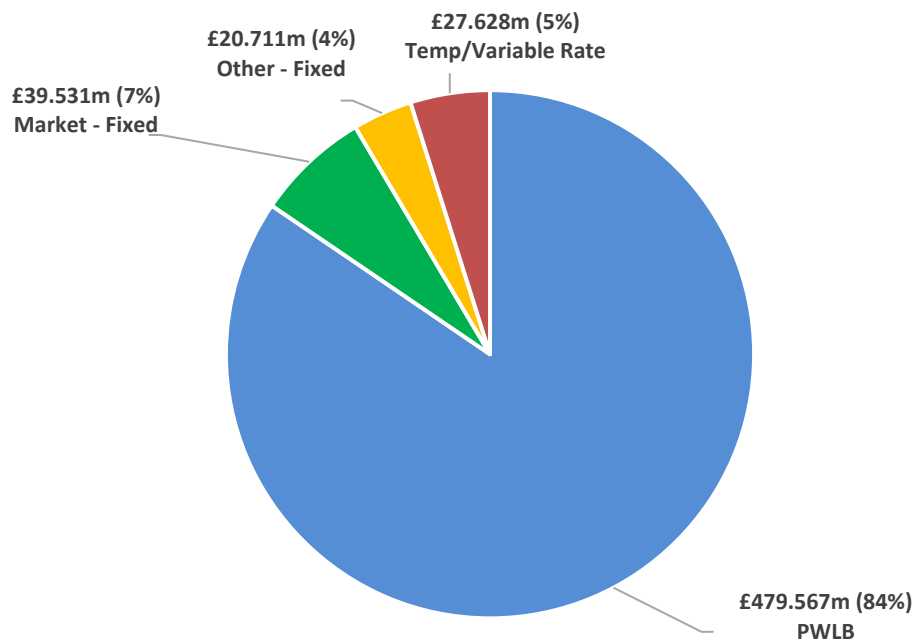
A1.10 PWLB rates are expected to remain at around current levels until December 2023 before gradually falling through to March 2026. Link Asset Services predict PWLB rates standing at 4.80%, 4.80%, 5.10% and 4.90% for 5, 10, 25 and 50-year durations respectively by 31<sup>st</sup> March 2024 before falling to within the range 3.10%-3.60 for all durations by March 2026. With so many external influences weighing on the UK economy, interest rate forecasting remains very difficult. From time to time, gilt yields, and consequently PWLB rates, can be subject to exceptional levels of volatility which could occur at any time during the forecast period.

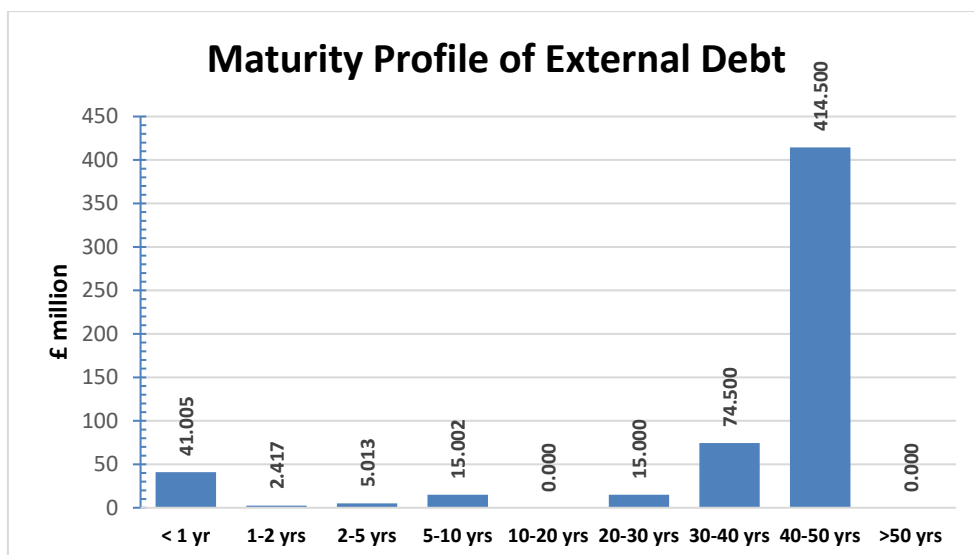
A1.11 The strategy for 2023/2024 is to adopt a pragmatic and flexible approach in identifying the low points in the interest rate cycle at which to borrow, and to respond to any changing circumstances to seek to secure benefit for the Authority. A benchmark financing rate of 4.50% for long-term borrowing was set for 2023/2024 in light of the views prevalent at the time the Treasury Management policy was set in March 2023.

A1.12 The Lead Authority's total treasury portfolio position at 31<sup>st</sup> May 2023 is set out overleaf, (which includes the Authority's Debt holding of £10.760m that is made up entirely of PWLB Loans (mainly fixed) but some temporary variable debt).

Lead Authority total borrowings information:

<b>Borrowing Summary at:</b>		<b>31 May 2023</b>	
	<u>Principal</u>	<u>Ave rate</u>	
<b><u>Fixed</u></b>			
PWLB	479,566,667	2.60	%
Market - Fixed	39,531,020	4.40	
Other - Fixed	20,710,723	0.00	
	<u>539,808,410</u>	<u>2.63</u>	
<b><u>Variable</u></b>			
Temporary/Other - Variable	27,628,348	4.19	
	<u>27,628,348</u>	<u>4.19</u>	
<b>TOTAL:</b>	<b><u>567,436,758</u></b>	<b><u>2.71</u></b>	





## A2 Treasury Management Prudential Indicators – 2023/2024

A2.1 All external borrowing and investments undertaken in 2023/2024 have been subject to the monitoring requirements of the Prudential Code. Under the Code, Authorities must set borrowing limits (Authorised Borrowing Limit for External Debt and Operational Boundary for External Debt) and must also report on the Authority's performance for all of the other Treasury Management Prudential Indicators.

A2.2 The statutory limit under section 3(1) of the Local Government Act 2003 (which is also known as the Authorised Borrowing Limit for External Debt) was set by the Authority for 2023/2024 as follows:

	£m
Borrowing	41.575
Other Long-Term Liabilities	13.032
<b>Total</b>	<b><u>54.607</u></b>

The Operational Boundary for External Debt was set as shown below:-

	£m
Borrowing	36.575
Other Long-Term Liabilities	13.032
<b>Total</b>	<b><u>49.607</u></b>

A2.3 Both the Authorised Limit and the Operational Limit include an element for long-term liabilities relating to PFI schemes and finance leases. These have been brought onto the Authority's Balance Sheet in compliance with International Financial Reporting Standards (IFRS).

A2.4 The Authority's maximum external debt in respect of 2023/2024 (to 31<sup>st</sup> May 2023) was £31.083 million and is well within the limits set by both of these indicators.

A2.5 The table below shows that all other Treasury Management Prudential Indicators set by Sunderland City Council (which includes the Authority's data) have been complied with:

Prudential Indicators	2023/2024 (max at 31 <sup>st</sup> May 2023)	
	Limit	Actual
<b>P9 Maturity Pattern</b>	Upper Limit	
Under 12 months	50%	7.23%
12 months and within 24 months	60%	0.44%
24 months and within 5 years	80%	0.91%
5 years plus	100%	93.78%
A lower limit of 0% for all periods		
<b>P10 Upper limit for total principal sums invested for over 365 days</b>	£75m	0

### A3 Investment Strategy – 2023/2024

A3.1 The Investment Strategy for 2023/2024 was approved by the Authority on 13<sup>th</sup> March 2023. The general policy objective for the Authority is the prudent investment of its treasury balances. The Authority's investment priorities in order of importance are:

- a) The **security** of capital;
- b) The **liquidity** of its investments and then;
- c) The Authority aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

A3.2 As at 31<sup>st</sup> May 2023, funds managed by Sunderland City Council's in-house team on behalf of the Authority amounted to £27.514 million and all investments complied with the approved Annual Investment Strategy.

A3.3 The table below shows the return received on these investments compared with the benchmark SONIA (Sterling Overnight Index Average) rate, which the Authority uses to assess its performance.

	2023/2024 Actual to 31/05/23 %	2023/2024 Benchmark to 31/05/23 %
Return on investments	4.26	4.26

A3.4 Investments placed in 2023/2024 have been made in accordance with the approved Investment Strategy and comply with the Counterparty Criteria in place, shown in Appendix B, which is used to identify organisations on the Approved Lending List.

A3.5 Investment rates available in the market have steadily risen following a series of Base Rate increases announced by the Bank of England's Monetary Policy Committee (MPC). Since the MPC voted to raise the Base Rate from its historic low of 0.10% at its meeting on 16<sup>th</sup> December 2021, it has risen at a total of twelve consecutive meetings. The Base Rate currently stands at 4.50%, its highest point since 2008, with further increases expected.

<b>Effective Date</b>	<b>BoE Base Rate %</b>
19 Mar 2021	0.10
16 Dec 2021	0.25
3 Feb 2022	0.50
17 Mar 2022	0.75
5 May 2022	1.00
16 Jun 2022	1.25
4 Aug 2022	1.75
22 Sep 2022	2.25
3 Nov 2022	3.00
15 Dec 2022	3.50
2 Feb 2023	4.00
23 Mar 2023	4.25
11 May 2023	4.50

- A3.6 Whilst investment rates have improved recently, the Authority continues to follow a risk averse strategy when placing funds, prioritising security of capital whilst seeking to achieve the optimum return commensurate with risk. The Authority continues to follow advice from our Treasury Management advisors by placing funds in shorter dated liquid investments than previously.
- A3.7 Advice also continues that the above guidance is not applicable to institutions considered to be very low risk, mainly where the government holds shares in these organisations (i.e. RBS) and therefore have the UK Government rating applied to them, or separately in respect of Money Market Funds which are AAA rated.
- A3.8 The regular updating of the Authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes since the last Treasury Management report are indicated in bold on the Approved Lending List is shown in Appendix C.



## Lending List Criteria

## Appendix B

### Counterparty Criteria

The Council takes into account not only the individual institution's credit ratings issued by all three credit rating agencies (Fitch, Moody's and Standard & Poor's), but also all available market data and intelligence, the level of government support and advice from its Treasury Management advisers.

Set out below are the criteria to be used in determining the level of funds that can be invested with each institution. Where an institution is rated differently by the rating agencies, the lowest rating will determine the level of investment.

<b>Fitch Long-Term Rating</b>	<b>Fitch Short-Term Rating</b>	<b>Moody's Long-Term Rating</b>	<b>Moody's Short-Term Rating</b>	<b>S&amp;P's Long-Term Rating</b>	<b>S&amp;P's Short-Term Rating</b>	<b>Maximum Deposit £m</b>	<b>Maximum Duration</b>
AAA	F1+	Aaa	P-1	AAA	A-1+	120	2 Years
AA+	F1+	Aa1	P-1	AA+	A-1+	100	2 Years
AA	F1+	Aa2	P-1	AA	A-1+	80	2 Years
AA-	F1+	Aa3	P-1	AA-	A-1+	75	2 Years
A+	F1+	A1	P-1	A+	A-1	70	365 days
A+	F1	A1	P-1	A+	A-1	70	365 days
A	F1	A2	P-1	A	A-1	65	365 days
A-	F1	A3	P-1	A-	A-1	50	365 days
A-	F2	A3	P-2	A-	A-2	50	365 days
<b>Local Authorities</b> (limit for each local authority)						30	2 years
<b>UK Government</b> (including debt management office, gilts and treasury bills)						300	2 years
<b>Money Market Funds (CNAV, LVNAV and VNAV)</b> Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
<b>Local Authority controlled companies</b>						40	20 years

Where the UK Government holds a shareholding in an institution the UK Government's credit rating of AA- will be applied to that institution to determine the amount the Council can place with that institution for a maximum period of 2 years.

The Code of Practice for Treasury Management in the Public Services recommends that consideration should also be given to country, sector, and group limits in addition to the individual limits set out above; these new limits are as follows:

## Appendix B (continued)

### Country Limit

It is proposed that only non-UK countries with a minimum sovereign credit rating of AA+ by all three rating agencies will be considered for inclusion on the Approved Lending List.

It is also proposed to set a total limit of £50m which can be invested in other countries provided they meet the above criteria. A separate limit of £300m will be applied to the United Kingdom and is based on the fact that the government has done and is willing to take action to protect the UK banking system.

<b>Country</b>	<b>Limit £m</b>
UK	300
Non-UK	50

### Sector Limit

The Code recommends a limit be set for each sector in which the Council can place investments. These limits are set out below:

<b>Sector</b>	<b>Limit £m</b>
Central Government	300
Local Government	300
UK Banks	300
Money Market Funds	250
UK Building Societies	100
Foreign Banks	50

### Group Limit

Where institutions are part of a group of companies e.g. Lloyds Banking Group, Santander and RBS, the total limit of investments that can be placed with that group of companies will be determined by the highest credit rating of a counterparty within that group, unless the government rating has been applied. This will apply provided that:

- the UK continues to have a sovereign credit rating of AA-; and
- that market intelligence and professional advice is taken into account.

Proposed group limits are set out in Appendix C.



	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1			50	365 days
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS *	BBB+	F2	Baa2	P-2	-	-	0	
Skipton BS	A-	F1	A2	P-1	-	-	50	365 days
West Bromwich BS *			Ba3	NP	-	-	0	
Yorkshire BS	A-	F1	A3	P-2	-	-	50	365 days
<b>Money Market Funds</b>							250	Liquid
Prime Rate Stirling Liquidity	AAA		AAA		AAA		50	Liquid
Insight Liquidity Fund	AAA		-		AAA		50	Liquid
Aberdeen Liquidity Fund (Lux)	AAA				AAA		50	Liquid
Deutsche Managed Sterling Fund			Aaa		AAA		50	Liquid
Foreign Banks have a combined total limit of £50m								
<b>Australia</b>	AAA		Aaa		AAA		50	
Australia and New Zealand Banking Group Ltd	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Commonwealth Bank of Australia	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
National Australia Bank	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
Westpac Banking Corporation	A+	F1	Aa3	P-1	AA-	A-1+	50	365 days
<b>Canada</b>	AA+		Aaa		AAA		50	
Bank of Nova Scotia	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Royal Bank of Canada	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Toronto Dominion Bank	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
<b>Denmark</b>	AAA		Aaa		AAA		50	
Danske A/S	A	F1	A2	P-1	A+	A-1	50	365 days
<b>Finland</b>	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
<b>Germany</b>	AAA		Aaa		AAA		50	
DZ Bank AG (Deutsche Zentral-Genossenschaftsbank)	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
Landwirtschaftliche Rentenbank	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
<b>Netherlands</b>	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	AAA	F1+	Aaa	P-1	AAA	A-1+	50	2 years
Cooperatieve Rabobank U.A.	A+	F1	Aa2	P-1	A+	A-1	50	365 days
Nederlandse Waterschapsbank NV			Aaa	P-1	AAA	A-1+	50	2 years
<b>Singapore</b>	AAA		Aaa		AAA		50	
DBS Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
Oversea Chinese Banking Corporation Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
United Overseas Bank Ltd	AA-	F1+	Aa1	P-1	AA-	A-1+	50	2 years
<b>Sweden</b>	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
<b>Switzerland</b>	AAA		Aaa		AAA		50	
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
<b>USA</b>	AAA		Aaa		AA+		50	
Bank of New York Mellon	AA	F1+	Aa1	P-1	AA-	A-1+	50	2 years
JP Morgan Chase Bank NA	AA	F1+	Aa1	P-1	A+	A-1	50	365 days
Wells Fargo Bank NA	AA-	F1+	Aa1	P-1	A+	A-1	50	365 days

**Note 1 Nationalised / Part Nationalised**

The counterparties in this section will have the UK Government's AA- rating applied to them thus giving them a credit limit of £75m.

\* These will be revisited and used only if they meet the minimum criteria (ratings of A- and above)

Any bank which is incorporated in the United Kingdom and controlled by the Prudential Regulation Authority (PRA) is classed as a UK bank for the purposes of the Approved Lending List.

