

AUDIT AND GOVERNANCE COMMITTEE

2 February 2024

TREASURY MANAGEMENT – THIRD QUARTERLY REVIEW 2023/2024

Report of the Director of Finance

1. Purpose of Report

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

2. Description of Decision (Recommendations)

- 2.1 The Committee is requested to:

- Note the Treasury Management performance during Quarter 3 of 2023/2024 (Appendix A).
- Note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

3. Introduction

- 3.1 This report sets out the Treasury Management performance to date for the third quarter of the financial year 2023/2024, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

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

- 4.1 The Council'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 extremely volatile. No new borrowing has been taken out to date during 2023/2024 but the position continues to be monitored closely should it be needed to support the financing requirements of the Council's Capital Programme.
- 4.2 No refinancing of debt has been carried out in 2023/2024 during the period as interest rates have not been considered sufficiently favourable. The Council's average interest rate on borrowing is low, currently 2.80%, and, as such, the Council already benefits from this lower cost of borrowing and also from the ongoing savings from past debt rescheduling exercises. Based on information from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.
- 4.3 Treasury Management Prudential Indicators are regularly reviewed, and the Council is within the limits set for all Treasury Management Prudential Indicators. 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 £1,127.988m for 2023/2024. The Council's maximum external debt during the financial year to 31st December 2023 was £636.680m and is within this limit. More details of the Treasury Management Prudential Indicators are set out in Section 2 of Appendix A for information.

- 4.4 The Council'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 Council.
- 4.5 As at 31st December 2023, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 5.05% compared with the benchmark SONIA (Sterling Overnight Index Average) rate of 4.88%. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.
- 4.6 More detailed Treasury Management information is included in Appendix A.
- 4.7 The regular updating of the Council'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.

5. Recommendation

- 5.1 Members are requested to note the Treasury Management performance for the third quarter of 2023/2024.
- 5.2 Members are requested to note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix.

Appendix A

Detailed Treasury Management Performance – Quarter 3 2023/2024

1 Borrowing Strategy and Performance – 2023/2024

- 1.1 The Borrowing Strategy for 2023/2024 was reported to Cabinet on 2nd February 2023 and approved by full Council on 22nd February 2023.
- 1.2 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.
- 1.3 At its meeting on 13th December 2023 the Bank of England's (BoE) Monetary Policy Committee (MPC) voted for the third meeting in a row to leave interest rates at 5.25%, with Governor Bailey commenting there is still some way to go in the fight to control inflation and that it was much too early to be thinking about rate cuts. This reflects their commitment to combat inflationary pressures, even at the risk of hampering growth, to ensure headline CPI inflation drops back to its 2% target.
- 1.4 Annual CPI inflation was 4.0% in the year to December 2023, up from 3.9% in November, and the first time the rate has increased since February 2023. The annual rate of underlying "core" inflation was 5.1% in December 2023, the same rate as in November. The MPC noted a material fall in government bond yields but upside risks to inflation remain given events in the Middle East.
- 1.5 On growth, GDP remained unchanged in Q3 in line with expectations, but weaker than the positive growth that had been recorded during the first half of the year and was expected to remain flat in Q4. The fiscal measures in the Autumn Statement, including the 2p cut in the main rate of employee NI contributions, are provisionally estimated to increase the level of GDP by around 0.25% over the coming years.
- 1.6 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.
- 1.7 Link Asset Services, the Council's treasury advisors, reviewed their interest rate forecasts in January 2024 to reflect their view that the MPC would be keen to underpin its anti-inflation credentials by keeping the Bank Rate at 5.25% until at least the second quarter of 2024. They believe the MPC won't look to cuts rates until both CPI inflation and wage / employment data are unequivocally supportive of such a move and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.

- 1.8 The following table shows the average PWLB rates for Quarters 1 to 3 compared to the SONIA Overnight Rate used to benchmark investment returns.

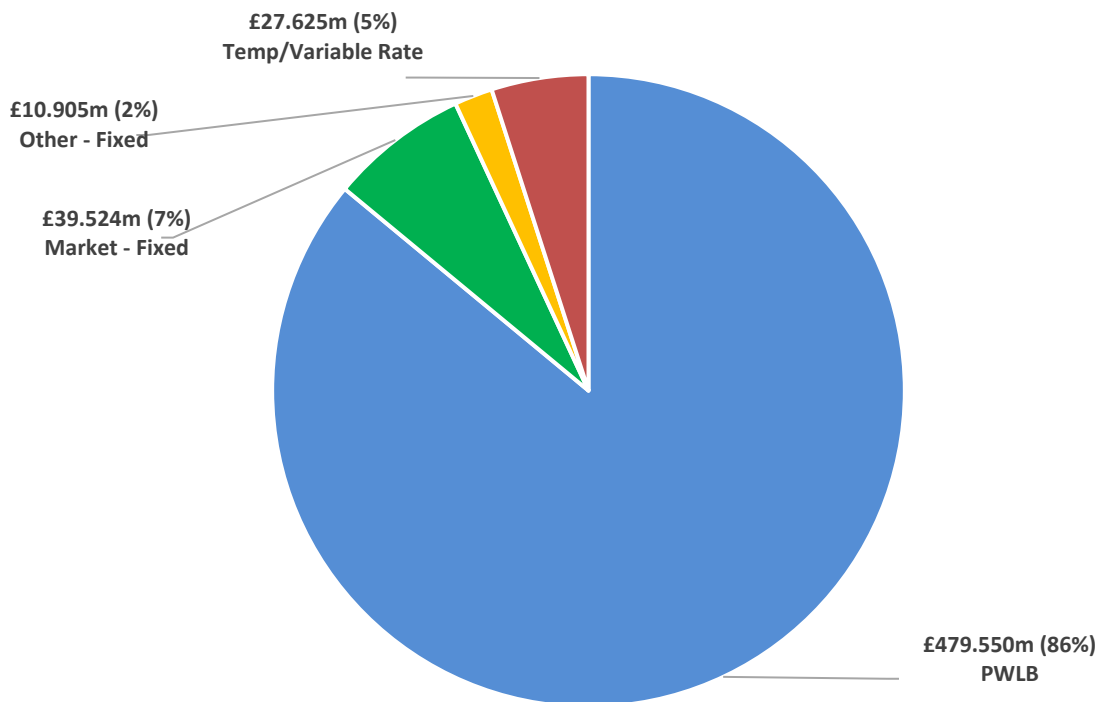
2023/2024	Qtr 1* (Apr-Jun '23) %	Qtr 2* (Jul-Sep '23) %	Qtr 3* (Oct – Dec '23) %
SONIA Overnight Rate	4.37	5.09	5.19
PWLB 1 year	5.32*	5.91*	5.54*
PWLB 5 years	4.87*	5.44*	4.95*
PWLB 10 years	4.78*	5.23*	5.05*
PWLB 25 years	5.09*	5.47*	5.48*
PWLB 50 years	4.82*	5.16*	5.24*
PWLB Current 50 years	at 17.01.24:		5.14*

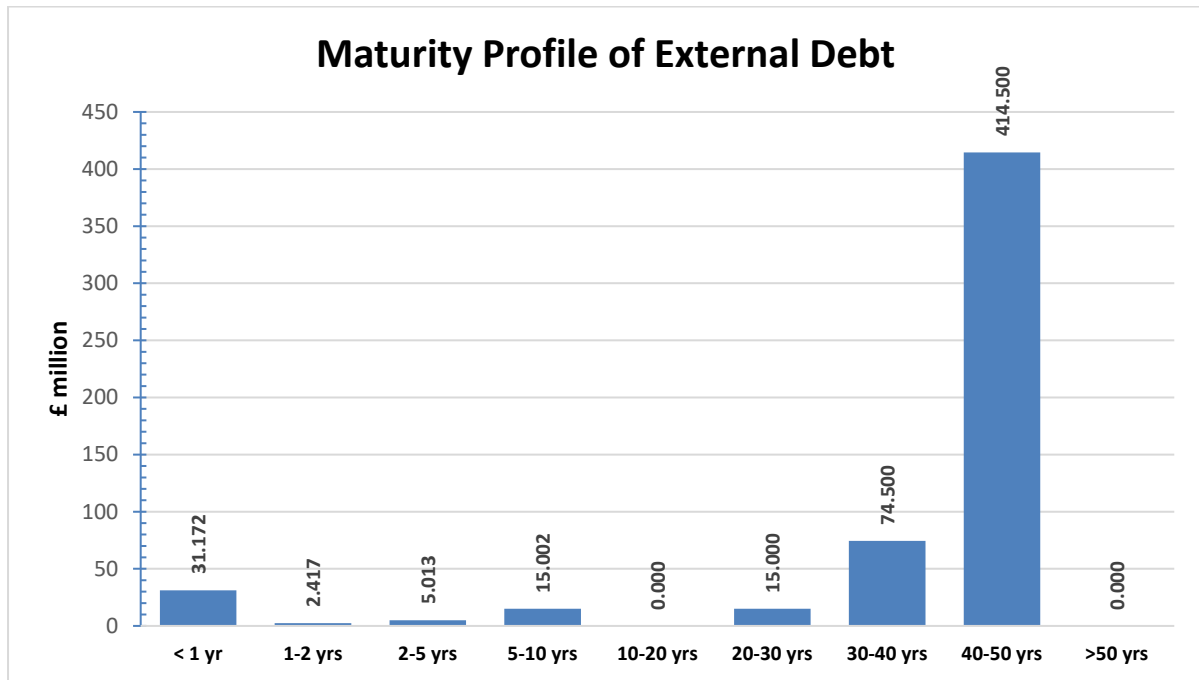
*rates take account of the 0.2% discount to PWLB rates available to eligible authorities.

- 1.9 High levels of volatility in the financial markets continue in 2023/2024 as economic data is released and Government clarifies its fiscal policies. The main sensitivities of the forecasts in the UK are felt to be linked to the timing of when the BoE decides to cut the Base Rate. Cut too soon and inflationary pressures could build up further but cut too late and any downturn or recession may be prolonged. The ongoing conflict between Russia and the Ukraine, Gaza and Israel and heightened tensions between China, Taiwan and the United States alongside other geopolitical factors are likely to continue to have a global economic impact. A further concern is that significant issues remain unresolved over future UK / EU trade arrangements following Brexit and complications or lack of co-operation in discussions pose a threat.
- 1.10 PWLB rates are expected to fall gradually from their current levels through to March 2026. Link Asset Services predict PWLB rates standing at 4.50%, 4.70%, 5.20% and 5.00% for 5, 10, 25 and 50-year durations respectively by 31st March 2024 before falling to within the range 3.60%-4.20% 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.
- 1.11 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 Council. 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.
- 1.12 The Council's treasury portfolio position at 31st December 2023 is set out below:

Borrowing Summary at: 31 December 2023

	<u>Principal</u>	<u>Interest</u>	<u>Ave rate</u>
<u>Fixed</u>			%
PWLB	479,550,000	12,473,408	2.60
Market – Fixed	39,523,684	1,740,508	4.40
Other – Fixed	10,904,640	2,606	0.02
	<u>529,978,324</u>	<u>14,216,602</u>	<u>2.68</u>
<u>Variable</u>			
Temporary/Other – Variable	27,625,448	1,370,167	4.96
	<u>27,625,448</u>	<u>1,370,167</u>	<u>4.96</u>
TOTAL:	557,603,771	15,586,769	2.80





2 Prudential Indicators – 2023/2024

- 2.1 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 Council's performance for the other Treasury Management Prudential Indicators.
- 2.2 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 Council for 2023/2024 as follows:

	£m
Borrowing	981.975
Other Long-Term Liabilities	146.013
Total	<u>1,127.988</u>

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

	£m
Borrowing	956.975
Other Long-Term Liabilities	146.013
Total	<u>1,102.988</u>

The Council's maximum external debt in respect of 2023/2024 (to 31st December 2023) was £636.680m and is within the limits set by both these key indicators.

- 2.3 The table below shows that all other Treasury Management Prudential Indicators have been complied with:

Prudential Indicators		2023/2024 (Max to 31/12/23)	
		Limit	Actual
P9	Maturity Pattern	Upper Limit	
	Under 12 months	50%	8.59%
	12 months and within 24 months	60%	0.44%
	24 months and within 5 years	80%	0.91%
	5 years plus (A lower limit of 0% for all periods)	100%	93.78%
P10	Upper limit for total principal sums invested for over 365 days	75m	0

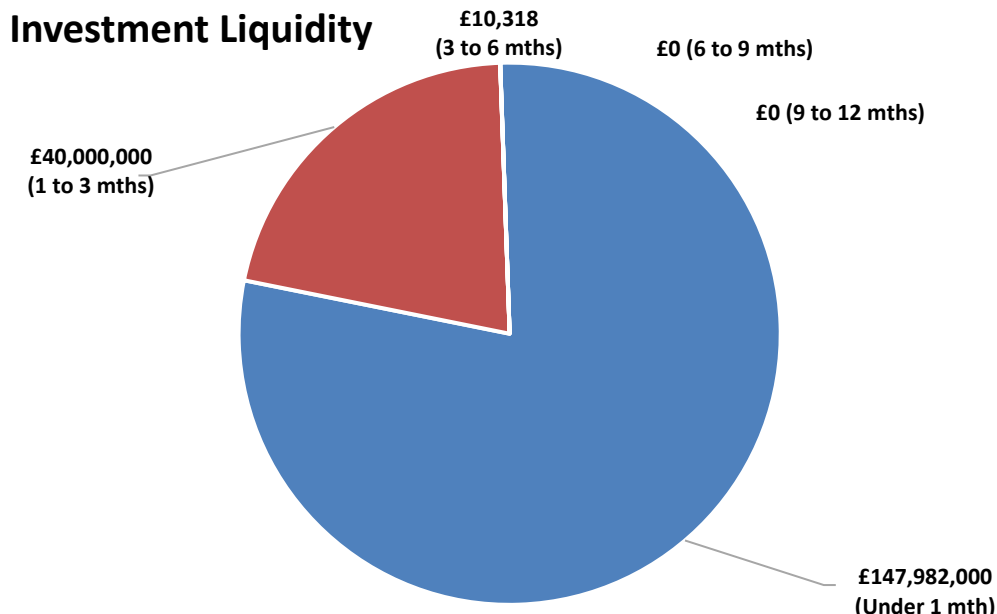
3 Investment Strategy – 2023/2024

3.1 The Investment Strategy for 2023/2024 was approved by Council on 22nd February 2023. The general policy objective for the Council is the prudent investment of its treasury balances. The Council's investment priorities in order of importance are:

- (A) The **security** of capital;
- (B) The **liquidity** of its investments and then;
- (C) The Council aims to achieve the **optimum yield** on its investments, but this is commensurate with the proper levels of security and liquidity.

3.2 As at 31st December 2023, the funds managed by the Council's in-house team amounted to £187.992 million and all investments complied with the Annual Investment Strategy.

Investment Summary at: 31 December 2023					
Borrower	Duration	Amount of Loan	Rate (%)	Start Date	Maturity Date
Call Accounts:					
NatWest SIBA	Overnight	1,500,000	1.700		Call
Prime MMF	Overnight	49,597,000	5.380		Call
Aberdeen Liquidity Fund	Overnight	0	5.296		Call
Insight Liquidity MMF	Overnight	11,885,000	5.317		Call
Lloyds Banking Group Ltd	95d Notice	10,318	3.950		95 Day Notice
Sub-total:		62,992,318			
Fixed Term Deposits:					
Yorkshire Building Society	49 days	5,000,000	5.120	21-Nov-23	09-Jan-24
Standard Chartered Bank	184 days	44,000,000	5.830	25-Jul-23	25-Jan-24
Goldman Sachs Int Bank	184 days	36,000,000	5.770	25-Jul-23	25-Jan-24
Santander UK Plc	182 days	30,000,000	5.950	01-Sep-23	01-Mar-24
Santander UK Plc	182 days	10,000,000	5.900	22-Sep-23	22-Mar-24
Sub-total:		125,000,000			
TOTAL:		187,992,318			



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

	2023/2024 Actual to 31/12/23 %	2023/2024 Benchmark to 31/12/23 %
Return on investments	5.05	4.88

3.4 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.

3.5 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 in December 2021 it rose at the next fourteen consecutive meetings before remaining unchanged at the next four meetings. The Base Rate currently stands at 5.25%, its highest point since 2008.

Effective Date	BoE Base Rate %
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

Effective Date	BoE Base Rate %
22 Jun 2023	5.00
3 Aug 2023	5.25
21 Sep 2023	5.25
2 Nov 2023	5.25
14 Dec 2023	5.25

- 3.6 Whilst investment rates have improved recently, the Council 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 Council continues to follow advice from our Treasury Management advisors by placing funds in shorter dated liquid investments than previously.
- 3.7 Advice also confirms 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.
- 3.8 The regular updating of the Council's authorised Lending List is required to take into account financial institution mergers and changes in institutions' credit ratings. Any changes are reflected on the Approved Lending List shown in Appendix C.

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.

Fitch Long-Term Rating	Fitch Short-Term Rating	Moody's Long-Term Rating	Moody's Short-Term Rating	S&P's Long-Term Rating	S&P's Short-Term Rating	<u>Maximum Deposit</u> £m	<u>Maximum Duration</u>
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
Local Authorities (limit for each local authority)						30	2 years
UK Government (including debt management office, gilts and treasury bills)						300	2 years
Money Market Funds (CNAV, LVNAV and VNAV)* Maximum amount to be invested in Money Market Funds is £250m with a maximum of £50m in any one fund.						250	Liquid Deposits
Local Authority controlled companies						40	20 years
Strategic Partners						Maximum deposit and duration of investments with strategic partners will be based on detailed business case and will be approved by Members prior to any investment taking place	

* CNAV=Constant Net Asset Value, LVNAV=Low Volatility Net Asset Value and VNAV=Variable Net Asset Value

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 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 previously undertaken and is willing to take action to protect the UK banking system.

Country	Limit £m
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:

Sector	Limit £m
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.

Approved Lending List

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		
UK	AA-		Aa3		AA		300	
Lloyds Banking Group							Group Limit 70	
Lloyds Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Lloyds Bank Corporate Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Royal Bank of Scotland Group (See Note 1)							Group Limit 75	
The Royal Bank of Scotland Plc (RFB)	A+	F1	A1	P-1	A+	A-1	75	2 years
National Westminster Bank Plc (RFB)	A+	F1	A1	P-1	A+	A-1	75	2 years
NatWest Markets plc (NRFB)	A+	F1	A1	P-1	A	A-1	75	2 years
Santander UK plc	A+	F1	A1	P-1	A	A-1	65	365 days
Barclays Bank plc (NRFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A+	A-1	70	365 days
Clydesdale Bank	A-	F2	A3	P-2	A-	A-2	50	365 days
Co-Operative Bank Plc *	BB	B	Ba1	NP	-	-	0	
Goldman Sachs International Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
HSBC Bank plc (NRFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
HSBC UK Bank plc (RFB)	AA-	F1+	A1	P-1	A+	A-1	70	365 days
Nationwide BS	A	F1	A1	P-1	A+	A-1	65	365 days
Standard Chartered Bank	A+	F1	A1	P-1	A+	A-1	70	365 days
Close Brothers Ltd	A-	F2	Aa3	P-1	-	-	50	365 days
SMBC Bank International Ltd	A-	F1	A1	P-1	A	A-1	50	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A2	P-1			50	365 days

	Fitch		Moody's		Standard & Poor's		Limit £m	Max Deposit Period
	L Term	S Term	L Term	S Term	L Term	S Term		
Leeds BS	A-	F1	A3	P-2	-	-	50	365 days
Principality BS *	BBB+	F2	Baa1	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
Money Market Funds							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								
Australia	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
Canada	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
Denmark	AAA		Aaa		AAA		50	
Danske A/S	A+	F1	A2	P-1	A+	A-1	50	365 days
Finland	AA+		Aa1		AA+		50	
OP Corporate Bank plc	WD	WD	Aa3	P-1	AA-	A-1+	50	2 years
Germany	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
NRW Bank	AAA	F1+	Aa1	P-1	AA	A-1+	50	2 years
Netherlands	AAA		Aaa		AAA		50	
Bank Nederlandse Gemeenten	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		
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
Singapore	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
Sweden	AAA		Aaa		AAA		50	
Svenska Handelsbanken AB	AA	F1+	Aa2	P-1	AA-	A-1+	50	2 years
Switzerland	AAA		Aaa		AAA		50	
UBS AG	A+	F1	Aa2	P-1	A+	A-1	50	365 days
USA	AA+		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

Notes

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.

