

AUDIT AND GOVERNANCE COMMITTEE

22 July 2022

TREASURY MANAGEMENT – FIRST QUARTERLY REVIEW 2022/2023

Report of the Executive Director of Corporate Services

1. Purpose of Report

- 1.1 To report on the Treasury Management performance to date for the first quarter of 2022/2023.

2. Description of Decision (Recommendations)

- 2.1 The Committee is requested to:
- Note the Treasury Management performance during Quarter 1 of 2022/2023 (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 first quarter of the financial year 2022/2023, in accordance with the requirements of the Treasury Management Policy and Strategy agreed by Council.

4. Summary of Treasury Management Performance for 2022/2023 – Quarter 1

- 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 volatile. In respect of borrowing, due to delays in capital programme expenditure and some temporary use of reserves no new borrowing has been required to date during 2022/2023 but the position continues to be monitored closely.
- 4.2 No refinancing of debt has been possible in 2022/2023 during the period as rates have not been considered sufficiently favourable. The Council's average interest rate on borrowing is low, currently 2.54%, 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 advice 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 of its 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 £1,082.658m for 2022/2023. The Council's maximum external debt during the financial year to 30th June 2022 was £573.781m 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.

- 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 30th June 2022, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 1.02% compared with the benchmark SONIA (Sterling Overnight Index Average) rate of 0.89%. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council, in what remains a very challenging market.
- 4.6 More detailed Treasury Management information is included in Appendix A for Members' information.
- 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 first quarter of 2022/2023.
- 5.2 Members are requested to note the Lending List Criteria at Appendix B and the Approved Lending List at Appendix C.

Appendix A

Detailed Treasury Management Performance – Quarter 1 2022/2023

1 Borrowing Strategy and Performance – 2022/2023

- 1.1 The Borrowing Strategy for 2022/2023 was reported to Cabinet on 8th February 2022 and approved by full Council on 2nd March 2022.
- 1.2 The Borrowing Strategy is based upon interest rate forecasts from a wide cross section of City institutions. The view when the Treasury Management Policy and Strategy was drafted was that the 0.25% Bank of England (BoE) Base Rate would rise in 0.25% increments in June 2022, March 2023, March 2024 and March 2025 by which time it would stand at 1.25% within the forecast timeframe. PWLB borrowing rates were expected to rise, albeit gently, during 2022/2023 across all periods but could be subject to exceptional levels of volatility.
- 1.3 The Bank of England's (BoE) Monetary Policy Committee (MPC) voted to raise the Base Rate for a fifth consecutive meeting on 16th June 2022, taking it to 1.25%, their highest since the Global Financial Crisis. This reflects their desire to combat inflationary pressures, even at the risk hampering growth, and is reflected in their announcement that they would be alert to indications of further inflationary pressures and would act forcefully in response. They also revised down their April to June growth expectations from +0.1% to -0.3% and now expect inflation to peak at over 11% in October, reflecting the next energy price cap.
- 1.4 Despite increases in the BoE Base Rate, investment rates of return are likely to continue at lower levels. With short-term investment rates forecast to be below long-term borrowing rates, it continues to be likely that some investment balances will temporarily be used to fund long-term borrowing requirements. Such funding is wholly dependent upon market conditions and will be reassessed if the appropriate conditions arise.
- 1.5 Link Asset Services, the Authority's treasury advisors, reviewed their interest rate forecasts in June 2022 in light of continued volatility in the financial markets. They now expect the Base Rate to rise faster and further than previously forecast as the MPC seeks to combat the sharp increase in inflationary pressures. Whilst the financial markets are anticipating the Base Rate will reach 3.50% by April 2023, Link Asset Services more cautiously anticipate it peaking at 2.75% but accept there could be significant upward pressure on this projection.
- 1.6 Link Asset Services forecast the BoE Base Rate will rise to 1.75% by September 2022, 2.25% by December 2022 and peak at 2.75% by March 2023, where it will stay to the end of 2023 before gradually falling to 2.25% by the end of the forecast timeframe in June 2025. These forecasts, and MPC decisions, will be liable to further amendment as updated economic data becomes available and emerging developments in the financial markets.

1.7 The following table shows the average PWLB rates for Quarter 1.

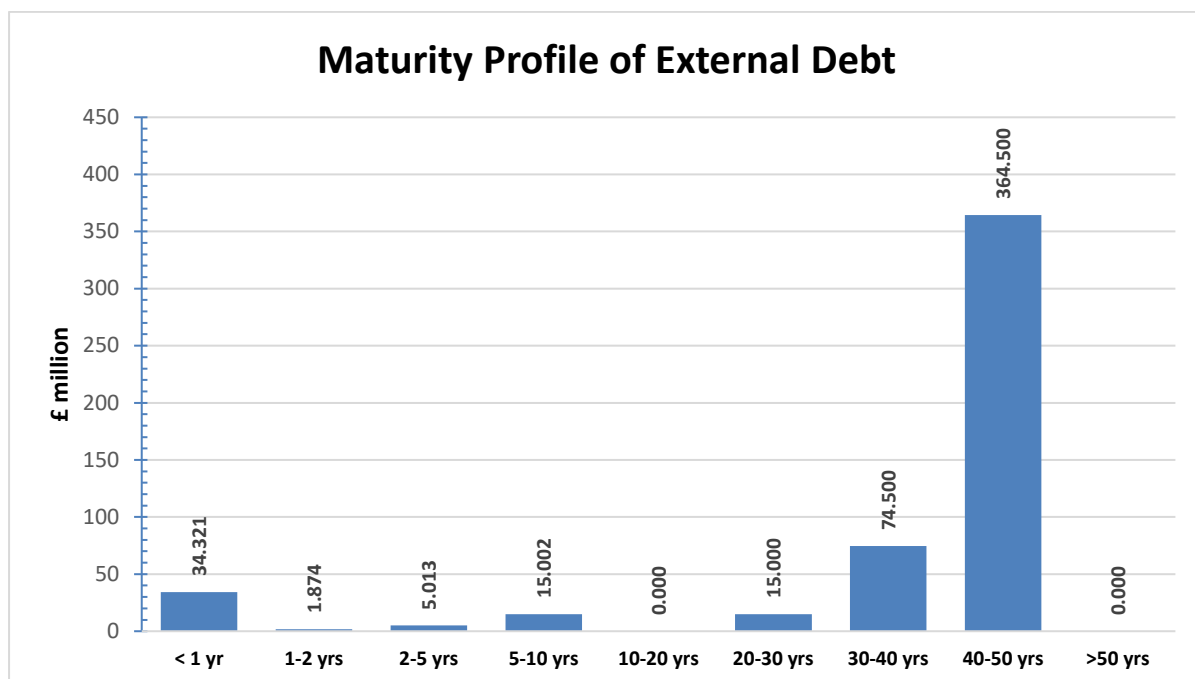
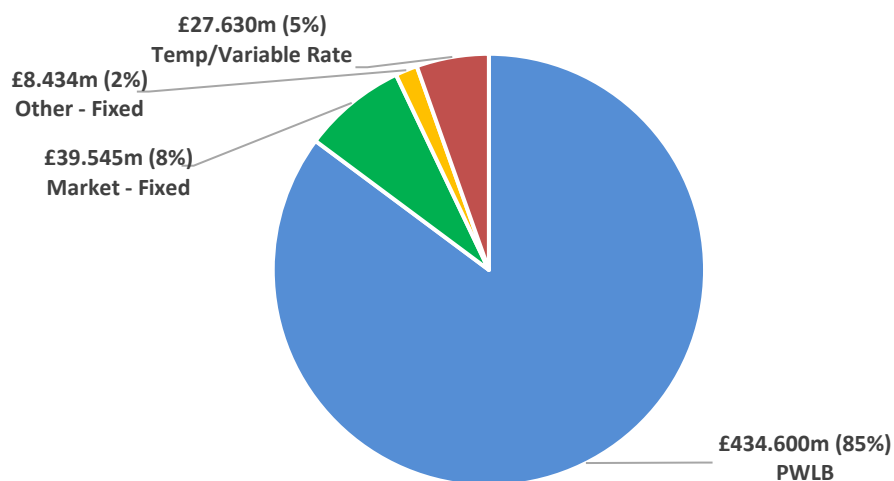
2022/2023	Qtr 1* (Apr - Jun) %
SONIA Overnight Rate	1.06
1 year	2.32*
5 years	2.58*
10 years	2.84*
25 years	3.08*
50 years	2.81*

*rates take account of the 0.20% discount to PWLB rates available to eligible authorities (including the Council) that came into effect on 1st November 2012.

- 1.8 High levels of volatility in the financial markets previous caused by Covid have been replaced in 2022/2023 by the on-going conflict between Russia and Ukraine and uncertainty over how the West will respond through additional sanctions or even military intervention. The war has added to existing inflationary pressures as economies looked to recover from the effects of Covid. Oil, gas, wheat and other mainstream commodities have risen significantly and households face an unprecedented cost-of-living squeeze. Investor cash flow uncertainties and the need to maintain liquidity during these uncertain times continues to depress short-term rates available.
- 1.9 There is expected to be a gradual upward movement in PWLB rates to the end of the 2022/2023 financial year, after which rates are anticipated to plateau before gradually falling. Link Asset Services predict a gradual rise in PWLB rates reaching 3.30%, 3.50%, 3.70% and 3.50% for 5, 10, 25 and 50-year durations respectively by 31st March 2023 before falling by 0.40% to 3.10% to March 2025. 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.
- 1.10 The strategy for 2022/2023 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 3.00% for long-term borrowing was set for 2022/2023 in light of the views prevalent at the time the Treasury Management policy was set in March 2022.
- 1.11 Due to high levels of volatility in the financial markets and delays in capital programme expenditure, no new borrowing has been undertaken in the current financial year to 30th June 2022. The Treasury Management team continues to closely monitor PWLB rates to assess the value of possible further new borrowing in line with future capital programme requirements.

1.12 The Council's treasury portfolio position at 30th June 2022 is set out below:

Borrowing Summary at: 30 June 2022			
	<u>Principal</u>	<u>Interest</u>	<u>Ave rate</u>
<u>Fixed</u>			%
PWLB	434,600,000	11,176,454	2.57
Market – Fixed	39,545,000	1,741,445	4.40
Other – Fixed	8,434,377	126	0.00
	482,579,377	12,918,025	2.68
<u>Variable</u>			
Temporary/Other – Variable	27,629,762	57,502	0.21
	27,629,762	57,502	0.21
TOTAL:	510,209,139	12,975,527	2.54



2 Prudential Indicators – 2022/2023

- 2.1 All external borrowing and investments undertaken in 2022/2023 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 all of 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 2022/2023 as follows:

	£m
Borrowing	939.926
Other Long-Term Liabilities	142.732
Total	1,082.658

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

	£m
Borrowing	914.926
Other Long-Term Liabilities	142.732
Total	1,057.658

The Council's maximum external debt in respect of 2022/2023 (to 30th June 2022) was £573.781m 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:

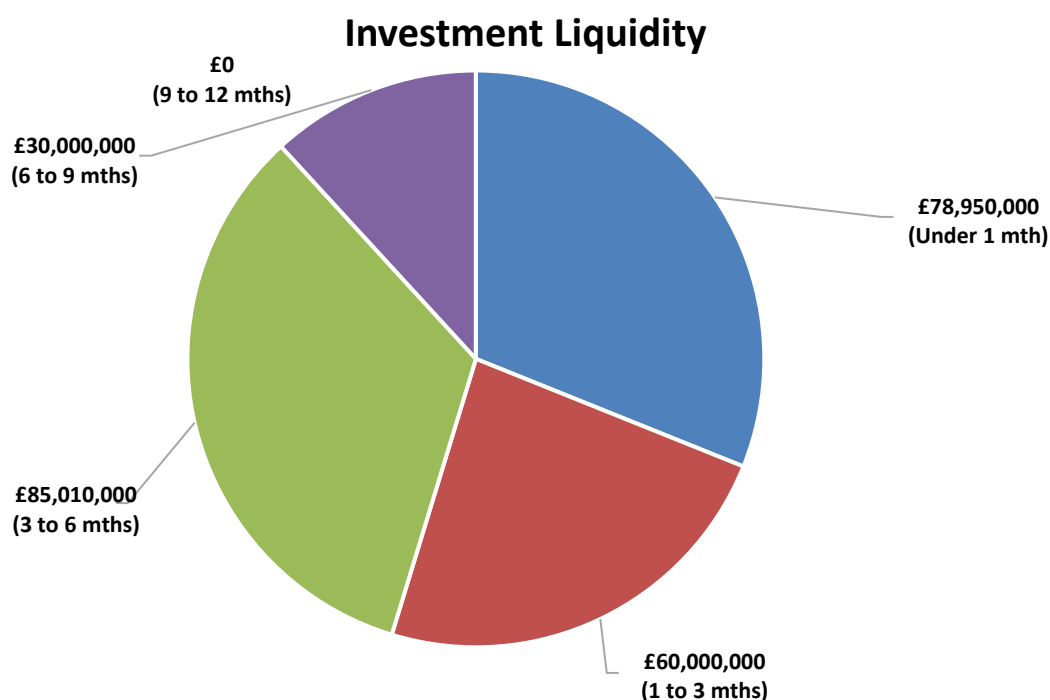
Prudential Indicators		2022/2023 (at 30/06/22)	
		Limit	Actual
P9	Maturity Pattern	Upper Limit	
	Under 12 months	50%	6.74%
	12 months and within 24 months	60%	0.37%
	24 months and within 5 years	80%	0.98%
	5 years plus	100%	91.92%
	(A lower limit of 0% for all periods)		
P10	Upper limit for total principal sums invested for over 365 days	75,000	0

3 Investment Strategy – 2022/2023

- 3.1 The Investment Strategy for 2022/2023 was approved by Council on 2nd March 2022. 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 30th June 2022, the funds managed by the Council's in-house team amounted to £253.960 million and all investments complied with the Annual Investment Strategy.

Investment Summary at: 30 June 2022					
Borrower	Duration	Amount of Loan	Rate (%)	Start Date	Maturity Date
Call Accounts:					
NatWest SIBA	Overnight	1,400,000	0.010		Call
Prime MMF	Overnight	31,900,000	1.120		Call
Aberdeen Liquidity Fund	Overnight	45,650,000	1.078		Call
Lloyds Banking Group Ltd	95d Notice	10,000	0.050		95 Day Notice
Sub-total:		78,960,000			
Fixed Term Deposits:					
Standard Chartered Bank	184 days	20,000,000	1.420	21-Mar-22	21-Sep-22
Yorkshire Building Society	273 days	15,000,000	1.230	07-Feb-22	07-Nov-22
SMBC	92 days	40,000,000	1.470	07-Jun-22	07-Sep-22
Standard Chartered Bank	183 days	30,000,000	1.820	07-Jun-22	07-Dec-22
Goldman Sachs	183 days	10,000,000	1.890	07-Jun-22	07-Dec-22
Goldman Sachs	364 days	30,000,000	0.770	10-Dec-21	09-Dec-22
Goldman Sachs Int Bank	358 days	10,000,000	1.505	08-Feb-22	01-Feb-23
Goldman Sachs Int Bank	364 days	20,000,000	1.525	08-Feb-22	07-Feb-23
Sub-total:		175,000,000			
TOTAL:		253,960,000			



- 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.

	2022/2023 Actual to 30/06/22 %	2021/2022 Benchmark to 30/06/22 %
Return on investments	1.02	0.89

- 3.4 Investments placed in 2022/2023 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 remain lower than those achieved in previous years but have started to rise, albeit slowly, following a series of Base Rate increases announced by the Bank of England's Monetary Policy Committee (MPC). In the 6 months since the MPC voted to raise the Base Rate by 0.15% to 0.25% at its meeting on 16th December 2021, there have been four subsequent rises of 0.25% in February, March, May and June 2022. The Base Rate currently stands at 1.25% with the prospect of further increases expected.
- 3.6 Due to the continuing volatility in the financial markets resulting from Covid-19 and the ongoing conflict in Ukraine, the Council has followed advice from our Treasury Management advisers and has operated a more risk adverse strategy by placing funds in shorter dated liquid investments than previously.
- 3.7 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.
- 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	Maximum Deposit £m	Maximum Duration
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	

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:

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.

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			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
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	65	365 days
Barclays Bank plc (RFB)	A+	F1	A1	P-1	A	A-1	65	365 days
Clydesdale Bank */**	A-	F2	A3	P-2	A-	A-2	50	365 days
Co-Operative Bank Plc **	B+	B	Ba2	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	65	365 days
Top Building Societies (by asset value)								
Nationwide BS (see above)								
Coventry BS	A-	F1	A1	P-1	A+	A-1	50	365 days

	Fitch		Moody's		Standard & Poor's			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
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
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			
	L Term	S Term	L Term	S Term	L Term	S Term	Limit £m	Max Deposit Period
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+		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	
Credit Suisse AG	A-	F1	A1	P-1	A	A-1	50	365 days
UBS AG	AA-	F1+	Aa2	P-1	A+	A-1	50	365 days
USA	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

Strategic Partners

Cabinet, at its October 2020 meeting, endorsed an unsecured investment with Education Partnership North East (EPNE), based on a detailed business plan, in order to ensure the medium-term financial stability of a key partner in the delivery of the City Plan. As at the 30th June 2022 there have been no funds drawdown by EPNE.

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.

/* The Clydesdale Bank (under the UK section) is owned by National Australia Bank

****** 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.

