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<b>Report To:</b>	<b>Policy &amp; Resources Committee</b>	<b>Date:</b>	<b>15 November 2022</b>
<b>Report By:</b>	<b>Interim Director, Finance &amp; Corporate Governance</b>	<b>Report No:</b>	<b>FIN/65/22/AP/KJ</b>
<b>Contact Officer:</b>	<b>Alan Puckrin</b>	<b>Contact No:</b>	<b>01475 712223</b>
<b>Subject:</b>	<b>Treasury Management – Mid-Year Report 2022/23</b>		

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## **1.0 PURPOSE AND SUMMARY**

1.1  For Decision  For Information/Noting

1.2 The purpose of this report is:

- a. To advise the Committee of the operation of the treasury function and its activities for the first six months of 2022/23 as required under the terms of Treasury Management Practice 6 (“TMP6”) on “Reporting Requirements and Management Information Arrangements”.
- b. To request that the Committee remits the report to the Full Council for their approval.

1.3 As at 30 September 2022 the Council had gross external debt (including PPP) of £238,424,121 and investments (cash balances managed in house) of £53,834,980. This compares to gross external debt (including PPP) of £246,163,995 and investments of £34,338,655 at 31 March 2022. £7.0 million of the reduction is due to the early repayment of PWLB debt which arose from the spike in interest rates following the former Chancellor’s 23 September statement.

1.4 The Council operated within the required treasury limits and Prudential Indicators for the year set out in the Council’s Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.

## **2.0 RECOMMENDATIONS**

2.1 It is recommended that the Committee notes the contents of the Mid-Year Report on Treasury Management for 2022/23 and the ongoing work to seek to ensure the delivery of financial benefits for the Council during the current uncertainty and beyond.

2.2 It is requested that the Committee remits the report to the Full Council for approval.

**Alan Puckrin**  
**Interim Director Finance & Corporate Governance**

### 3.0 BACKGROUND AND CONTEXT

- 3.1 The Council is required by the revised CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities to produce a mid-year treasury management review of activities and prudential and treasury indicators for 2022/23.
- 3.2 Treasury Management in this context is defined as: “The management of the local 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 optimum performance consistent with those risks.”
- 3.3 The treasury management issues arising during the first six months of 2022/23 were:
- a. The Council’s debt (including PPP) has reduced during the period by £7,739,874 due largely to the early repayment of 2 PWLB loans totalling £7,000,000 plus regular monthly repayments on the PPP contract.
  - b. The Council’s investments have increased by £19,496,325 due to additional net cash flows into the Council including funds held for the IJB.
  - c. As at 31 March 2022 the Council had under borrowed against its capital financing requirement by £32,306,000. The latest projection is for the under borrowing to increase to £52,991,000 as at 31 March 2023. Under borrowing means that the Council is using funds it currently has to cash flow capital expenditure rather than bringing in funds from borrowing. The projected level of under borrowing is considered manageable but the position is kept under review in light of Council capital financing and other funding requirements.
  - d. There is considerable financial market volatility and economic uncertainty in the UK and around the world largely caused by the impact of inflation, rising interest rates, commodity prices and supplies, and the conflict in Ukraine.
  - e. The forecast in February 2022 was for the Bank Rate to rise to 1.25% by the end of 2022 and remain at that level until at least March 2025. The situation is significantly different now with Bank Rate raised to 2.25% in September and forecast to be as high as 4.00% at the end of 2022 and increasing to 5.00% in early 2023 before gradually dropping to 2.50% by September 2025.
  - f. PWLB rates for new borrowing had been expected to remain largely unchanged through to March 2025 but there have instead been increases in PWLB rates particularly in August and then even higher in September. Rates increased by around 2.80% for shorter periods and by around 1.80% for longer periods. The volatility during the 6-month period resulted in spreads between the high and low rates for some loan periods of up to 3.34% (e.g. borrowing rates for 3 years of 2.08% in May were 5.45% in late September).
  - g. The Council’s treasury advisers expect PWLB rates to remain at around current elevated levels over the remainder of the financial year then falling slowly but the extent and speed of any changes to rates will depend on the economic and other factors affecting the UK and global markets.
  - h. The Council has not undertaken any new borrowing during the period. The current projection was for £7,600,000 of borrowing to fund the repayment of PWLB borrowing maturing in January but given the strong cashflow position this now looks unlikely. Borrowing may be undertaken if funds are required and if it is prudent to borrow. Any borrowing undertaken will be reported to Committee.
  - i. The higher PWLB rates at the end of September gave the opportunity for the Council to repay some PWLB debt early using investments. The Council repaid £7,000,000 of PWLB borrowing early and received a discount of £62,200 for doing so (lower PWLB rates would have meant the Council paying a large premium for repaying early). The average interest rate for the repaid debt was 3.77% and Officers would plan to borrow at a lower rate than this in 2023/24.
  - j. The Council did not undertake any other debt restructuring during the first six months of 2022/23 and remained within its Prudential Indicator and Treasury Management limits.

- k. With Bank Rate increases during the period (from 0.75% up to 2.25%), more increases forecast, and the rate of increase uncertain, investment rates are above the current Bank Rate but varying depending on market expectations.
- l. The Council's investments earned a rate of return of 1.31% during the period. This was lower than the SONIA benchmark by 0.39% due largely to the benchmark rate being affected by market expectations of further Bank Rate increases.
- m. All investments were in accordance with the Council's investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the period.
- n. The Council's investments were with counterparties that have high creditworthiness (the Bank of Scotland, Santander UK, NatWest Bank PLC, and Nationwide Building Society) and in accordance with the Council's investment strategy.

3.4 The Council's debt position was as follows:

	At 31 March 2022	At 30 September 2022
	£	£
Total Excluding PPP	188,748,995	181,761,121
PPP Debt	57,415,000	56,663,000
Total Including PPP	246,163,995	238,424,121

Further detail is given in the following table:

	At 31 March 2022		At 30 September 2022		Movement In Period
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	89,029		81,985		(7,044)
- Market *	71,000		55,000		(16,000)
	160,029	3.84%	136,985	3.73%	(23,044)
Variable Rate Funding:					
- PWLB	0		0		0
- Market *	28,400		44,400		16,000
- Temporary #	320		376		56
	28,720	4.87%	44,776	4.85%	16,056
Total Debt (Excl PPP)	188,749	4.00%	181,761	4.01%	(6,988)
PPP Debt	57,415		56,663		(752)
Total Debt (Incl PPP)	246,164		238,424		(7,740)

\* - Market Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of Market Loans has not changed during the period, just the split between fixed and variable.

# - Temporary Loans are funds held by the Council on behalf of the Common Good and Trust Funds that are treated as borrowing for Treasury Management purposes.

3.5 The Council's investment position was as follows:

	At 31 March 2022		At 30 September 2022		Movement In Period
	Principal	Return	Principal	Return	Principal
	£000		£000		£000
Investments:					
- Fixed Term Deposits	0	0.00%	15,000	2.48%	15,000
- Notice Accounts	14,594	0.55%	36	1.59%	(14,558)
- Deposit Accounts	19,745	0.66%	38,799	2.16%	19,054
Totals	34,339	0.61%	53,835	2.22%	19,496

Maximum level of investments in period: £59,173,693 on 15 August 2022

Minimum level of investments in period: £30,684,072 on 29 April 2022

Daily average for the period: £45,357,928

An analysis of the above investments is shown in Appendix 1.

In addition to the above cash balances managed in-house, the Council has other transactions/balances required to be treated as investments under Investment Regulation 31. Appendix 2 includes these transactions/balances along with estimates for 2022/23.

3.6 2022/23 Latest Projection Compared to Estimates in 2022/23 Strategy

The latest 2022/23 projection compared to the estimates in the 2022/23 strategy:

	2022/23 Estimate	2022/23 Latest Projection
<u>Borrowing Requirement</u>	£000	£000
New borrowing	7,400	0
Alternative financing requirements	0	0
Replacement borrowing	7,600	0
TOTAL	15,000	0
<u>Prudential/Treasury Management Indicators</u>		
	£000	£000
Capital financing requirement (As at 31 March 2023)	283,887	283,091
Gross external debt including PPP (As at 31 March 2023)	251,581	230,100
(Under)/over borrowing against CFR	(32,306)	(52,991)
	£000	£000
Gross Capital Expenditure	18,892	22,436
Ratio of financing costs (including PPP) to net revenue stream	10.49%	10.22%
Ratio of net debt (debt and PPP less investments) to net revenue stream	100.5%	96.9%

3.7 2022/23 Mid-Year Position Compared to Limits in 2022/23 Strategy

The 2022/23 mid-year position compared to limits in the 2022/23 strategy:

Prudential/Treasury Management Indicators

Authorised limit for external debt

- Borrowing
- Other long-term liabilities

Operational boundary for external debt

- Borrowing
- Other long-term liabilities

Upper limit on sums invested for periods longer than 365 days (Actual is maximum in period)

Upper limits on Fixed/Variable borrowing maturing in each period (LOBOs included based on call dates and not maturity dates) at end of period

- Under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and within 30 years
- 30 years and within 50 years
- 50 years and within 70 years

Council Policy Limits

Maximum Percentage of Debt Repayable In Year

Maximum Proportion of Debt At Variable Rates

Maximum Percentage of Debt Restructured In Year

2022/23 Limits		2022/23 Mid-Year Actual Position	
£000		£000	
230,000		181,761	
58,000		56,663	
288,000		238,424	
£000		£000	
212,000		181,761	
58,000		56,663	
270,000		238,424	
£000		£000	
10,000		0	
Fixed	Var.	Fixed	Var.
45%	35%	4.2%	24.6%
45%	35%	12.4%	-
45%	35%	0.7%	-
45%	35%	11.0%	-
45%	35%	4.2%	-
45%	35%	20.9%	-
45%	35%	22.0%	-
25%		22.0%	
45%		24.6%	
30%		3.7%	

3.8 The forecasts from the Treasury Advisors for the Bank Rate as at 31 March each year are:

	Forecast Per 2022/23 Strategy (February 2022)	Latest Forecast (September 2022)
2022/23	0.75%	5.00%
2023/24	1.25%	4.00%
2024/25	1.25%	2.75%

3.9 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was included in the annual investment strategy approved by the Council. This policy sets out the approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps, bank share prices etc.

- 3.10 All investments were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full during the period.

The result of the investment strategy undertaken by the Council in the first six months of 2022/23 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3 month SONIA compounded)
£45,357,928	1.31%	1.70%

The Council's return was lower than the benchmark by 0.39% due largely to SONIA including market expectations of further Bank Rate increases.

#### 4.0 PROPOSALS

- 4.1 It is proposed that the Committee consider the contents of Section 3 of the report, seek any assurances from Officers, and thereafter remit the Mid-Year Report to the Council for approval.

#### 5.0 IMPLICATIONS

- 5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO	N/A
Financial		X	
Legal/Risk		X	
Human Resources			X
Strategic (LOIP/Corporate Plan)			X
Equalities & Fairer Scotland Duty			X
Children & Young People's Rights & Wellbeing			X
Environmental & Sustainability			X
Data Protection			X

#### 5.2 Finance

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

## Annually Recurring Costs/ (Savings)

<b>Cost Centre</b>	<b>Budget Heading</b>	<b>With Effect from</b>	<b>Annual Net Impact</b>	<b>Virement From (If Applicable)</b>	<b>Other Comments</b>
N/A					

The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

### 5.3 **Legal/Risk**

None. Any borrowing or lending is done under the Council's legal powers.

### 5.4 **Human Resources**

None.

### 5.5 **Strategic (LOIP/Corporate Plan)**

None.

## 6.0 **CONSULTATION**

6.1 This report includes the latest advice from the Council's treasury consultants (Link Treasury Services Limited).

## 7.0 **BACKGROUND PAPERS**

7.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition  
Inverclyde Council – Treasury Management Strategy Statement and Annual Investment Strategy 2022/23-2025/26.

**Appendix 1****CASH BALANCES MANAGED IN-HOUSE  
ACTUAL AS AT 31 MARCH 2022 AND 30 SEPTEMBER 2022**

The following is an analysis of cash balances managed in-house as at 31 March 2022 and at 30 September 2022:

	<b>As At 31 March 2022</b>	<b>As At 30 September 2022</b>
	£	£
<u>Fixed Term Deposits</u>		
Bank of Scotland	0	0
NatWest Bank PLC	0	10,000,000
Nationwide Building Society	0	5,000,000
	0	15,000,000
Average Interest Rate	0.00%	2.48%
<u>Notice Accounts</u>		
Bank of Scotland	0	0
Santander UK	14,593,749	35,873
	14,593,749	35,873
Average Interest Rate	0.55%	1.59%
<u>Deposit Accounts</u>		
Bank of Scotland	19,744,400	38,798,600
Santander UK	506	507
	19,744,906	38,799,107
Average Interest Rate	0.66%	2.16%
<b>TOTAL</b>	<b>34,338,655</b>	<b>53,834,980</b>
Average Interest Rate	0.61%	2.25%

Since 30 September 2022, the Council has repaid £7m of PWLB debt (receiving a net £62k discount) and entered into a £7m Fixed Term Deposit with Bank of Scotland.

**Appendix 2****FORECAST OF INVESTMENT BALANCES  
ESTIMATE FOR 2022/23 AND ACTUAL AT 30 SEPTEMBER 2022**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2022/23 and the actual as at 30 September 2022 are:

	<b>2022/23</b>	<b>2022/23</b>
	<b>Estimate For Year</b>	<b>Actual For 1 April 2022 To 30 September 2022</b>
	£000	£000
Cash balances managed in-house		
- At Start of Year	35,000	34,339
- At End of Year/Period	32,151	53,835
- Change in Year/Period	(2,849)	19,496
- Average daily cash balances	33,576	45,358
Holdings of shares, bonds, units (includes local authority owned company)		
- At Start of Year	2	2
- Purchases	0	0
- Sales	0	0
- At End of Year/Period	2	2
Loans to local authority company or other entity to deliver services		
- At Start of Year	354	354
- Advances	235	0
- Repayments	58	23
- At End of Year/Period	531	331
Loans made to third parties		
- At Start of Year	113	120
- Advances	0	5
- Repayments	24	10
- At End of Year/Period	89	115
Total of all investments		
- At Start of Year	35,469	34,815
- At End of Year/Period	32,773	54,283
- Change in Year/Period	(2,696)	19,468

The loans made to third parties includes a £50,000 loan to Shared Interest Society Limited ("Shared Interest") as approved by the Policy & Resources Committee in August 2017. Shared Interest is a company that uses funds invested by individuals and organisations to allow it to provide loans to fair trade businesses around the world.