

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

INFORMATION

Meeting date: 8 NOVEMBER 2022
title: TREASURY MANAGEMENT MONITORING 2022/23
submitted by: DIRECTOR OF RESOURCES
principal author: VALERIE TAYLOR

1 PURPOSE

- 1.1 To provide you with a detailed monitoring report on our treasury management activities for the period 1 April 2022 to 30 September 2022.
- 1.2 Relevance to the Council's ambitions and priorities:
 - In accordance with the corporate strategy priority -"to ensure a well-managed Council, by maintaining critical financial management and controls." This report provides members with information regarding the treasury management activities for the period.
- 1.3 In accordance with our treasury management policy, committee receive regular monitoring reports on treasury management activities throughout the financial year.

2 BACKGROUND

- 2.1 Treasury management within an organisation is the '*management of the organisation's borrowing, 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*'
- 2.2 The council's approach to treasury management is set out in its 'Treasury Management Policies and Practices' document which governs the way that investments and cashflows are managed. It is reviewed annually to ensure continued compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice.
- 2.3 Treasury Management Policies and Practices were reviewed in advance of the 2022/23 financial year and were approved by this committee in March 2022 prior to full council in April 2022.

3 TEMPORARY INVESTMENTS

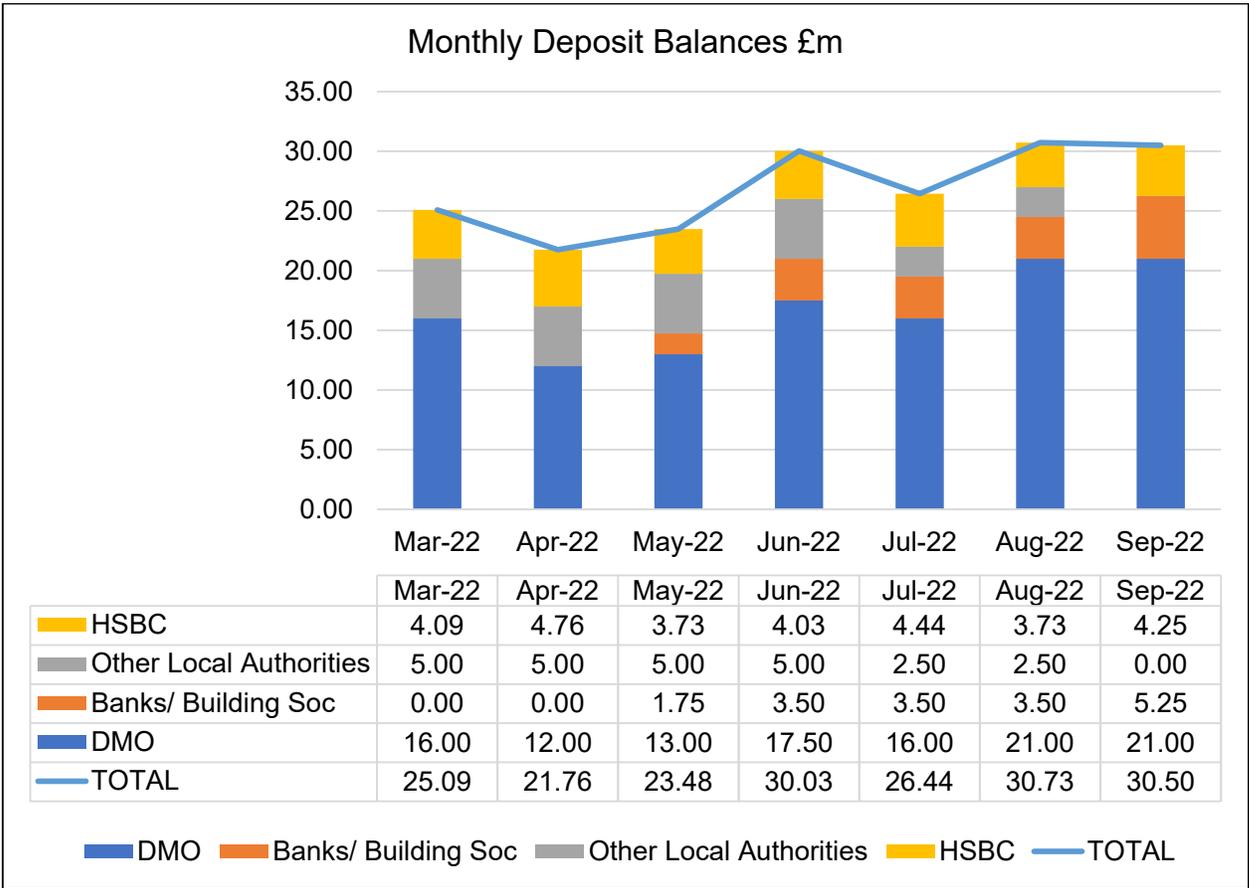
- 3.1 In accordance with the approved treasury management policies and practices, surplus funds are temporarily invested via the money market at the best rate of interest available and with the minimisation of risk to the capital sum. Investment decisions continue to be primarily concerned with the security of the funds invested and ongoing liquidity to meet financial commitments.
- 3.2 The movement in the Council's external investments during the reporting period are summarised below:

	Banks/ Building Societies £000	DMO £000	Other Local Authorities £000	Total £000
Monies invested at 1 April 2022	0	16,000	5,000	21,000
Net Movement	5,250	5,000	-5,000	5,250
Fixed term deposits at 30 September 2022	5,250	21,000	0	26,250
Add funds held with HSBC	4,250	0	0	4,250
Sum of all funds invested				30,500
Interest earned April – September 2022				147

3.3 Funds invested at 30 September were held with the following organisations:

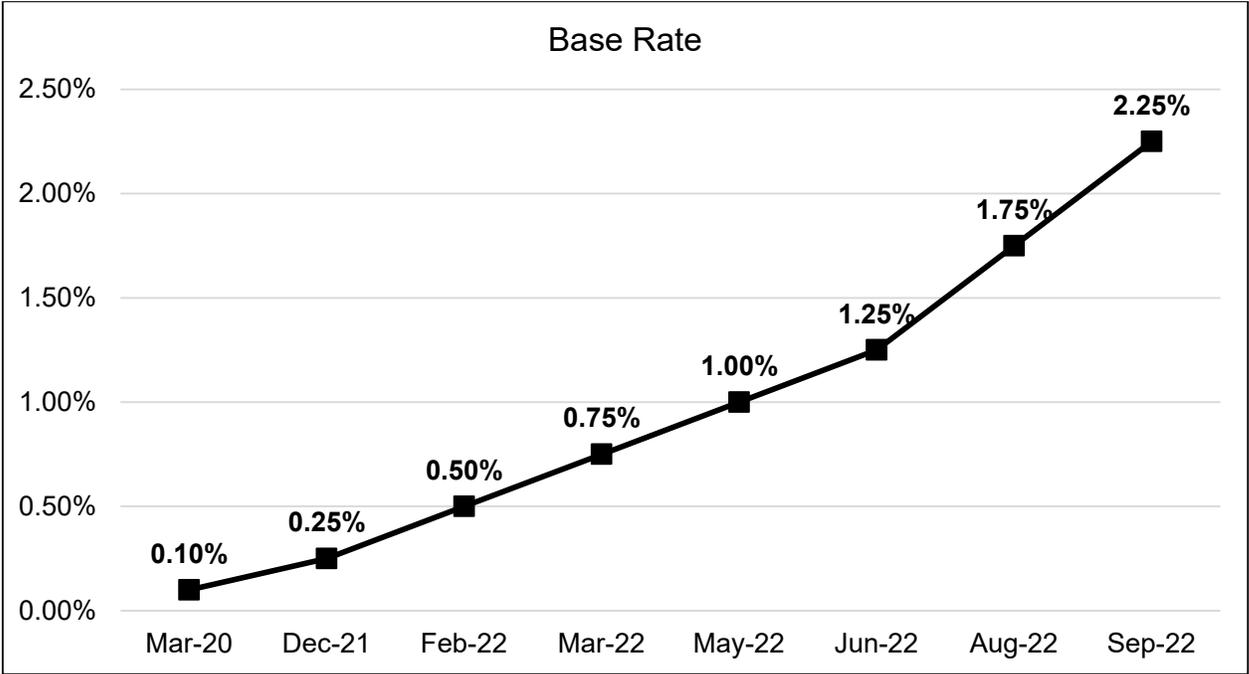
Borrower	Date Invested	Date of Repayment	Rate %	£'000
Leeds Building Society	11/05/2022	28/11/2022	1.32%	1,750
Yorkshire Building Society	30/06/2022	30/03/2023	2.16%	1,750
Santander UK plc	26/09/2022	06/01/2023	3.63%	1,750
Total funds invested with Banks and Building Societies				5,250
Debt Management Office (DMO)	30/09/2022	07/10/2022	1.87%	21,000
Total funds invested with the Debt Management Office				21,000
SUM of fixed term deposits				26,250
Add funds held with HSBC				4,250
SUM of all investments at 30 September 2022				30,500

3.4 A detailed listing of investments placed and repaid during the reporting period is available in Annex 1. A summary of end of month balances is shown below:



4 INTEREST ON INVESTMENTS

4.1 The Bank of England base rate has increased as follows over the previous twelve months:



- 4.2 The increases to the base rate this year have enabled the council to secure returns on investments for the April to September period of £147,078, which compares to £1,993 during the same period in 2021 when the base rate was at 0.10%.
- 4.3 Income received is higher than estimated in the budget forecast for the reporting period and has exceeded the annual estimate for the year. An update to the estimated income will be proposed when the council's budgets are revised later on in the financial year:

Interest earned on investments April – September 2022*	Annual budget	April – September budget Original estimate
-147,078	-£50,000	-£25,000

**Including interest earned on balances held with HSBC the council's banking provider*

5 PROSPECTS FOR INTEREST RATES

- 5.1 Market base rate predictions mid-October estimated further increases to the base rate over the next few months that will peak at 5.5% in May 2023.
- 5.2 These predictions include an estimated increase to the base rate of 0.75% at the November meeting of the Monetary Policy Committee. Market predictions are by no means certain given a recent comment by a Deputy Governor of the Bank of England who said that "whether interest rates have to rise by quite as much as currently priced in financial markets remains to be seen".
- 5.3 We will continue to monitor the interest rates of our counterparties as they are updated over the next few months so that we may take advantage of more preferential interest rates as they become available.

6 LOCAL GOVERNMENT BONDS AGENCY

- 6.1 The Council has one longer-term investment of £10,000 which was placed with the Local Government Bonds Agency in 2014. The agency is a freestanding independent body that is owned by the local government sector with the purpose of raising money efficiently on the capital markets at regular intervals to on-lend to participating bodies.
- 6.2 The contribution that we have invested will be returned to us after 10 years of successful operations of the agency, together with interest which will be earned at commercial rates.

7 BORROWING

- 7.1 Changes to the Bank of England base rate only impact on the amount of interest received on our temporary investments as all interest payable on the Council's long-term loan debt from the Public Works Loan Board (PWLB) is at fixed interest rates.
- 7.2 Principal local authorities previously could qualify for a discounted rate by submitting an optional Certainty Rate return. Since November 2020, principal local authorities have been required to submit a Certainty Rate return, that includes a high level description of their capital spending and financing plans for the following three years, as a condition of accessing the PWLB.
- 7.3 As a result, the Certainty Rate is now the default rate that principal local authorities borrow at. The council has submitted the required information and retains access to the PWLB borrowing facility.

8 BORROWING REQUIREMENTS

- 8.1 There has been a reduction in the Council's level of external borrowing following payment of the half yearly instalment to the PWLB in September:

	Total £000
External Debt at 1 April 2022	105
Transactions - New Loans	0
- Repayments	-5
External debt at 30 September 2022	100

- 8.2 No temporary loans were taken out in the current financial period up to 30 September 2022, or in the same period in 2021.

- 8.3 The remaining level of PWLB debt shown above is to be repaid early on the 1 November 2022 which will mean that after that date the council will have no external debt.

9 PRUDENTIAL INDICATORS

- 9.1 Local authorities in England and Wales are required by the Local Government Act 2003 to have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities.

- 9.2 In March 2022 this Committee approved a combined Capital and Treasury Management Strategy for 2022/ 2023 which includes a number of prudential indicators.

- 9.3 These prudential indicators are designed to deliver accountability in taking capital financing, borrowing and treasury management decisions.

- 9.4 The treasury management specific indicators which form part of the prudential code are the following:

- **Authorised limit for external debt**

This sets a limit on the amount of external borrowing that reflects a level of borrowing, which while not desired, could be afforded but may not be sustainable. It is the upper limit on the level of gross external indebtedness, which must not be breached without council approval. It is the **worse-case scenario**.

- **Operational boundary for external debt**

This indicator focuses on the day-to-day treasury management activity within the Council and reflects the most likely prudent but not worse-case scenario. Any sustained breaches to this boundary would give an indication that the Council may be in danger of stepping beyond the prudential boundaries it has set itself.

- 9.5 The Council's actual long-term debt at 30 September 2022 compared to the approved authorised limit and operational boundary indicators is as follows:

Prudential Indicator	Authorised Limit £000's	Operational Boundary £000's	Actual as at 30 September 2022 £000's
Borrowing	15,968	2,794	100
Other Long-Term liabilities	0	0	0

9.6 The Treasury Management code requires that where an authority invests, or plans to invest, for periods of longer than one year that an upper limit for investments maturing in excess of this timeframe is set. This council currently has a policy of not investing for periods of longer than one year and so no upper limits have been set and no investments have been made in the reporting period for longer than 365 days.

10 APPROVED ORGANISATIONS

10.1 Principally, Fitch credit ratings are used as an indication of the probability of organisations defaulting on our investments. Definitions for the ratings are provided at Annex 2.

10.2 The ratings show an indication of the current credit position and are monitored on a regular basis with any significant changes to be reported to this committee. Prior to investing any monies on a day to day basis the ratings given by rating agents S&P Global Ratings and Moody's are also monitored and considered alongside the Fitch ratings. The full list of ratings for our approved institutions at 30 September 2022 is shown at Annex 3.

10.3 Investments with Building Societies are limited to the top eight building societies based on their total assets (provided they are included in Fitch ratings). Two of the top building societies do not currently have a Fitch rating, leaving the top six building societies based on their total assets:

Name	Full Transaction Review Date	Fitch Rating	
		Long Term	Short Term
Nationwide	20/01/2022	A	F1
Coventry	17/11/2021	A-	F1
Yorkshire	17/11/2021	A-	F1
Skipton	17/11/2021	A-	F1
Leeds	17/11/2021	A-	F1
Principality	17/11/2021	BBB+	F2

10.4 The banks we use are reviewed annually as part of the Treasury Management Policies and Practices to take into account their Fitch IBCA long-term and short-term credit rating. The Council has a policy to only use institutions with a short-term Fitch rating of F2 or above. The banks on the Council's approved list meeting this requirement at 30 September 2022 are as follows:

Name	Fitch's Full Transaction Review Date	Long Term	Short Term
Santander UK Plc	20/01/2022	A+	F1
Barclays Bank Plc	13/09/2022	A	F1
Bank of Scotland Plc	19/01/2022	A+	F1
HSBC Bank Plc	23/09/2022	AA-	F1+
Lloyds Bank Plc	19/01/2022	A+	F1
National Westminster Bank Plc	19/01/2022	A+	F1
Royal Bank of Scotland Plc (The)	19/01/2022	A+	F1

10.5 In addition to the building societies and banks we use for investments, also approved for use are other Local Authorities and the United Kingdom Debt Management Office, where the Government guarantees investments.

11 RECENT EVENTS

11.1 The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet a 2% inflation target.

11.2 At its meeting in September 2022 the MPC voted by a majority to increase the base rate by 0.5%, to 2.25%. Five members voted for this increase, three members preferred to increase the rate by 0.75% and one member preferred to increase the rate by 0.25%.

11.3 The MPC are projecting inflation to remain over 10% over the next few months, before starting to fall back. The Committee are next due to meet in early November and it is expected that we will see a further increase to the base rate at this time.

12 EXPOSURE TO RISK

12.1 A prudent approach is adopted for all future cashflow projections, ensuring that estimated cash commitments will not be underestimated during the current climate of rising inflation, and that estimated cash inflows are not overstated, particularly as the UK is now forecast to move into recession towards the end of 2022.

12.2 The increasing Bank of England base rate will not impact on the revenue cost of the council's loan portfolio as there are currently no additional short or long-term external borrowing requirements above existing debt which is held at fixed rates. The revenue impact of rising interest rates will be factored into any future capital borrowing decisions.

12.3 We are maintaining liquid funds to allow us to deposit with counterparties at more preferential interest rates as these are increased in response to forecasted changes to the Bank of England base rate.

12.4 To ensure that our exposure to all treasury management risk is limited as far as possible, we continue with the following measures:

- Daily early morning discussions concerning the latest position:
- Lending arrangements
- A review of the Markets
- A review of our current investments and whether we consider they are still safe
- Institution Ratings
- Close monitoring of our cash flow position and estimates
- Authorisation prior to investments with either the Director of Resources or the Head of Financial Services
- Keep Leader/Chief Executive informed of any developments when necessary
- Look to arrange new secure options for investments as necessary.

13 CONCLUSION

- 13.1 Through the careful investment of sums in line with the Council's strategy the level of risk to our investments has been kept to a minimum.
- 13.2 Due to the continued uncertainty in the global economy, a prudent approach continues to be followed in the investment of any surplus cash balances on a day to day basis, ensuring continuing liquidity and security of the council's investments.
- 13.3 After the 1 November the council will be in a position where it has no remaining external debt, following the early repayment of the remaining PWLB loan.

SENIOR ACCOUNTANT

DIRECTOR OF RESOURCES

PF60-22/VT/AC

23 OCTOBER 2022

For further information please ask for Valerie Taylor

**POLICY AND FINANCE COMMITTEE
TEMPORARY INVESTMENT ACTIVITY – 2022/23**

ANNEX 1

Reference	Organisation	Invested £	Date invested	Interest rate	Date of maturity	Interest to 30/09/2022 £	Principal Repaid £	Long Term Rating	Short Term Rating
Investments brought forward into 2022/23									
18_7	Aberdeen Council	2,500,000	22/03/2022	0.75%	04/07/2022	-5,342.47	-2,500,000	n/a	n/a
<i>Less interest accrued during 2021/22</i>						513.70			
67	Thurrock Borough Council	2,500,000	23/03/2022	1.00%	23/09/2022	-12,602.74	-2,500,000	n/a	n/a
<i>Less interest accrued during 2021/22</i>						616.44			
68	Debt Management Office	14,000,000	29/03/2022	0.55%	04/04/2022	-1,265.75	-14,000,000	n/a	n/a
<i>Less interest accrued during 2021/22</i>						632.88			
70	Debt Management Office	2,000,000	31/03/2022	0.52%	04/04/2022	-113.97	-2,000,000	n/a	n/a
						28.49			
Investments placed April - September 2022									
1	Debt Management Office	16,500,000	04/04/2022	0.55%	11/04/2022	-1,740.41	-16,500,000	n/a	n/a
2	Debt Management Office	5,000,000	11/04/2022	0.55%	14/04/2022	-226.03	-5,000,000	n/a	n/a
3	Debt Management Office	11,000,000	11/04/2022	0.55%	19/04/2022	-1,326.03	-11,000,000	n/a	n/a
4	Debt Management Office	11,000,000	19/04/2022	0.55%	25/04/2022	-994.52	-11,000,000	n/a	n/a
5	Debt Management Office	12,000,000	25/04/2022	0.55%	03/05/2022	-1,446.58	-12,000,000	n/a	n/a
6	Debt Management Office	16,000,000	03/05/2022	0.55%	04/05/2022	-241.10	-16,000,000	n/a	n/a
7	Debt Management Office	14,000,000	04/05/2022	0.84%	19/05/2022	-4,832.88	-14,000,000	n/a	n/a
8	Leeds Building Society	1,750,000	11/05/2022	1.32%	28/11/2022	-8,986.85	Still invested	A-	F1
9	Debt Management Office	12,000,000	19/05/2022	0.80%	25/05/2022	-1,578.08	-12,000,000	n/a	n/a
10	Debt Management Office	9,000,000	25/05/2022	0.80%	06/06/2022	-2,367.12	-9,000,000	n/a	n/a
11	Debt Management Office	4,000,000	31/05/2022	0.80%	06/06/2022	-526.03	-4,000,000	n/a	n/a
12	Debt Management Office	12,000,000	06/06/2022	1.03%	06/07/2022	-10,158.90	-12,000,000	n/a	n/a
13	Debt Management Office	1,000,000	15/06/2022	1.03%	30/06/2022	-423.29	-1,000,000	n/a	n/a
14	Debt Management Office	2,000,000	23/06/2022	1.05%	30/06/2022	-402.74	-2,000,000	n/a	n/a
15	Yorkshire Building Society	1,750,000	30/06/2022	2.16%	30/03/2023	-9,527.67	Still invested	A-	F1
16	Debt Management Office	2,500,000	30/06/2022	1.02%	04/07/2022	-278.08	-2,500,000	n/a	n/a

**POLICY AND FINANCE COMMITTEE
TEMPORARY INVESTMENT ACTIVITY – 2022/23**

ANNEX 1

Reference	Organisation	Invested £	Date invested	Interest rate	Date of maturity	Interest to 30/09/2022 £	Principal Repaid £	Long Term Rating	Short Term Rating
17	Debt Management Office	3,000,000	30/06/2022	1.03%	06/07/2022	-505.48	-3,000,000	n/a	n/a
18	Debt Management Office	15,000,000	06/07/2022	1.11%	08/08/2022	-15,053.42	-15,000,000	n/a	n/a
19	Debt Management Office	1,000,000	15/07/2022	1.11%	08/08/2022	-726.58	-1,000,000	n/a	n/a
20	Debt Management Office	5,000,000	01/08/2022	1.33%	09/08/2022	-1,452.05	-5,000,000	n/a	n/a
21	Debt Management Office	16,000,000	08/08/2022	1.55%	15/08/2022	-4,756.16	-16,000,000	n/a	n/a
22	Debt Management Office	16,000,000	15/08/2022	1.55%	22/08/2022	-4,756.16	-16,000,000	n/a	n/a
23	Debt Management Office	16,000,000	22/08/2022	1.55%	31/08/2022	-6,115.07	-16,000,000	n/a	n/a
24	Debt Management Office	21,000,000	31/08/2022	1.55%	05/09/2022	-4,458.90	-21,000,000	n/a	n/a
25	Debt Management Office	21,000,000	05/09/2022	1.57%	15/09/2022	-9,032.88	-21,000,000	n/a	n/a
26	Debt Management Office	17,000,000	15/09/2022	1.54%	23/09/2022	-5,719.45	-17,000,000	n/a	n/a
27	Debt Management Office	11,000,000	20/09/2022	1.50%	21/09/2022	-452.05	-11,000,000	n/a	n/a
28	Debt Management Office	18,000,000	23/09/2022	1.70%	26/09/2022	-2,515.07	-18,000,000	n/a	n/a
29	Santander UK plc	1,750,000	26/09/2022	3.63%	06/01/2023	-696.16	Still invested	A+	F1
30	Debt Management Office	17,000,000	26/09/2022	1.80%	30/09/2022	-3,353.42	-17,000,000	n/a	n/a
31	Debt Management Office	21,000,000	30/09/2022	1.87%	07/10/2022	-1,075.89	Still invested	n/a	n/a
Investments September 2022		331,250,000			SUM	-105,725.05	-305,000,000		
Total Investments 2022/23 (including b/f from 21/22)		352,250,000			SUM incl b/f	-123,258.47	-326,000,000		
Interest received on balances held at bank						-23,819.28			
Final Total		352,250,000				-147,077.75	-326,000,000		

Fitch Rating Definitions

Fitch Rating Definitions	
International Long-Term Credit Ratings	
Long-term credit rating can be used as a benchmark measure of probability of default.	
AAA	Highest credit quality. 'AAA' denotes the lowest expectation of credit risk. They are assigned only in case of exceptionally strong capacity for payment of financial commitments. This capacity is highly unlikely to be adversely affected by foreseeable events.
AA	Very high credit quality. 'AA' ratings denote expectation of low credit risk. They indicate very strong capacity for payment of financial commitments. This capacity is not significantly vulnerable to foreseeable events.
A	High credit quality. 'A' ratings denote expectations of low credit risk. The capacity for payment of financial commitments is considered strong. This capacity may, nevertheless, be more vulnerable to changes in circumstances or in economic conditions than in the case for higher ratings.
BBB	Good credit quality. 'BBB' ratings indicate that expectations of default risk are currently low. The capacity for payment of financial commitments is considered adequate, but adverse business or economic conditions are more likely to impair this capacity.
BB	Speculative. 'BB' ratings indicate an elevated vulnerability to default risk, particularly in the event of adverse changes in business or economic conditions over time; however, business or financial flexibility exists that supports the servicing of financial commitments.
B	Highly speculative. 'B' ratings indicate that material default risk is present, but a limited margin of safety remains. Financial commitments are currently being met; however, capacity for continued payment is vulnerable to deterioration in the business and economic environment.
International Short-Term Credit ratings	
Short-term rating has a time horizon of less than 13 months for most obligations and thus places greater emphasis on the liquidity necessary to meet financial commitments	
F1	Highest credit quality. Indicates the strongest capacity for timely payment of financial commitments; may have an added "+" to denote any exceptionally strong credit feature.
F2	Good credit quality. A satisfactory capacity for timely payment of financial commitments, but the margin of safety is not as great as in the case of the higher ratings.
F3	Fair credit quality. The capacity for timely payment of financial commitments is adequate; however, near term adverse changes could result in a reduction to non-investment grade.
B	Speculative quality. Minimal capacity for timely payment of financial commitments, plus heightened vulnerability to near term adverse changes in financial and economic conditions.

Full Rating List of Approved Institutions at 30 September 2022

Organisation	S&P Global Ratings			Moody's			Fitch				
	Long Term	Short Term	Outlook	Long Term	Short Term	Outlook	Full Review Date	Long Term	Short Term	Outlook	
Building Societies											
Nationwide	A+	A-1	Stable	A1	P-1	Stable	20/01/2022	A	F1	Stable	£1m min
Yorkshire	-	-	-	A3	P-2	Stable	17/11/2021	A-	F1	Stable	
Coventry	-	-	-	A2	P-1	Stable	17/11/2021	A-	F1	Stable	Sterling Brokers
Skipton	-	-	-	A2	P-1	Stable	17/11/2021	A-	F1	Stable	
Leeds	-	-	-	A3	P-2	Stable	17/11/2021	A-	F1	Stable	3 Mnth
Principality	-	-	-	Baa2	P-2	Stable	17/11/2021	BBB+	F2	Stable	No Contact
Banks											
Santander UK Plc.	A	A-1	Stable	A1	P-1	Stable	20/01/2022	A+	F1	Stable	
Barclays Bank Plc.	A	A-1	Positive	A1	P-1	Stable	13/09/2022	A	F1	Stable	
Bank of Scotland Plc.	A+	A-1	Stable	A1	P-1	Stable	19/01/2022	A+	F1	Stable	
HSBC Bank Plc.	A+	A-1	Stable	A1	P-1	Stable	23/09/2022	AA-	F1+	Stable	
Lloyds Bank Plc.	A+	A-1	Stable	A1	P-1	Stable	19/01/2022	A+	F1	Stable	£250k min
National Westminster Bank Plc.	A	A-1	Stable	A1	P-1	Stable	19/01/2022	A+	F1	Stable	Current a/c required
Royal Bank of Scotland Plc.	A	A-1	Stable	A1	P-1	Stable	19/01/2022	A+	F1	Stable	Current a/c required
Banks not currently meeting minimum Fitch Short Term requirement of F2 (and not currently approved for investments)											
Co-operative Bank (The)				Ba2	NP	Stable	25/03/2022	B+	B	Stable	£1m min