

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

INFORMATION

Meeting date: 24 JANUARY 2023
title: TREASURY MANAGEMENT MONITORING 2022/23
submitted by: DIRECTOR OF RESOURCES
principal author: VALERIE TAYLOR

1 PURPOSE

1.1 To provide you with a monitoring report on our treasury management activities for the period 1 April 2022 to 31 December 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.

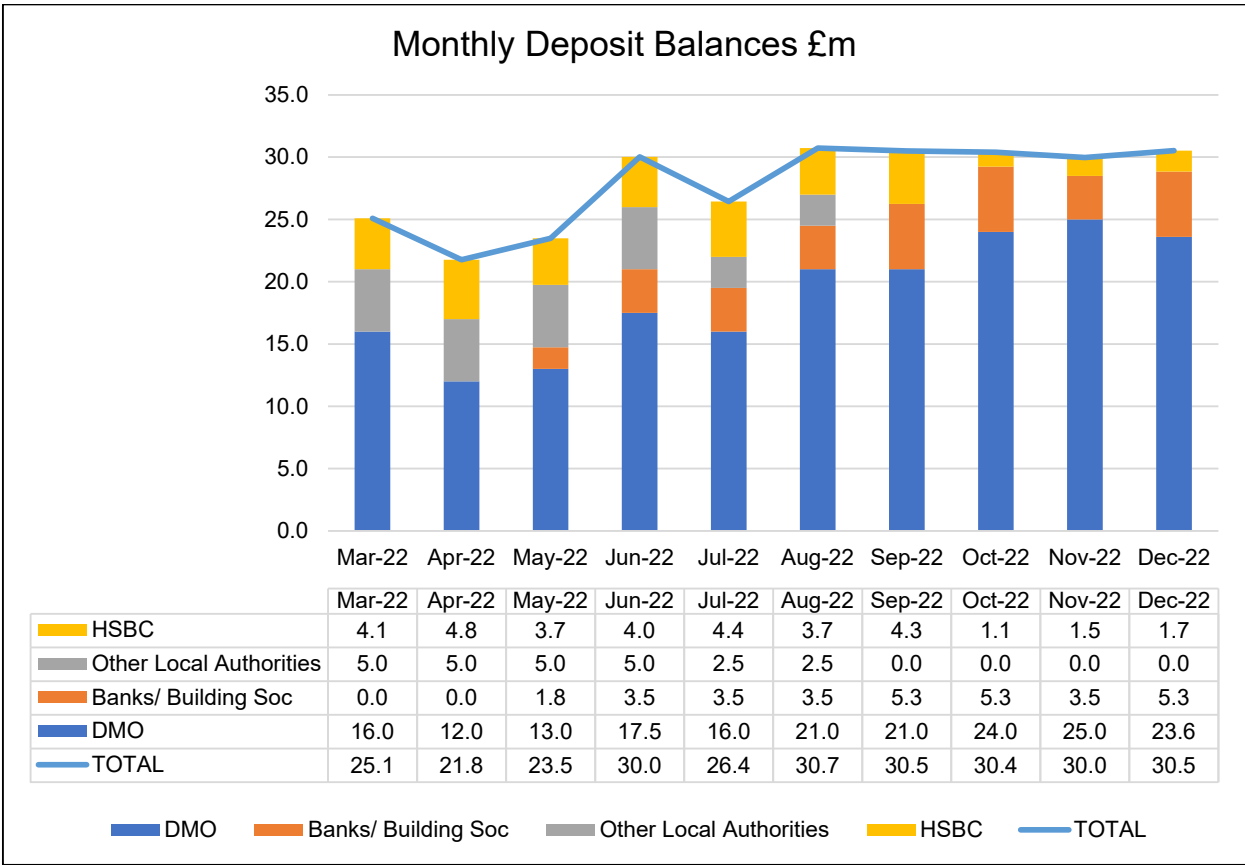
3.2 The movement in the Council's external investments during the reporting period are summarised below:

	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	7,600	-5,000	7,850
Fixed term deposits at 31 December 2022	5,250	23,600	0	28,850
Add funds held with HSBC	1,679	0	0	1,679
Sum of all funds invested				30,529
Interest earned April – December 2022				334

3.3 Funds invested at 31st December were held with the following organisations:

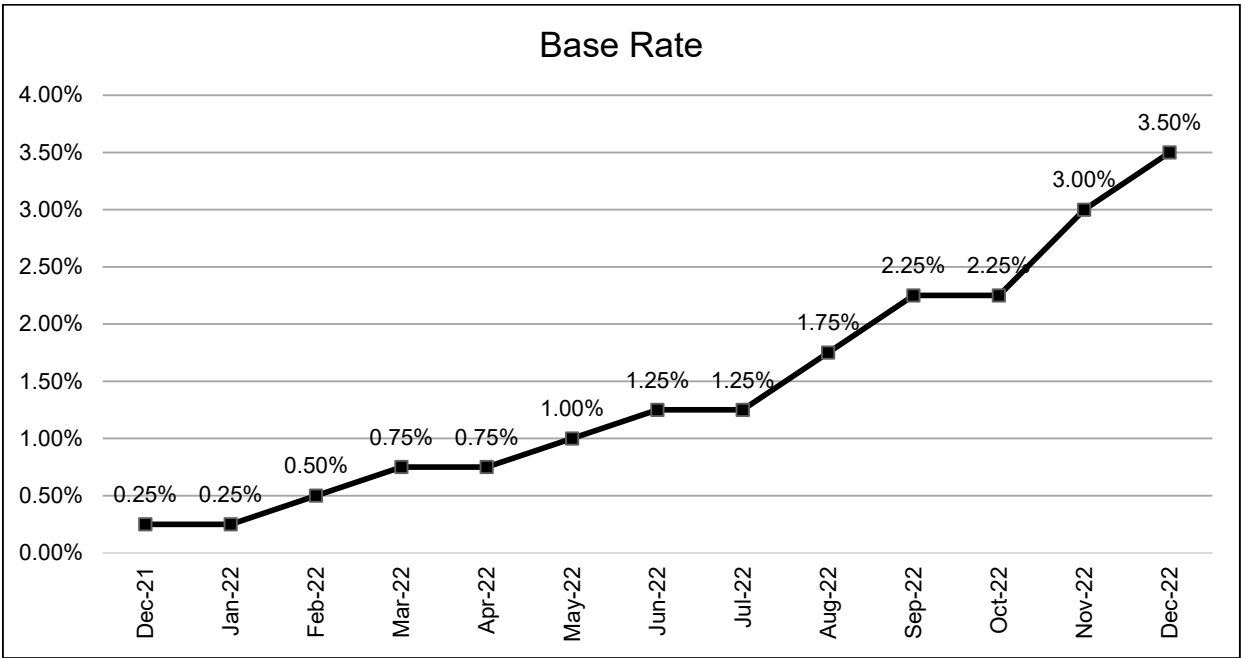
Borrower	Date Invested	Date of Repayment	Rate %	£'000
Yorkshire Building Society	30/06/2022	30/03/2023	2.16%	1,750
Santander UK plc	26/09/2022	06/01/2023	3.63%	1,750
Nationwide Building Society	12/12/2022	15/03/2023	3.27%	1,750
Total funds invested with Banks and Building Societies				5,250
Debt Management Office (DMO)	19/12/2022	20/02/2023	3.36%	15,850
Debt Management Office (DMO)	19/12/2022	06/01/2023	3.19%	6,750
Debt Management Office (DMO)	19/12/2022	13/02/2023	3.33%	1,000
Total funds invested with the Debt Management Office				23,600
SUM of fixed term deposits				28,850
Add funds held with HSBC				1,679
SUM of all investments at 31st December 2022				30,529

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 December period of £334,465, which compares to £2,878 during the same period in 2021 when the base rate was at 0.25%.
- 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. We are currently preparing our revised estimates and anticipate we could receive around £570,000 by the end of this financial year.:

Interest earned on investments April – December 2022*	Annual budget	April – December budget Original estimate
-334,465	-£50,000	-£37,500

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

5 PROSPECTS FOR INTEREST RATES

- 5.1 The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet a 2% inflation target.
- 5.2 The MPC have implemented **nine consecutive increases** to the base rate since December 2021 in response to soaring inflation during the current cost of living crisis.
- 5.3 Summary minutes from the MPCs December meeting note that 12-month CPI fell from 11.1% in October to 10.7% in November. The majority of the MPC judged that further increases in the base rate may be required for a sustainable return of inflation to target.
- 5.4 We will continue to monitor the interest rates of our counterparties as they are updated in response to base rate changes 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 The council repaid it's outstanding PWLB debt of £100,000 on 1st November 2022.

	Total £000
External Debt at 1 April 2022	105
Transactions - New Loans	0
- Repayment 30 th September 2022	-5
- Settlement 1 st November 2022	-100
External debt at 31st December 2022	0

8.2 By settling the loan early the council has saved £25,190 of interest that would have been payable on the reducing balance of the loan at a fixed rate of 4.88% for the remaining loan period to September 2032.

8.3 This saving on interest payable is offset by a premium of £6,827 that was charged from the PWLB upon early repayment of the loan and on any future interest earnings that are foregone because of a reduction to our cash balances.

8.4 No temporary loans were taken out in the current financial period up to 31st December 2022, or in the same period in 2021.

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 31st December 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 31st December 2022 £000's
Borrowing	15,968	2,794	0
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 31st December 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	15/12/2022	A	F1
Yorkshire	04/11/2022	A-	F1
Coventry	04/11/2022	A-	F1
Skipton	04/11/2022	A-	F1
Leeds	04/11/2022	A-	F1
Principality	04/11/2022	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 31st December are as follows:

Name	Fitch's Full Transaction Review Date	Long Term	Short Term
Santander UK Plc	15/12/2022	A+	F1

Name	Fitch's Full Transaction Review Date	Long Term	Short Term
Barclays Bank Plc	13/09/2022	A	F1
Bank of Scotland Plc	15/12/2022	A+	F1
HSBC Bank Plc	07/10/2022	AA-	F1+
Lloyds Bank Plc	15/12/2022	A+	F1
National Westminster Bank Plc	16/12/2022	A+	F1
Royal Bank of Scotland Plc (The)	16/12/2022	A+	F1
Co-Operative Bank	30/08/2022	BBB+	F2

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 At its meeting in December 2022 the MPC voted by a majority to increase the base rate by 0.5%, to 3.50%. Six members voted for this increase, two members preferred to maintain the rate at 3% and one member preferred to increase the rate by 0.75%.

11.2 The MPC are projecting inflation to gradually fall over the first quarter of 2023. The Committee are next due to meet in early February and it is likely 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.

12.2 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. The revenue impact of rising interest rates will be factored into any future capital borrowing decisions.

12.3 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 We anticipate our budgeted income from investment interest will be around £570,000 which is much higher than the £50,000 originally estimated. If interest rates continue to remain high this will alleviate the significant budget pressures we are facing due to high inflation.

SENIOR ACCOUNTANT

DIRECTOR OF RESOURCES

PF12-23/VT/AC

10 JANUARY 2023

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 £	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	DMO	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	DMO	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 - December 2022									
1	DMO	16,500,000	04/04/2022	0.55%	11/04/2022	-1,740.41	-16,500,000	n/a	n/a
2	DMO	5,000,000	11/04/2022	0.55%	14/04/2022	-226.03	-5,000,000	n/a	n/a
3	DMO	11,000,000	11/04/2022	0.55%	19/04/2022	-1,326.03	-11,000,000	n/a	n/a
4	DMO	11,000,000	19/04/2022	0.55%	25/04/2022	-994.52	-11,000,000	n/a	n/a
5	DMO	12,000,000	25/04/2022	0.55%	03/05/2022	-1,446.58	-12,000,000	n/a	n/a
6	DMO	16,000,000	03/05/2022	0.55%	04/05/2022	-241.10	-16,000,000	n/a	n/a
7	DMO	14,000,000	04/05/2022	0.84%	19/05/2022	-4,832.88	-14,000,000	n/a	n/a
8	Leeds	1,750,000	11/05/2022	1.32%	28/11/2022	-12,720.82	-1,750,000	A-	F1
9	DMO	12,000,000	19/05/2022	0.80%	25/05/2022	-1,578.08	-12,000,000	n/a	n/a
10	DMO	9,000,000	25/05/2022	0.80%	06/06/2022	-2,367.12	-9,000,000	n/a	n/a
11	DMO	4,000,000	31/05/2022	0.80%	06/06/2022	-526.03	-4,000,000	n/a	n/a
12	DMO	12,000,000	06/06/2022	1.03%	06/07/2022	-10,158.90	-12,000,000	n/a	n/a
13	DMO	1,000,000	15/06/2022	1.03%	30/06/2022	-423.29	-1,000,000	n/a	n/a
14	DMO	2,000,000	23/06/2022	1.05%	30/06/2022	-402.74	-2,000,000	n/a	n/a
15	Yorkshire	1,750,000	30/06/2022	2.16%	30/03/2023	-19,055.34	Still invested	A-	F1

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

ANNEX 1

Reference	Organisation	Invested £	Date invested	Interest rate	Date of maturity	Interest £	Principal Repaid £	Long Term Rating	Short Term Rating
16	DMO	2,500,000	30/06/2022	1.015%	04/07/2022	-278.08	-2,500,000	n/a	n/a
17	DMO	3,000,000	30/06/2022	1.025%	06/07/2022	-505.48	-3,000,000	n/a	n/a
18	DMO	15,000,000	06/07/2022	1.11%	08/08/2022	-15,053.42	-15,000,000	n/a	n/a
19	DMO	1,000,000	15/07/2022	1.105%	08/08/2022	-726.58	-1,000,000	n/a	n/a
20	DMO	5,000,000	01/08/2022	1.325%	09/08/2022	-1,452.05	-5,000,000	n/a	n/a
21	DMO	16,000,000	08/08/2022	1.55%	15/08/2022	-4,756.16	-16,000,000	n/a	n/a
22	DMO	16,000,000	15/08/2022	1.55%	22/08/2022	-4,756.16	-16,000,000	n/a	n/a
23	DMO	16,000,000	22/08/2022	1.55%	31/08/2022	-6,115.07	-16,000,000	n/a	n/a
24	DMO	21,000,000	31/08/2022	1.55%	05/09/2022	-4,458.90	-21,000,000	n/a	n/a
25	DMO	21,000,000	05/09/2022	1.57%	15/09/2022	-9,032.88	-21,000,000	n/a	n/a
26	DMO	17,000,000	15/09/2022	1.535%	23/09/2022	-5,719.45	-17,000,000	n/a	n/a
27	DMO	11,000,000	20/09/2022	1.50%	21/09/2022	-452.05	-11,000,000	n/a	n/a
28	DMO	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	-16,707.95	Still invested	A+	F1
30	DMO	17,000,000	26/09/2022	1.80%	30/09/2022	-3,353.42	-17,000,000	n/a	n/a
31	DMO	21,000,000	30/09/2022	1.87%	07/10/2022	-7,531.23	-21,000,000	n/a	n/a
32	DMO	5,000,000	07/10/2022	1.95%	21/10/2022	-3,739.73	-5,000,000	n/a	n/a
33	DMO	16,000,000	07/10/2022	2.03%	07/11/2022	-27,585.75	-16,000,000	n/a	n/a
34	DMO	1,000,000	28/10/2022	1.80%	31/10/2022	-147.95	-1,000,000	n/a	n/a
35	DMO	8,000,000	31/10/2022	2.21%	07/11/2022	-3,390.68	-8,000,000	n/a	n/a
36	DMO	24,000,000	07/11/2022	2.65%	21/11/2022	-24,394.52	-24,000,000	n/a	n/a
37	DMO	2,000,000	21/11/2022	2.70%	28/11/2022	-1,035.62	-2,000,000	n/a	n/a
38	DMO	21,000,000	21/11/2022	2.70%	30/11/2022	-13,980.82	-21,000,000	n/a	n/a
39	DMO	25,000,000	30/11/2022	2.865%	19/12/2022	-37,284.25	-25,000,000	n/a	n/a
40	Nationwide	1,750,000	12/12/2022	3.27%	15/03/2023	-2,978.84	Still invested	A	F1
41	DMO	15,850,000	19/12/2022	3.36%	20/02/2023	-17,508.82	Still invested	n/a	n/a
42	DMO	6,750,000	19/12/2022	3.19%	06/01/2023	-7,079.18	Still invested	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 £	Principal Repaid £	Long Term Rating	Short Term Rating
43	DMO	1,000,000	19/12/2022	3.33%	13/02/2023	-1,094.79	Still invested	n/a	n/a
Investments December 2022		458,600,000			SUM	-281,674.77	-429,750,000		
Total Investments 2022/23 (including b/f from 21/22)		479,600,000			SUM incl b/f	-299,208.19	-450,750,000		
Interest received on balances held at bank						-35,257.18			
Final Total		479,600,000				-334,465.37	-450,750,000		

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 31st December 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	<i>Stable</i>	A1	P-1	<i>Stable</i>	15/12/2022	A	F1	<i>Stable</i>	£1m min
Yorkshire	-	-	-	A3	P-2	<i>Stable</i>	04/11/2022	A-	F1	<i>Stable</i>	
Coventry	-	-	-	A2	P-1	<i>Stable</i>	04/11/2022	A-	F1	<i>Stable</i>	Sterling Brokers
Skipton	-	-	-	A2	P-1	<i>Stable</i>	04/11/2022	A-	F1	<i>Stable</i>	£1m min
Leeds	-	-	-	A3	P-2	<i>Stable</i>	04/11/2022	A-	F1	<i>Stable</i>	3 Mnth
Principality	-	-	-	Baa2	P-2	<i>Stable</i>	04/11/2022	BBB+	F2	<i>Stable</i>	No Contact
Banks											
Santander UK Plc.	A	A-1	<i>Stable</i>	A1	P-1	<i>Negative</i>	15/12/2022	A+	F1	<i>Stable</i>	Sterling Brokers
Barclays Bank Plc.	A	A-1	<i>Positive</i>	A1	P-1	<i>Negative</i>	13/09/2022	A	F1	<i>Stable</i>	
Bank of Scotland Plc.	A+	A-1	<i>Stable</i>	A1	P-1	<i>Stable</i>	15/12/2022	A+	F1	<i>Stable</i>	£1m min
HSBC Bank Plc.	A+	A-1	<i>Stable</i>	A1	P-1	<i>Stable</i>	07/10/2022	AA-	F1+	<i>Stable</i>	£1m min
Lloyds Bank Plc.	A+	A-1	<i>Stable</i>	A1	P-1	<i>Stable</i>	15/12/2022	A+	F1	<i>Stable</i>	£250k min
National Westminster Bank Plc.	A	A-1	<i>Stable</i>	A1	P-1	<i>Stable</i>	16/12/2022	A+	F1	<i>Stable</i>	Current a/c required
Royal Bank of Scotland Plc.	A	A-1	<i>Stable</i>	A1	P-1	<i>Stable</i>	16/12/2022	A+	F1	<i>Stable</i>	Current a/c required
Co-operative Bank (The)	-	-	-	Ba1	NP	<i>Positive</i>	30/08/2022	BBB+	F2	<i>Positive</i>	£1m min