

RIBBLE VALLEY BOROUGH COUNCIL REPORT TO POLICY & FINANCE COMMITTEE

INFORMATION

Meeting date: 20 JUNE 2023
title: TREASURY MANAGEMENT MONITORING 2023/24
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 2023 to 31 May 2023.
- 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 2023/24 financial year, and were approved by this committee in March 2023 prior to full council in April 2023. The most recent document approved by Committee can be found [here](#).

3 TEMPORARY INVESTMENTS

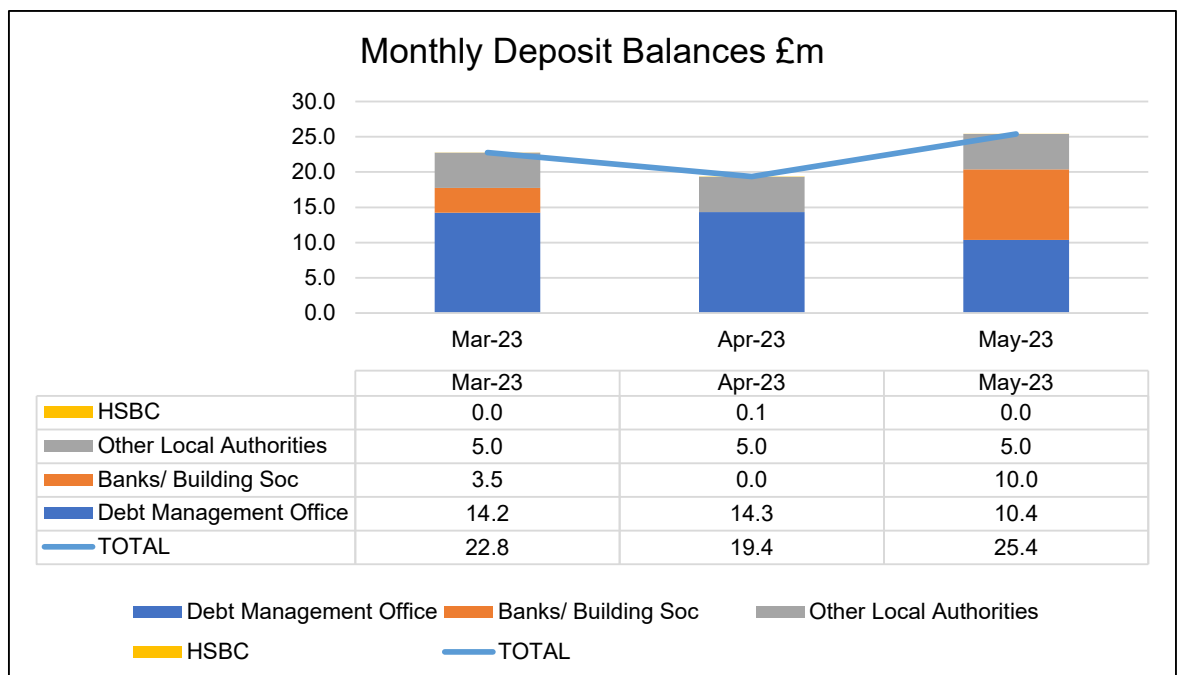
- 3.1 In accordance with the approved treasury management policies and practices, surplus funds are temporarily invested via the money market at the best rate of interest available and with the minimisation of risk to the capital sum. Investment decisions are primarily concerned with the security of 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	Debt Management Office (DMO) £000	Other Local Authorities £000	Total £000
Monies Invested at 1 April 2023	3,500	14,240	5,000	22,740
Net Movement	6,500	-3,860	0	2,640
Fixed term deposits at 31 May 2023	10,000	10,380	5,000	25,380
Add funds held with HSBC (the council's banking provider)	25	0	0	25
Sum of all funds invested				25,405
Interest earned April – May 2023				161

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

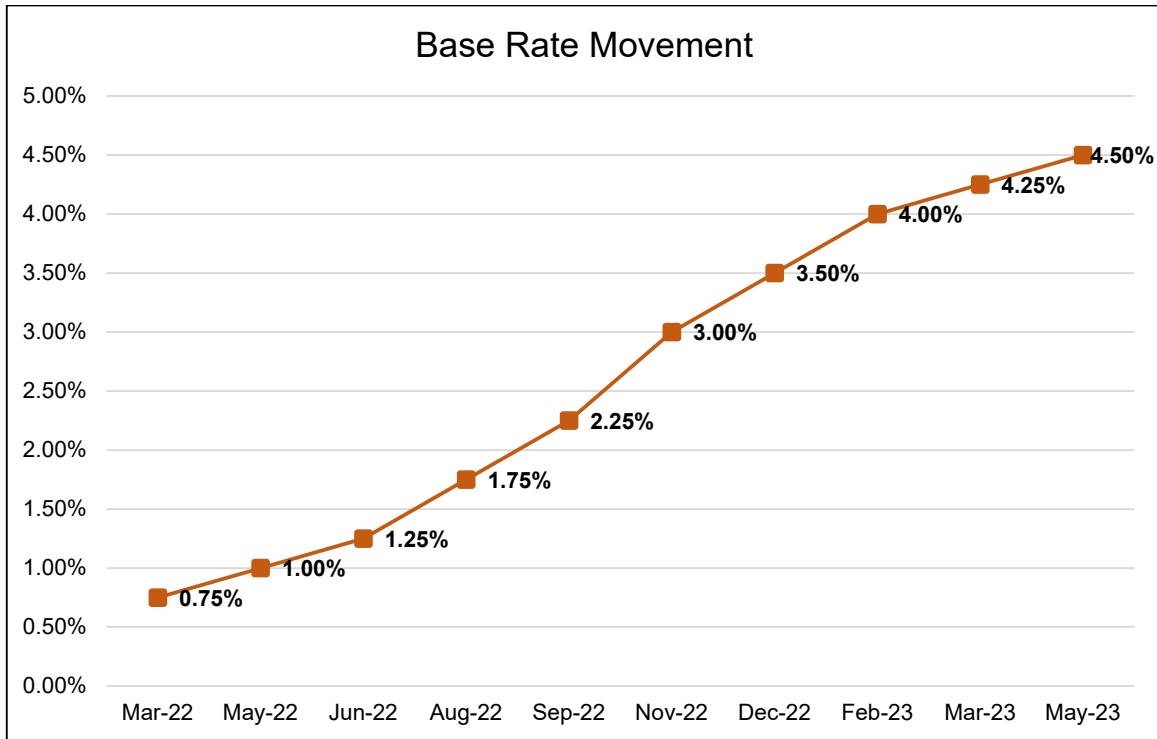
Borrower	Date Invested	Date of Repayment	Rate %	£'000
Blackpool Council	27/03/2023	27/06/2023	4.15	2,500
Cheshire East Council	13/03/2023	13/06/2023	4.50	2,500
Santander UK plc	22/05/2023	14/09/2023	4.64	5,000
Lloyds Bank plc	22/05/2023	23/11/2023	4.76	5,000
Debt Management Office (DMO)	31/05/2023	05/06/2023	4.38	10,380
SUM of fixed term deposits				25,380
Add funds held with HSBC (the council's banking provider)				25
SUM of all investments at 31st May 2023				25,405

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 influences the rate of interest offered by banks and building societies on investments. The rate has increased as follows between March 2022 and May 2023:



4.2 The council has generated returns on investments of £161,469 during the April to May period, which compares to £27,747 during the same period in 2022. The higher returns are mainly due to the increases in the base rate from 0.75% in April 2022 up to 4.5% in May 2023.

4.3 Income received is higher than estimated in the budget forecast for the reporting period and is expected to exceed the original estimate for the year. An update to the estimated income will be proposed if necessary when the council’s original budget estimates are revised later on in the financial year:

Interest earned on investments April – May 2023*	Annual budget	April – May budget Original estimate
-161,469	-£450,000	-£75,000

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

5 PROSPECTS FOR INTEREST RATES

5.1 Because CPI inflation remains above the Bank of England’s 2% target it is likely that we will see further increases to the base rate this year. Markets are currently predicting that the base rate will increase over the next few months from the current 4.5% to a peak of 5.5% by November 2023.

5.2 We will continue to monitor the interest rates of our counterparties as they are updated over the next few months in response to base rate changes 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 The council's Borrowing and Debt Strategy is set out within the council's Capital and Treasury Management Strategy. The strategy is reviewed by this Committee in advance of the financial year prior to approval by Full Council. The strategy approved for the 2023/24 financial year can be found [here](#).
- 7.2 Generally long-term borrowing, which is classified as borrowing for a period of between 1-60 years, is normally only used to finance capital expenditure or replace maturing debt. The council's policy is to meet long-term borrowing requirements from the Public Works Loan Board (PWLB).
- 7.3 The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury and provides loans to loan authorities for capital projects.
- 7.4 The council repaid all outstanding long-term loans that were held with the Public Work's Loans Board during the 2022/23 financial year, and so currently does not hold any long-term loan debt.
- 7.5 On occasion it may be necessary to engage in short-term borrowing in order to finance temporary cash deficits, however by managing our cash flow effectively these will be kept to a minimum.
- 7.6 No temporary loans were taken out in the current financial year up to the 31st May 2023, or in the same period during 2022.

8 PRUDENTIAL INDICATORS

- 8.1 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.
- 8.2 The Capital and Treasury Management Strategy includes a number of prudential indicators.
- 8.3 These prudential indicators are designed to deliver accountability in taking capital financing, borrowing and treasury management decisions.
- 8.4 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.

- 8.5 The Council's actual long-term debt at 31st May 2023 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 May 2023 £000's
Borrowing	15,001	1,470	0
Other Long-Term liabilities	0	0	0

- 8.6 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.

9 APPROVED ORGANISATIONS

- 9.1 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.
- 9.2 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 May 2023 is shown at Annex 3.
- 9.3 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
Coventry	04/11/2022	A-	F1
Yorkshire	04/11/2022	A-	F1
Skipton	04/11/2022	A-	F1
Leeds	04/11/2022	A-	F1
Principality	04/11/2022	BBB+	F2

- 9.4 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 May 2023 are as follows:

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

9.5 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.

10 RECENT EVENTS

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

10.2 At its meeting in May 2023 the MPC voted by a majority to increase the base rate by 0.25%, to 4.5%. Seven members voted for the increase and two members preferred to maintain the base rate at 4.25%.

10.3 The MPC note in the meeting summary that CPI inflation was 10.2% in 2023 Q1, which was higher than expected at the time of the February and March MPC meetings. While the MPC expect inflation to fall sharply from April, in part as large rises in the price level one year ago drop out of the annual comparison, they expect that food price inflation is likely to fall back more slowly than previously expected.

10.4 In line with market predictions and the MPC's statement from the May meeting summary that 'The MPC will adjust Bank Rate as necessary to return inflation to the 2% target sustainably in the medium term, in line with its remit', it is likely that we will see the base rate increase further over the next few months.

11 EXPOSURE TO RISK

11.1 A prudent approach is adopted for all future cashflow projections, ensuring that the estimated cost of cash commitments will not be underestimated during the current climate of rising inflation, and that estimated cash inflows are not overstated.

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

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

11.4 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 meetings to discuss 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.

12 CONCLUSION

12.1 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.

12.2 Due to the continued uncertainty in the 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.

SENIOR ACCOUNTANT

DIRECTOR OF RESOURCES

PF44-23/VT/AC

8 JUNE 2023

For further information please ask for Valerie Taylor

**POLICY AND FINANCE COMMITTEE
TEMPORARY INVESTMENT ACTIVITY – 2023/24**

ANNEX 1

Reference	Organisation	Invested £	Date invested	Interest rate	Date of maturity	Interest to 31/05/2023 £	Principal Repaid £	Long Term Rating	Short Term Rating
Investments brought forward into 2023/24									
45	Lloyds Bank plc	1,750,000	03/01/2023	3.25%	03/04/2023	-14,023.97	-1,750,000	A+	F1
<i>Less interest accrued during 2022/23</i>						13,712.33			
29/2	Santander UK plc	1,750,000	06/01/2023	3.73%	06/04/2023	-16,095.21	-1,750,000	A+	F1
<i>Less interest accrued during 2022/23</i>						15,201.03			
67	Blackpool Council	2,500,000	27/03/2023	4.15%	27/06/2023	-18,476.03	Still invested	n/a	n/a
<i>Less interest accrued during 2022/23</i>						1,421.23			
71	Cheshire East Council	2,500,000	13/03/2023	4.50%	13/06/2023	-24,349.32	Still invested	n/a	n/a
<i>Less interest accrued during 2022/23</i>						5,856.16			
76	Debt Management Office	260,000	24/03/2023	4.05%	11/04/2023	-519.29	-260,000	n/a	n/a
<i>Less interest accrued during 2022/23</i>						230.79			
77	Debt Management Office	11,570,000	27/03/2023	4.05%	03/04/2023	-8,986.56	-11,570,000	n/a	n/a
<i>Less interest accrued during 2022/23</i>						6,418.97			
78	Debt Management Office	2,000,000	30/03/2023	4.05%	03/04/2023	-887.67	-2,000,000	n/a	n/a
<i>Less interest accrued during 2022/23</i>						443.84			
79	Debt Management Office	410,000	31/03/2023	4.05%	17/04/2023	-773.38	-410,000	n/a	n/a
<i>Less interest accrued during 2022/23</i>						45.49			
Investments placed April - May 2023									
1	Debt Management Office	15,600,000	03/04/2023	4.05%	11/04/2023	-13,847.67	-15,600,000	n/a	n/a
2	Debt Management Office	1,680,000	06/04/2023	4.05%	11/04/2023	-932.05	-1,680,000	n/a	n/a
3	Debt Management Office	16,900,000	11/04/2023	4.05%	14/04/2023	-5,625.62	-16,900,000	n/a	n/a
4	Debt Management Office	16,790,000	14/04/2023	4.05%	17/04/2023	-5,589.00	-16,790,000	n/a	n/a
5	Debt Management Office	5,000,000	17/04/2023	4.055%	21/04/2023	-2,221.92	-5,000,000	n/a	n/a

**POLICY AND FINANCE COMMITTEE
TEMPORARY INVESTMENT ACTIVITY – 2023/24**

ANNEX 1

Reference	Organisation	Invested £	Date invested	Interest rate	Date of maturity	Interest to 31/05/2023 £	Principal Repaid £	Long Term Rating	Short Term Rating
6	Debt Management Office	12,550,000	17/04/2023	4.06%	24/04/2023	-9,771.81	-12,550,000	n/a	n/a
7	Debt Management Office	350,000	19/04/2023	4.10%	05/05/2023	-629.04	-350,000	n/a	n/a
8	Debt Management Office	12,750,000	24/04/2023	4.08%	28/04/2023	-5,700.82	-12,750,000	n/a	n/a
9	Debt Management Office	370,000	27/04/2023	4.11%	15/05/2023	-749.93	-370,000	n/a	n/a
10	Debt Management Office	13,600,000	28/04/2023	4.08%	02/05/2023	-6,080.88	-13,600,000	n/a	n/a
11	Debt Management Office	16,980,000	02/05/2023	4.10%	05/05/2023	-5,722.03	-16,980,000	n/a	n/a
12	Debt Management Office	19,390,000	05/05/2023	4.10%	09/05/2023	-8,712.22	-19,390,000	n/a	n/a
13	Debt Management Office	19,365,000	09/05/2023	4.235%	15/05/2023	-13,481.22	-19,365,000	n/a	n/a
14	Debt Management Office	440,000	12/05/2023	4.35%	30/05/2023	-943.89	-440,000	n/a	n/a
15	Debt Management Office	19,860,000	15/05/2023	4.38%	19/05/2023	-9,532.80	-19,860,000	n/a	n/a
16	Debt Management Office	20,140,000	19/05/2023	4.38%	22/05/2023	-7,250.40	-20,140,000	n/a	n/a
17	Debt Management Office	9,120,000	22/05/2023	4.38%	25/05/2023	-3,283.20	-9,120,000	n/a	n/a
18	Santander UK plc	5,000,000	22/05/2023	4.64%	14/09/2023	-5,720.55	Still invested	A+	F1
19	Lloyds Bank plc	5,000,000	22/05/2023	4.76%	23/11/2023	-5,868.49	Still invested	A+	F1
20	Debt Management Office	9,140,000	25/05/2023	4.38%	30/05/2023	-5,484.00	-9,140,000	n/a	n/a
21	Debt Management Office	10,490,000	30/05/2023	4.38%	31/05/2023	-1,258.80	-10,490,000	n/a	n/a
22	Debt Management Office	10,380,000	31/05/2023	4.38%	05/06/2023	-1,245.60	Still invested	n/a	n/a
Investments to May 2023		240,895,000			SUM	-119,651.94	-220,515,000		
Total Investments 2023/24 (including b/f from 22/23)		263,635,000			SUM incl b/f	-160,433.53	-238,255,000		
Interest received on balances held at bank						-1,035.63			
Final Total		263,635,000				-161,469.16	-238,255,000		

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.
Outlooks	
Ratings Outlooks indicate the direction a rating is likely to move over a one to two-year period. They reflect financial or other trends that have not yet reached the level that would trigger a rating action, but which may do so if such trends continue.	

Full Rating List of Approved Institutions at 31st May 2023

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	15/12/2022	A	F1	Stable
Yorkshire	-	-	-	A3	P-2	Stable	04/11/2022	A-	F1	Stable
Coventry	-	-	-	A2	P-1	Stable	04/11/2022	A-	F1	Stable
Skipton	-	-	-	A2	P-1	Stable	04/11/2022	A-	F1	Stable
Leeds	-	-	-	A3	P-2	Stable	04/11/2022	A-	F1	Stable
Principality	-	-	-	Baa2	P-2	Stable	04/11/2022	BBB+	F2	Stable
Banks										
Santander UK Plc.	A	A-1	Stable	A1	P-1	Negative	15/12/2022	A+	F1	Stable
Barclays Bank Plc.	A+	A-1	Stable	A1	P-1	Stable	13/09/2022	A+	F1	Stable
Bank of Scotland Plc.	A+	A-1	Stable	A1	P-1	Stable	15/12/2022	A+	F1	Stable
HSBC Bank Plc.	A+	A-1	Stable	A1	P-1	Stable	07/10/2022	AA-	F1+	Stable
Lloyds Bank Plc.	A+	A-1	Stable	A1	P-1	Stable	15/12/2022	A+	F1	Stable
National Westminster Bank Plc.	A+	A-1	Stable	A1	P-1	Stable	16/12/2022	A+	F1	Stable
Royal Bank of Scotland Plc.	A+	A-1	Stable	A1	P-1	Stable	16/12/2022	A+	F1	Stable
Banks not currently meeting minimum Fitch Short Term requirement of F2 (and not currently approved for investments)										
Co-operative Bank (The)				Ba1	NP	Positive	02/02/2023	BB	B	Stable