

TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23

Executive Summary

To comply with the CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management, the Council has agreed that the Overview and Scrutiny Committee would be responsible for ensuring effective scrutiny of the treasury management strategy and policies. In addition, the publication of comprehensive Treasury Management information in the Green Book enables scrutiny to be undertaken throughout the year.

This report to the Overview and Scrutiny Committee provides an overview of Treasury Management for the first six months of the year against the Treasury Management Strategy and Prudential Indicators for 2022/23.

The Strategy has been complied with, and there are no matters to report to the Committee.

Recommendations

The Committee is requested to:

RESOLVE that the report be received and compliance with the Council's approved strategy be noted.

The Committee has the authority to determine the recommendation(s) set out above.

Background Papers:	None.
Reporting Person:	Leigh Clarke, Finance Director Leigh.Clarke@woking.gov.uk, Extn: 3277
Contact Person:	Leigh Clarke, Finance Director Leigh.Clarke@woking.gov.uk, Extn: 3277
Portfolio Holder:	Councillor Dale Roberts Email: cllrDale.Roberts@woking.gov.uk
Shadow Portfolio Holder:	Councillor Kevin Davis Email: cllrKevin.Davis@woking.gov.uk
Date Published:	11 November 2022

TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23

1.0 Introduction

- 1.1 The CIPFA (Chartered Institute of Public Finance Accountants) Code of Practice on Treasury Management requires formal scrutiny of the Treasury Management function. The Council has agreed that the Overview and Scrutiny Committee would be responsible for ensuring effective scrutiny of the treasury management strategy and policies. This report to the Overview and Scrutiny Committee provides an overview of Treasury Management for the first six months of the year against the Treasury Management Strategy and Prudential Indicators for 2022/23.
- 1.2 The monthly Green Book reports on total interest receipts and payments and also contains a comprehensive section on Treasury Management, detailing external commitments (borrowing, deposits and investments in and other advances to group companies, joint ventures and external organisations), details of long term loans, deals outstanding at the month end and any new deals taken in the month. The level of detail contained in these reports, and the frequency with which the information is published, goes beyond that suggested in the guidance issued by CIPFA.
- 1.3 Updated versions of the Prudential Code for Capital Finance in Local Authorities (Prudential Code) and Treasury Management in the Public Service Code of Practice and Cross-Sectoral Guidance Notes (Treasury Management Code) were issued in December 2017. Both of these codes are effective for the 2022/23 financial year.
- 1.4 The term “investments” has been specifically qualified in the Treasury Management code to include non-financial assets which are held primarily for financial returns. The Code draws a clear separation between treasury and non-treasury investments and the role of the treasury management team. It is recognised that the treasury management team is unlikely to have specialist skills in non-treasury investments. Therefore the Treasury Management Strategy does not include any level of detail on non-treasury investments and reporting focuses solely on treasury (financial) investments. This will be reviewed for the 2023/24 strategy as discussed in paragraph 1.6 below.
- 1.5 There is overlap between the Capital and Investment Strategies, and the Council’s Treasury Management strategy. Therefore the three strategies are presented together, as part of the budget setting papers in February, enabling the links to be highlighted whilst minimising duplication. A suite of appendices are included which can be referred to from any of the core strategies.
- 1.6 CIPFA published updated Treasury Management and Prudential Codes on 20th December 2021. There will be a soft introduction of the codes with full implementation required for 2023/24. The changes include new requirements such as the purpose, objectives, and management arrangements for commercial & service investments needing to be defined in the Council’s treasury management strategies from 2023/24 onwards. The strategies and in year reports will be expanded to incorporate the changes.

Capital Strategy

- 1.7 The Capital Strategy has a wide scope covering the Council’s overall approach to capital investment. It demonstrates how the Council takes capital expenditure and investment decisions in line with service objectives and properly takes account of stewardship, value for money, prudence, sustainability and affordability.
- 1.8 The purpose of the capital strategy is to give a clear and concise view of how the Council determines its priorities for capital investment, decides how much it can afford to borrow and sets its risk appetite. It includes references to elements of the Investment Strategy, Treasury Management Strategy and the Council’s Investment Programme.

TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23

- 1.9 The Capital Strategy sets out the Council's long term approach in line with the long term nature of capital and investment decisions. There is a direct link to the Council's Local Plan, place shaping activities and other long term strategies.
- 1.10 Group activities and joint ventures are also included in the Capital Strategy, including the processes for ensuring effective due diligence and defining the Authority's risk appetite.
- 1.11 The guidance requires that proportionality, in respect of overall resources, is also considered.

Investment Strategy

- 1.12 The Investment Strategy provides a better explanation of investment activities, explaining 'why' as well as 'what' investments are made. A range of indicators and disclosures are recommended in the guidance.
- 1.13 Investments held for treasury management purposes are covered by the Treasury Management Strategy (see below), with the focus of the Investment Strategy being other investments such as loans, shares and property.
- 1.14 Whilst the Council has a significant property portfolio, these assets are not held for investment purposes. Each asset has a strategic purpose with a direct link to Council objectives or services. Shares and loans are also used to support the Council's objectives. Property, loans and shares are treated as capital expenditure and financed as with other Investment Programme projects. However these items are disclosed as assets held as investments on the Council's balance sheet and so the guidance has been applied.

2.0 Treasury Management Prudential Indicators

- 2.1 On 3 February 2022 the Council approved Prudential Indicators for the period 2022/23 to 2025/26 as part of the annual budget process. Performance as at 30th September 2022 against the approved limits is shown below.

	2022/23	2022/23
TREASURY MANAGEMENT PRUDENTIAL INDICATORS	£'000	£'000
	Approved limit	Actual at 30/9/22
Authorised limit for external borrowing -		
Borrowing	£2,306,237	£1,918,408
Other long term liabilities	£22,242	£23,841*
Total authorised limit for external borrowing	£2,328,479	£1,942,249
Operational boundary for external borrowing -		
Borrowing	£2,296,237	£1,918,408
Other long term liabilities	£22,242	£23,841*
Total operational boundary for external borrowing	£2,318,479	£1,942,249
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	70%	0%
Upper limit for total principal sums invested for over 364 days (per maturity date)	£3,000	£0

- 2.2 *Estimate based on September 2022 projections. The PFI Finance Lease Liability will reduce during 2022/23 and the budget reflects the end of year position

3.0 Current Treasury Position

3.1 The Council's treasury position at 30th September 2022 comprised:

	Principal	Ave Rate
<u>Borrowing</u>	£000	%
Long term borrowing	1,783,407	2.65%
Short term borrowing	135,000	1.29%
Total Borrowing	1,918,408	
<u>Deposits</u>		
External Investments		
- Short term on advice of TUK	0	0.00%
- Short term WBC Treasury	4,000	0.00%
- on call with Lloyds TSB	2,248	0.00%
Total External Deposits	6,248	
Long Term Investments in Group Companies/ Joint Ventures/External Organisations	1,260,424	3.07%

4.0 Borrowing Requirement

4.1 The borrowing requirement set out in the 2022/23 strategy was £267m.

4.2 The Covid pandemic has had a considerable impact on local government finances. Whilst the economy has reopened, the financial impact on the Council will take much longer to recover. The Council was particularly affected by reductions in parking income and commercial rents. The Medium Term Financial Strategy (MTFS) in July 2022 showed an £11m savings requirement driven by reductions in income and increasing service costs.

4.3 The Draft Investment Programme going to the November Executive reflects the Council's financial position minimising new investment through borrowing.

4.4 Since May 2022 the Council have been cooperating with the Department of Levelling Up Housing and Communities (DLUHC) in reviewing the Council's borrowing under the Levelling Up and Regeneration legislation.

4.5 Inflation continues to be well above the Monetary Policy Committee's (MPC) 2% target with CPI inflation at 10.1% in September. In order to mitigate rising inflation the MPC has now increased interest rates eight times in as many meetings in 2022 and has raised rates to 3.00% (their highest level since the Global Financial Crisis). Link Group (the Council's treasury management advisors) forecast the bank rate to peak at 4.5%. A table of Link's forecast rates is below;

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23

- 4.6 50 year annuity PWLB rates have increased through the year from 2.63% on the 1st April to 4.63% on the 30th September increasing the cost of any new long-term borrowing for the Council. Link Group are forecasting PWLB to be 4.70% in December 2022 and then to fall gradually to 4.30% in March 2024. However there has been a great deal of market volatility and rates continue to be very difficult to predict.
- 4.7 As at the 1st April 2022 the Council held £85,000,000 in temporary borrowing (less than 1 year). While short-term borrowing offered lower rates, the Council has long term borrowing commitments for projects such as the Victoria Square Development and the Sheerwater Regeneration. The majority of the Council's debt is long term (50 year) annuity loans reflecting the long life of the projects. The mix of long and short term borrowing is continually being reviewed to ensure an appropriate balance is maintained.
- 4.8 With interest rates having increased sharply through the first half of the year, Link advised that rates were above target rates and recommended not to lock in long term borrowing. Therefore, where the Council has borrowed in the current year, it has taken temporary borrowing with a view to refinancing this to long term PWLB borrowing when the rates fall. Borrowing has been deferred wherever possible by maintaining only small cash balances.
- 4.9 There were no new fixed rate loans taken from the Public Works Loan Board (PWLB) during the first six months of 2022/23.
- 4.10 The following short-term loans were taken from Local Lenders during the first six months of 2022/23: -

Loan number	Start date	Principal	Interest Rate	Type of Loan	Borrowing Period
3481	18/05/2022	£15,000,000	1.20	Maturity	1 year
3482	26/07/2022	£10,000,000	2.10	Maturity	9 months
3483	18/08/2022	£5,000,000	2.30	Maturity	1 year
3484	09/09/2022	£5,000,000	2.32	Maturity	3 months
3485	09/09/2022	£5,000,000	2.32	Maturity	3 months
3486	20/09/2022	£5,000,000	3.30	Maturity	9 months
3487	20/09/2022	£5,000,000	3.30	Maturity	9 months

- 4.11 Full details of the Council's loans are reported monthly in the Green Book.
- 4.12 The Council's approach to borrowing over the next 6 months will include varying the term of new short term borrowing taken to re-finance the Council's existing temporary loans. This 'laddering' will allow a more even spread of maturity dates and will try and avoid the Council having to refinance a number of loans over the same period.
- 4.13 The new borrowing is likely to be a combination of PWLB and loans through other Local Authorities depending on the rates and availability of both. The Council will look to take longer term borrowing again if there is a fall in medium\long-term rates (either through market volatility, the economy stabilising, and/or inflation subsiding).
- 4.14 There will be close monitoring of the rates and borrowing available over the next 6 months and in the longer term.

5.0 Debt Rescheduling

- 5.1 No debt rescheduling has taken place to date in the 2022/23 financial year and therefore the Treasury Management Panel has not met.

TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23

- 5.2 For prudence the Council has largely taken 50 year fixed rate loans to finance its long term projects and therefore the average loan duration is very much skewed towards longer dates. It is good Treasury Management to review the average duration of loans to ensure the organisation is borrowing as efficiently as possible.
- 5.3 Increasing interest rates can offer opportunities to redeem loans early and refinance them at current rates. The Council would then receive a discount on the original loan which it would then spread over 10 years. This debt rescheduling could be used to find the optimum average loan duration and possibly achieve a revenue saving over the next 10 years. These benefits would need to be considered alongside the impact on the remainder of the loan term (not just the first 10 years) and the prudence of matching loans to the economic lives of the assets produced by the Council's projects.
- 5.4 Any debt rescheduling proposals will be discussed with the Treasury Management Panel.

6.0 Investment Strategy

- 6.1 The Council's investment priorities are the security of its capital, the liquidity of its investments and finally the return on the investment. The balances held during 2022/23 to date have been minimised to assist in delaying the need to borrow, and so it has not been necessary to use the range of investments available in the strategy.
- 6.2 The investments used to manage cash flow to date in 2022/23, and the limits applied, are as indicated below.
- Money market funds – four funds, two with a limit of £50m per fund, one with a limit of £70m, and one with a limit of £30m.
 - Deposits with other local authorities – up to £4m per authority.
 - Deposits with Lloyds Bank – no limit as this is the Council's banker.
- 6.3 Whilst deposits with other local authorities and Building Societies are permitted by the Strategy, it has not been necessary to make such investments or place funds on the advice of Tradition UK (TUK) during the year to date.

Creditworthiness Policy

- 6.4 The Council uses Fitch ratings to derive its investment criteria for investments other than with other local authorities and Building Societies. Where a counterparty does not have a Fitch rating, the equivalent Moodys rating will be used.
- 6.5 The Council takes account of Link Asset Services' creditworthiness service, and receives notification of changes to ratings as well as a comprehensive weekly list. This service uses credit ratings from all three rating agencies (Fitch, Moodys and Standard and Poors), but also takes account of credit watches, credit outlooks and other information. These factors are combined to indicate the relative creditworthiness of counterparties and provide a recommended duration for investments.

Country Limits

- 6.6 Under the Code of Practice, the Council should determine the minimum credit limit on a country basis as well as for institutions. The Treasury Management Strategy sets out that the Council will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent agencies if Fitch does not provide). It should be noted that the UK is excluded from the minimum country limit as per the Executive decision on 30th

TREASURY MANAGEMENT MID-YEAR REVIEW 2022/23

June 2016; without this decision, the Council would have been unable to place investments in the UK.

6.7 Information on changes to country ratings is received as part of the Link Asset Services creditworthiness service, and records are updated by Treasury Management staff.

6.8 In the six months to 30th September, no deposits were placed outside of the UK.

7.0 Use of External Service Providers

7.1 The Council uses Link Group as its external treasury management advisors.

8.0 Corporate Strategy

9.0 Implications

Finance and Risk

9.1 The financial implications are implicit in the body of this report.

Equalities and Human Resources

9.2 The CIPFA code requires members and staff involved in treasury management to receive training and the Council's training requirements will be reviewed in order to provide appropriate training.

9.3 The contract with Link Asset Services provides for staff attendance at various conferences and seminars as well as providing a helpline facility, and Treasury Management staff have attended seminars and courses run by Link Asset Services during the year.

Legal

9.4 This report has been reviewed by Legal Services who have not raised any issues.

10.0 Engagement and Consultation

10.1 No general public consultations have been undertaken in connection with this report.

REPORT ENDS