Cabinet Meeting on Wednesday 20 July 2022

Treasury Management Report for the Year Ended 31 March 2022

Ian Parry, Cabinet Member for Finance and Corporate Matters said,

"Staffordshire County Council is a well-run council, and we continue to manage our finances prudently while doing and spending what is required. By using cash reserves rather than borrowing more, we have been able to achieve substantial savings in what remain challenging times. As well as being prudent, our low-risk investment approach, which focuses on lending to low-risk institutions, means we have been well placed to deal with challenges arising from difficulties the current global economy presents. We remain committed to supporting local businesses along with providing access to funding, as we work to grow our economy. Like most councils we still face financial pressures, rising costs and uncertainty over the long-term funding of some services. We will continue to spend and invest where necessary, focusing our efforts and resources on where they are most needed while providing best value for money for local taxpayers."

Report Summary:

1. This report describes the County Council's investment and borrowing activity during 2021/22. It reflects both borrowing and investment decisions taken throughout the year considering the interest rates and economic conditions prevailing at the time.

2. Treasury management activities involve large sums of money and reflect the huge scale of the County Council's operations. As at 31 March 2022, the County Council's overall debt level stood at £562m, which reflects capital expenditure decisions made in the past. Investments totalled £386m.

3. The County Council's treasury management activities were carried out prudently during the year and the policy of funding new borrowing from internal cash balances continues to generate significant savings.

4. As well as being prudent, the County Council's low-risk investment strategy, which focuses on lending to low-risk institutions and the need for liquidity and diversification, has ensured the County Council has been strategically placed to

deal with market challenges arising from global events such as the Covid 19 pandemic.

Recommendation(s)

I recommend that:

a. the treasury management activities for the year ended 31 March 2022, including the Prudential Indicators outturn detailed in **Appendix 4**, be noted.

b. Cabinet note and approve the use of the Minimum Revenue Provision at 31 March 2022 as set out in **paragraphs 29 and 30**.

c. Cabinet note and approve the proposed revision to the Non-Standard Investment limits detailed in **paragraphs 56 and 57** and **Appendix 5** of this report.

Local Members Interest If report is relevant to ALL Members, type 'N/A' into table and delete what is not required	
Insert Members Name	Insert Electoral Division

Cabinet – Wednesday 20 July 2022

Treasury Management Report for the Year Ended 31 March 2022

Recommendations of the Cabinet Member for Finance and Corporate Matters

I recommend that:

a. the treasury management activities for the year ended 31 March 2022, including the Prudential Indicators outturn detailed in **Appendix 4**, be noted.

b. Cabinet note and approve the use of the Minimum Revenue Provision at 31 March 2022 as set out in **paragraphs 29 and 30**.

c. Cabinet note and approve the proposed revision to the Non-Standard Investment limits detailed in **paragraphs 56 and 57** and **Appendix 5** of this report.

Report of the County Treasurer

Reasons for Recommendations:

1. At their meeting on 18 January 2012, Cabinet adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code).

2. Treasury risk management at the County Council is conducted within the framework of the revised 2021 edition of the CIPFA Code. This requires the County Council to approve a treasury management strategy before the start of each financial year and, as a minimum, provide a semi-annual and annual treasury outturn report. This report fulfils the Authority's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code.

3. This report provides a summary of the County Council's treasury management activities for 2021/22, in the context of the strategy for the year, which was agreed by Cabinet on 27 January 2021. It considers both the borrowing and investment decisions taken throughout the year in the light of the interest rates and economic conditions prevailing at the time.

4. Attached at **Appendix 6** of this report is a comprehensive glossary of treasury terms to provide definitions and background for treasury reports.

5. All implications considered for this report are shown at **Appendix 1**.

External context

6. The UK economy and economic recovery has fluctuated through 2021/22, but with most of the economy now fully reopened post the Covid 19 pandemic, the GDP numbers have been robust (9% y/y Q1 2022). This has been sufficient for the Monetary Policy Committee of the Bank of England (BoE) to focus on tackling the high levels of inflation, with the CPI measure rising to 9% in May and likely to exceed 10% later in the year.

7. Gilt yields fell towards the end of 2021 but, despite the war in Ukraine, gilt yields have climbed higher in 2022. At 1.38%, 2-year yields remain close to their recent 11-year high and 10-year yields of 1.9% are close to their recent six-year high. These rises have been part of a global trend as central banks have suggested they will continue to raise interest rates to contain inflation. The squeeze on real household disposable incomes arising from the 54% leap in April's utilities prices, as well as rises in council tax, water prices and many phone contract prices, are issues for the economy to deal with. In addition, from 1 April 2022, employees also pay 1.25% more in National Insurance tax. Consequently, the forecasts for GDP going forward are significantly lower than experienced during the immediate post pandemic recovery.

8. During the pandemic, the governments of many countries provided massive fiscal support to their economies which resulted in a big increase in total government debt in each country. It is therefore very important that bond yields stay low while debt to GDP ratios slowly subside due to economic growth. This provides reason to amend mandates to central banks to allow higher average levels of inflation than we have generally seen over the last couple of decades. Both the Federal Reserve (Fed) and the Bank of England have already changed their policy towards implementing their existing mandates on inflation, (and full employment), to hitting an average level of inflation. Greater emphasis could also be placed on hitting subsidiary targets e.g. full employment before raising rates. Higher average rates of inflation would also help to erode the real value of government debt more quickly.

9. In the US, the comments from Fed officials following the mid-March 2022 meeting had markets pricing in a further 225bps of interest rate increases in 2022, on top of the initial move to an interest rate range of 0.25% - 0.50%. In the EU, euro-zone inflation jumped to 7.5% in March, and it seems likely that the ECB will accelerate plans to increase interest rates and end the net asset purchase of assets earlier than Q3, which the European Central Bank (ECB) targeted in March. The market is now anticipating three 0.25% rate increases later this year followed by more in 2023.

10. Until recent years, world growth has been boosted by increasing globalisation i.e., countries specialising in producing goods and commodities in which they have an economic advantage and which they then trade with the rest of the world. This has boosted worldwide productivity and growth, and, by lowering costs, has also depressed inflation. Some economic commentators now forecast that we are heading into a period where there will be a reversal of world globalisation and a decoupling of western countries and less reliance on China (and to a much

lesser extent Russia) to supply products and vice versa, which may reduce long-term world growth rates.

Long-term borrowing 2021/22

11. The Treasury Management Strategy Report for 2021/22, approved by Cabinet on 27 January 2021, outlined the long-term borrowing strategy for the year, which was:

    "to use internal cash resources in lieu of borrowing."

12. The ability to borrow new loans was authorised as it was recognised that cash balances could fall as a result of unexpected changes in;
    - the capital programme;
    - budget pressures;
    - changes in the County Council's cash funding; and
    - the repayment of Lender Option Borrower Option loans (LOBOs).

    The following table summarises the use of cash for 2021/22:

2021/22	**£m**
Balance funded from cash brought forward	**100.772**
New debt	14.461
Minimum Revenue Provision (MRP) *	(20.716)
Loan repayments at maturity	4.034
Loans taken out	0
Balance funded from cash carried forward	**98.551**

* *£18.887m of the MRP is payable by the County Council, but the treasury team manage the entire position, including MRP for transferred services.*

13. In 2021/22, the amount of debt funded from internal cash balances has decreased from £100.772m at the start of the financial year to £98.551m by the end of the year. New debt created was less than MRP and there was a large loan amount maturing of £4m meaning that the overall use of cash decreased.

14. The strategy of using cash continues to rely upon two main factors:
    - interest rates, and in particular the difference between short-term investment rates and longer-term borrowing rates; and
    - having cash available to fund the strategy.

Interest rates

15. The Bank of England's (BoE) Monetary Policy Committee (MPC) cut Bank Rate from 0.75% to 0.25% on 11 March 2020 and immediately followed this with a cut to 0.10% on 19 March 2020. The BoE then embarked on a £200bn programme of quantitative easing (QE – the purchase of gilts so as to reduce borrowing costs throughout the economy by lowering gilt yields). The MPC further increased QE

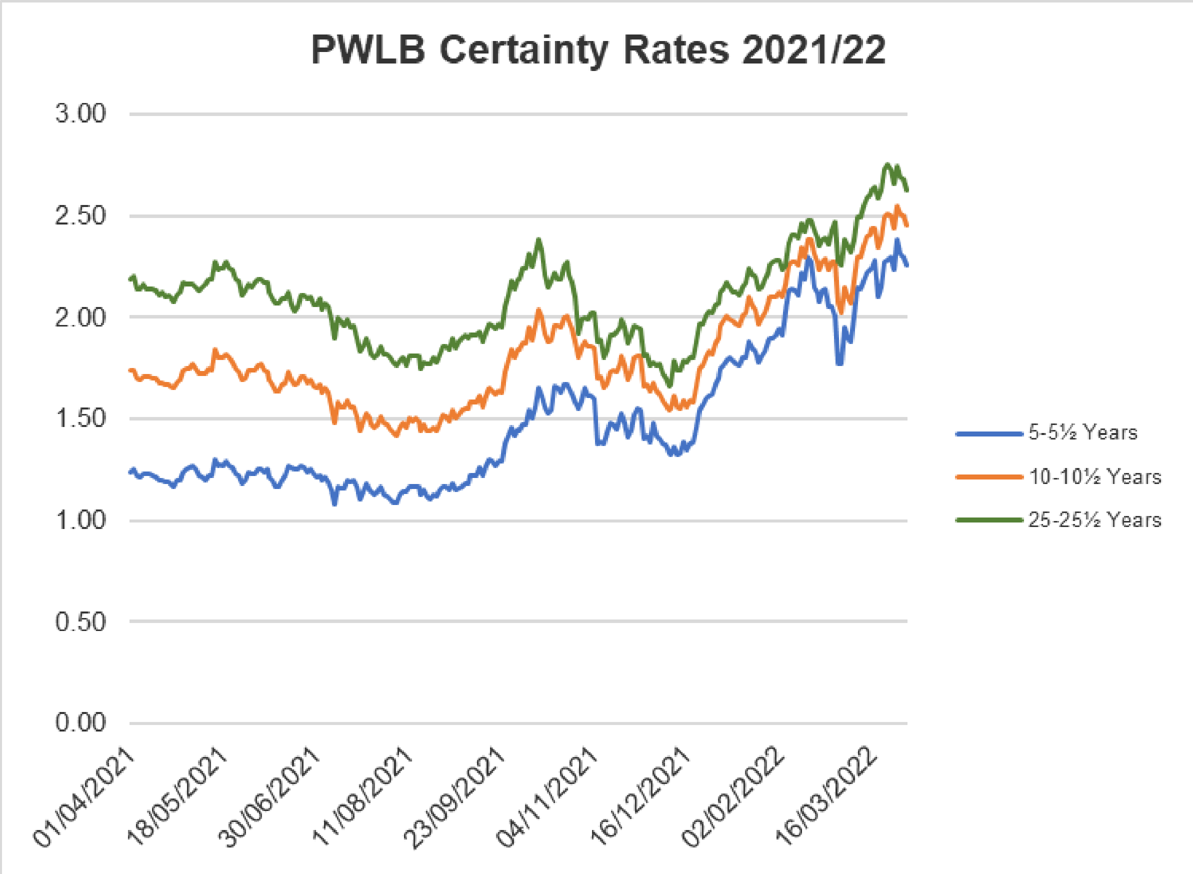
by £100bn in June 2020 and £150bn in November 2020, to take QEto a total of £895bn. The BoE left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16December 2021, 0.50% at its meeting of 4 February 2022, 0.75% on 17 March 2022 and most recently to 1.00% on 5 May 2022.

16. Average inflation targeting was the major change adopted in 2021/22 by the BoE in terms of implementing its inflation target of 2%. The key addition to the Bank's forward guidance in August 2021 was the new phrase in the policy statement that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and ***achieving the 2% target sustainably***". In effect this indicates, that even if inflation rises to 2%, this may not mean that action is taken by the MPC to raise Bank Rate. With inflation now significantly higher than the BoE forecast, due to the perfect storm of supply side shortages, labour shortages, commodity price inflation, the impact of Russia's invasion of Ukraine and subsequent Western sanctions, all indications are that inflation will be elevated until well into 2023.

17. Whilst the economic future is not clear, a strategy of using cash remains supported by the current economic situation and the forecast for relatively low interest rates in the future.

18. Longer term interest rates are more relevant when the County Council wants to take up a new loan; these are mainly sourced from the Public Works Loan Board (PWLB) whose loan interest rates vary daily reflecting changes in gilt yields in the UK Government bond market.

19. The following chart shows PWLB interest rates (at certainty rate) for three indicative loans throughout 2021/22:



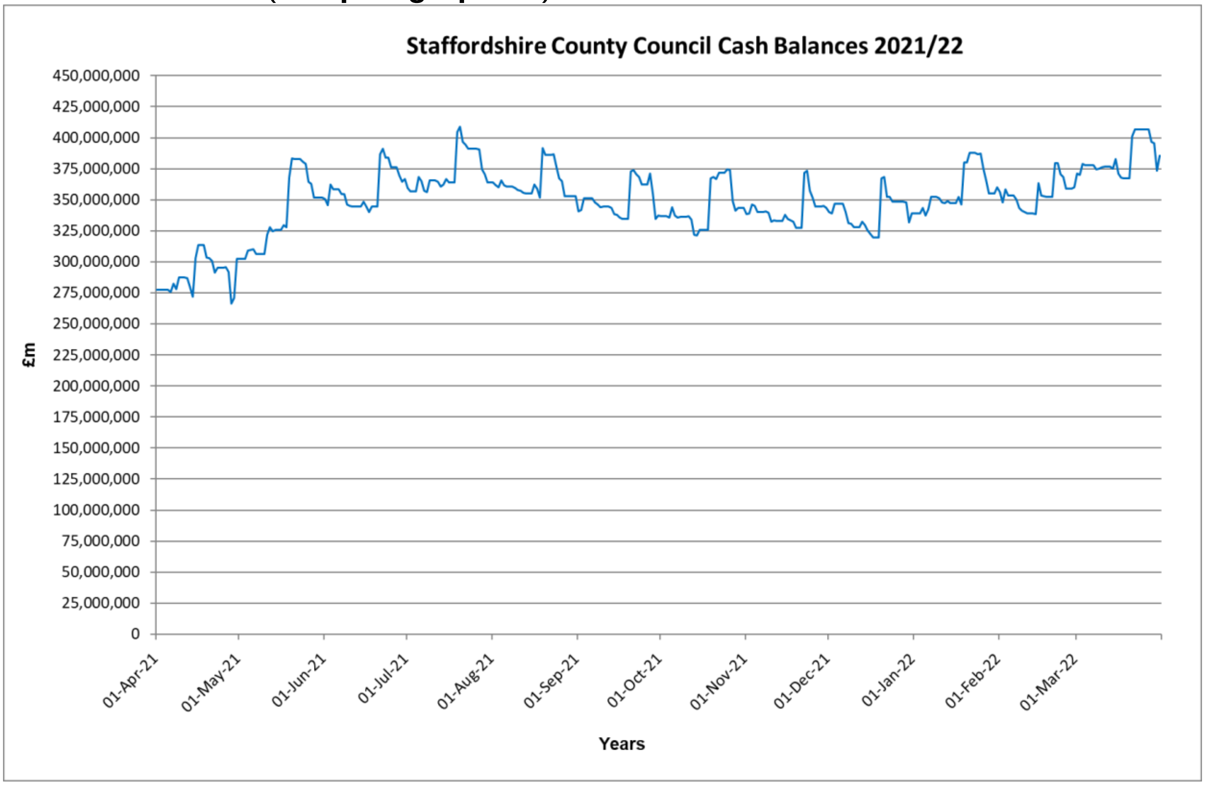
20. The chart shows rates slightly falling away in the first half of 2021/22 with a peak in October, before rising in the second half of the year due to the changing global environment. PWLB loans are priced with reference to gilt yields and the rise in gilt yields and thus PWLB rates reflected an increase in inflation figures. When Bank Rate is not expected to increase, demand and prices for existing UK Government debt will increase (when gilt prices increase their yields fall). As Bank Rate slowly rises it is expected that PWLB rates will also increase.

21. During 2021/22, HM Treasury introduced measures to prevent public bodies using PWLB funding to finance commercial investments and established mechanisms to recall such funding. The Department of Levelling Up Housing and Communities (DLUHC) is currently running a consultation exercise to further strengthen this principle with the introduction of metrics to measure capital risk.

22. It is important to understand the current relationship between short-term investment rates and longer-term rates. If borrowing in the form of a loan is taken, the proceeds could only be invested at rates significantly lower than the cost of the borrowing. At present this difference would be around 1% to 2% depending on the length of the loan, so avoiding raising new loans can result in significant savings (see **paragraph 24**).

Availability of Cash

23. An equally important consideration to support the policy of using cash in lieu of borrowing, is whether cash is available. The following graph shows the investment balances for 2021/22, which were sufficient to fund the use of cash of £98.551m (**see paragraph 11**).



24. The following table shows the average interest rate incurred on the County Council's loan portfolio, and an adjustment to this to reflect the use of cash.

	2020/21 %	**2021/22 %**
Weighted average rate of interest for external loans	4.64%	4.64%
Adjusted for the use of cash	3.83%	3.97%

25. The average rate on external loans is the same as last year as the loan maturity of £4m in 2021/22 is relatively small and did not occur until year end. On average, internally funding from cash balances in lieu of borrowing has saved the County Council £1.726m in interest payments this year. The interest rate adjusted for the use of cash was marginally higher in 2021/22 as with investment interest rates rising slowly and in small increments, the opportunity cost of using the cash in lieu of borrowing became slightly higher, and this portion of the County Council's debt was funded at a higher cost.

26. A graph illustrating the maturity profile of the long-term debt at 31 March 2022 is provided at **Appendix 2**.

27. The financing of the County Council's long-term debt at 31 March 2022 is summarised in the following table.

	£m	**% of Total**
PWLB fixed maturity loans and other	412.551	73
Lender Option Borrower Option (LOBO) loans	51.000	9
Internal funding from cash	98.551	18
Total debt position	**562.102**	**100**

Loan rescheduling in 2021/22

28. Movements in interest rates over time may provide opportunities to restructure the loan portfolio in one of two ways:
    - to replace existing loans with new loans at a lower rate (known as loan rescheduling); or
    - to repay loans early, without replacing the loans. This would increase the use of cash.

29. A combination of factors throughout 2021/22 meant that loan restructuring was not financially viable:
    - gilt yields were still low comparable to historical data, which means a large penalty would be payable;
    - Government policy is to apply a margin to the early repayment of a PWLB loan, which further increases the penalty payable; and
    - the gap between short-term interest rates and longer-term interest rates meant that no LOBO loans were called.

Annual provision for principal repayments (Minimum Revenue Provision)

30. Under the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2008, local authorities are given some flexibility in making an annual revenue provision for the repayment of debt.

31. In accordance with the approved policy, the Minimum Revenue Provision of £20.716m has been used to reduce the County Council's level of debt.

Annual Investment Strategy - Approved Lending List

32. The Annual Investment Strategy (AIS) sets out the parameters for the parties the County Council will lend its money to. The AIS sets out the requirements of government guidance and the CIPFA Code of Practice for Treasury Management. Both documents set out two prime risk issues:

    - the security of capital; and
    - the liquidity of investments.

33. The following characteristics underpin the AIS.

- the use of regulation investments and counterparties recommended by the treasury adviser (high level of security);
- the use of diversified sterling “AAA” Money Market Funds (MMFs) and same day liquidity accounts (high level of security and liquidity); and
- a maximum duration of 12 months for bank and building society investments (high level of security – minimum of A- rating).

34. A current approved lending list of County Council counterparties is attached as **Appendix 3**.

35. The County Council has the ability to place unlimited funds with the UK Government, including Local Authorities (LA’s) although investment in LA’s have been limited to £5m per counterparty by the Treasury Management Panel, to ensure investment diversification.

Treasury Management activity 2021/22

<u>Treasury Management Panel</u>

36. The treasury team monitor the financial markets as part of a risk management strategy. Regular reports are provided to the County Treasurer, who chairs the Treasury Management Panel (‘the Panel’) which is attended by senior finance and treasury officers. The Panel is supported by Link, the County Council’s specialist independent specialist advisors.

37. The CIPFA Guidance on Commercial Property Investment was published following a legal concern over local authorities borrowing to invest in property. It was confirmed that the County Council’s Commercial Investment Strategy was based on the use of capital receipts with no funding from borrowing proposed. Due to the practice of some authorities using borrowing to fund commercial investment, the treasury team have followed a policy of maximising exposure to £5m per local authority. The County Council would consider borrowing for service needs if the business case was strong enough.

38. The Panel discussed the high level of County Council cash balances throughout the year and agreed secure ways to hold the funds in line with the Annual Investment Strategy (AIS). The AIS sets out clearly the parameters that the authority uses to invest its money prescribing limits, time frames, institutions and types of investment officers can make. These are discussed monthly by the Panel and County Treasurer and all investments were made in compliance with these rules.

39. The Panel monitored geopolitical developments, such as implications of Brexit, the Russian invasion of Ukraine and the ongoing effects of the Covid 19 pandemic on investments. The Panel ensured the County Council had access to the Government’s DMO deposit account facility with the flexibility to increase limits temporarily for UK domiciled MMFs to ensure security and liquidity. As the

County Council's investment strategy was viewed as cautious, no additional measures were required.

40. The Panel looked at investing in both bank term deposits via a custodian account, as recommended by the County Council's treasury advisor, and Short Dated Bond Funds (SDBFs). The former of these has been actioned taking advantage of better yields with banks whilst due diligence is ongoing into SDBFs.

41. During the year, the Panel discussed the treasury reports required for 2021/22 following the revision of the CIPFA Codes of Practice on Treasury Management, the Prudential Code, and revised guidance on Local Government Investments and MRP from the DLUHC. In addition to the reports outlined in **paragraph 2**, the Panel approved the Capital Strategy and the Commercial Investment Strategy.

42. The Commercial Investment Strategy covers the requirements of DLUHC Guidance, in relation to investments held for service purposes, or for commercial profit. Although commercial investments could be considered for 2021/22, the County Council's 2021/22 annual investment strategy remained low risk, with a focus on safeguarding assets by investing in low risk institutions, and with a view to liquidity and diversification. The Panel considered there was no need to change this strategy during 2021/22.

43. The Panel discussed the implications of the revision to the CIPFA Codes of Practice on Treasury Management and the Prudential Code and ensured that a work plan is in place to meet all requirements for the deadline of 2023/24.

44. At the Panel meeting of 23 February 2022, it was agreed that Officers could make investments via an Agency Treasury Service run by Link, the County Council's treasury advisor. This allows the County Council to deposit funds via a custodian account into approved counterparties through an intermediary, in this case Link. The advantages to using this are that investments are available to the County Council, , at preferential rates in safe institutions which they may not normally have access to.

Credit risk management

45. The following table sets out the credit ratings awarded by credit rating agencies for the counterparties that the County Council has invested with at 31 March.

Credit Rating	**31 March 2021**	**31 March 2022**
	£m	**£m**
AAA	247.5	304.8
AA range (including AA+ and AA-)	0	32.0
A range (including A+ and A-)	2.1	18.8
Local Authorities	30.0	30.0
Total investments	**279.6**	**385.6**

46. The 2021/22 AIS set the minimum credit-rating of a counterparty at a long-term rating of 'A - ', where available. Counterparties rated below this level were automatically precluded from being on the lending list. From the table above, the highest rating ('AAA') was that given to MMFs, whilst the bank investments were graded in the 'A' range.

47. Whilst most local authorities are unrated by credit rating agencies, both regulations (which list local authorities as acceptable bodies to invest in) and their status as tax raising bodies make them highly creditworthy.

Treasury Management Investment transactions

48. Surplus cash is invested in money market instruments to earn interest in accordance with the AIS. All investments must comply with Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 which ensure authorities cannot 'speculate' with public funds, for example, authorities cannot invest surplus cash directly in the stock market.

49. Treasury Officers are authorised to invest in approved counterparties without further approval from the Panel or Members. These are called 'Standard Investments' and include the UK Government, short term Money Market funds and banks and building societies recommended by the County Council's treasury advisors.

50. In addition, the AIS allows investments in 'Non-Standard Investments' subject to approval from the Panel chaired by the County Treasurer. Collective Investment Schemes are a category within Non-Standard Investments which include Enhanced MMFs.

51. The County Council has an investment in the Royal London Cash Plus MMF; this Enhanced MMF has the same characteristics as same day liquidity MMFs but has a 3-day notice period and recommended investment duration of at least 6 months, due to a longer average maturity of the underlying investments. The Royal London Cash Plus MMF has allowed the County Council to earn an increased yield in a low interest rate environment.

52. The County Council's same day notice MMFs converted from a Constant Net Asset Value (CNAV) to a Low Volatility Net Asset Value (LVNAV) structure in January 2019. The assets of LVNAV MMFs are marked to market, meaning the dealing NAV (unit price) may fluctuate. However, the regulations confirm they will be allowed to maintain a constant dealing NAV provided they meet strict criteria and minimum liquidity requirements.

53. The following table summarises some key facts about the investment transactions over the last two years.

	2020/21	2021/22
Total Transactions in year	£0.855 billion	£0.762 billion
Total Interest receipts	£1.591 million	£1.447 million
Average return on investments	0.68%	0.41%
7-day LIBID* (benchmark)	(0.02%)	(0.04%)
Additional return generated	0.70%	0.37%
Adjusted without long-term local authority investments	0.15%	0.08%

** London Interbank BID interest rate*

54. The previous table shows that the level of total interest receipts in 2021/22 was lower than in the previous year. This reflects the impact of the global pandemic on the financial markets with interest rates remaining low for the first 3 quarters of 2021/22. Market rates have seen a marginal uptick since December 2021, but this has not counteracted the lower rates seen earlier in the year. The County Council did not make any investments with a negative rate during the year, which were offered by some institutions. The total interest receipts figure includes interest receipts from £30m of long-term local authority investments. These were made at an average rate of 4.02%, significantly higher than current market interest rates.

55. The long-term local authority investments were originally approved by Cabinet in 2013, for a maximum of £45m and the County Council has used £30m of the allocation. No further long-term investments have been made due to a lack of demand from borrowers.

56. Approved investments at 31 March 2022 stood at £385.595m (£279.549m at 31 March 2021) and these can be analysed as follows:

Long-term local authority	**£m**	**Term**
Derby City Council	7.500	28/11/2030
Derby City Council	7.500	28/11/2031
Redcar and Cleveland Borough Council	7.500	29/11/2032
Redcar and Cleveland Borough Council	7.500	29/11/2033
Debt Management Office		
Debt Management Office	5.000	27/05/2022
Debt Management Office	10.000	19/04/2022
Debt Management Office	10.000	19/04/2022
Debt Management Office	7.000	28/04/2022
Banks and building societies		
Lloyds (as banking provider)	8.795	Instant Access

Lloyds Bank Corporate Markets	5.000	30/06/2020
Standard Chartered Bank	5.000	22/06/2022
Money Market Funds		
Black Rock	93.500	Instant Access
Insight	87.500	Instant Access
Federated	11.500	Instant Access
Aberdeen	72.300	Instant Access
State Street	20.000	Instant Access
Enhanced Money Market Funds		
Royal London Cash Plus	20.000	2-day notice
TOTAL	**385.595**	

Of the total funds invested, £48m are held on behalf of third parties such as the Midland Engine and the Local Enterprise Partnership. In addition, the County Council received some Clinical Commissioning Group (CCG) funding in advance, which inflated year end balances.

57. The County Council has approval to use Non-Standard Investments, which was granted by Cabinet on the 28 January 2022 via the Treasury Management Strategy Statement. Non-Standard investments are all other types of approved investment counterparties that are not UK government, Banks and Building Societies, Local Authorities and MMFs i.e., those investments that are used less frequently and may require further approval from the Treasury Management Panel or Members.

58. Currently, non-standard investments have an individual investment cap amount per asset class of £50m (up to 10 years duration) with an overall cap of £150m for this group. These limits were set when the County Council held smaller cash balances and were considered to be a relevant and sensible proportion of that amount. Given the levels of cash the County Council holds, it is proposed that the limits are revised to £100m per asset class and £200m for this group in total. The revised investments authorised for use are shown at **Appendix 5**. Non-Standard Investments may then be considered more widely by the Treasury Management Panel for use where suitable.

Compliance with other matters

59. The following other matters can be confirmed:

(i) In accordance with financial regulations, the Treasury Management Panel, chaired by the County Treasurer (Section 151 Officer) and comprising other senior finance and treasury officers, met regularly to consider treasury matters;

(ii) All treasury related transactions were undertaken by authorised officers and within the limits approved by the County Council;

(iii) All investments were to counterparties on the approved lending list current at the time and fully met the requirements of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2008; and

(iv) As part of the County Council's Strategic Internal Audit Plan, the Treasury Management section is subject to regular audit. The outcome of the audit performed during 2020/21 was that a Substantial Assurance rating was provided by Staffordshire Internal Audit Services indicating the areas reviewed were adequately controlled and that internal controls were in place and operating effectively. The next audit will be performed during 2022/23.

(v) The County Council operated within the limits and Prudential Indicators for treasury management as set out in the County Council's Treasury Management Practices with the exception of the indicator relating to variable interest rates. This indicator is calculated based on the highest expected cash balance in the year but was surpassed towards the end of the year when forward funding was received from the CCG. This was discussed by the Treasury Management Panel during the year and arrangements made for the secure deposit of funds in line with the AIS. The outturn for all Prudential Indicators is shown in **Appendix 4**.

List of Background Documents

1. Treasury Management in the Public Services: Code of Practice (CIPFA) (2021)
2. Prudential Code for Capital Finance in Local Authorities (CIPFA) (2021)
3. The Local Authorities (Capital Finance and Accounting) (England) Regulations 2003
4. Statutory Guidance on Local Government Investments – Issued under Section 15(1) (a) of the Local Government Act 2003 (2018)
5. Statutory Guidance on Minimum Revenue Provision – Issued under section 21 (1A) of the Local Government Act 2003 (2018)
6. Localism Act 2011 – Guidance on the General Power of Competence in sections 1 to 6.

Contact Details

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Appendix 1

Cabinet 20 July 2022

Equalities implications – There are no equalities implications arising from this report.

Legal implications – There are no legal implications arising from this report.

Resource and value for money implications – The resource and value for money implications are contained within the body of the report.

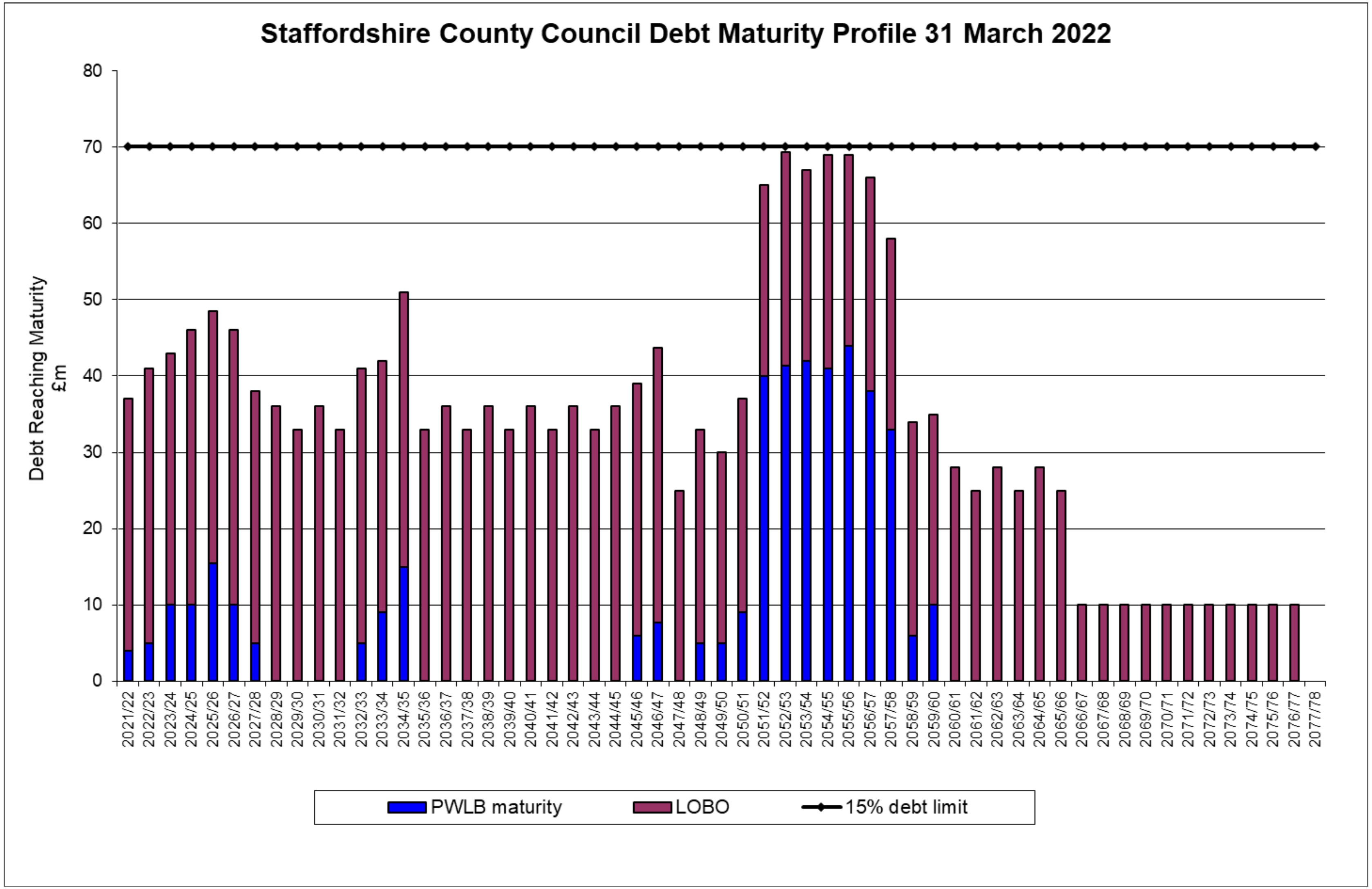
Risk implications – Counterparty, interest rate and refinancing risk arising because of treasury management activity have been considered in the body of this report.

Climate change and sustainability implications – There are no direct climate change implications arising from this report. Counterparties invested in by the County Council have ESG policies in place.

Health impact assessment screening – There are no health impact assessment implications arising from this report.

Appendix 2

Cabinet 20 July 2022



Appendix 3

Cabinet 20 July 2022

Approved lending list – 31 March 2022	
	Current time limit
Regulation investments	
DMADF account	6 months
UK Government Treasury Bills	6 months
UK local authority	12 months
Banks and building societies	
Barclays	6 Months
Lloyds	6 Months
Nationwide	6 Months
NatWest	6 Months
Standard Chartered	6 Months
HSBC	12 Months
SMBC	6 Months
Goldman Sachs	100 Days
Santander	6 Months
MMF's	
Black Rock	same day
Insight	same day
Federated	same day
Aberdeen	same day
State Street	same day
Enhanced MMF's	
Royal London Cash Plus	3-day notice

Appendix 4

Cabinet 20 July 2022

Prudential Indicators for Treasury Management

Indicator	Estimate 2021/22	Actual Position at 31/03/22
1. External debt		
Authorised Limit for borrowing	£667m	£464m
Authorised Limit for other liabilities	£258m	£223m
TOTAL	**£925m**	**£687m**
Operational Boundary for borrowing	£522m	£464m
Operational Boundary for other liabilities	£258m	£223m
TOTAL	**£780m**	**£687m**
External loans	**£464m**	**£464m**
The Authorised Limit is the maximum level of external borrowing which should not be exceeded. It is linked to the estimated level of borrowing assumed in the capital programme. *The Operational Boundary represents an estimate of the day-to-day limit for treasury management borrowing activity based on the most likely i.e. prudent but not worst-case scenario.* *"Other liabilities" relate to PFI schemes which are recorded in the County Council's accounts.*		
2. Interest rate exposures		
a. Upper Limit (Fixed)	£582m	£434m
b. Upper Limit (Variable)	(£340m)	(£355m)
The County Council has set upper limits of fixed and variable borrowing and investments. The effect of setting these upper limits is to provide ranges within which the County Council will manage its exposure to fixed and variable rates of interest. Negative figures are shown in brackets; these relate to the 'high-point' of investments at a variable rate which are not offset by variable borrowings. The exposure to variable rate movements has been reduced by using cash in lieu of borrowing.		
3. Maturity structure of borrowing		
See Graph at **Appendix 2**		
This indicator relates to the amount of loans maturing in specified periods. The overarching principle is that steps should be taken from a risk management point of view to limit exposure to significant refinancing risk in any short period of time. The County Council currently applies the practice of ensuring that no more than 15% of its total gross fixed rate loans mature in any one financial year. *Because this is a complex situation for the County Council, involving PWLB loans, LOBO loans with uncertain call dates and the use of internal cash, specific indicators have not been set. Instead, the County Council will manage its exposures within the limits shown in the graph at* ***Appendix 2****. This graph shows all LOBO call options on a cumulative basis; in fact, the actual pattern of repayment, although uncertain, will not be of this magnitude.*		
4.Upper limit for total principal sums invested for longer than a year (from maturity)		
This limit has been set at the total amount that could be invested in non-standard investments as per the County Council's policy which is the maximum that could be invested for 1 year or over.	£95m	£30m

Appendix 5

Cabinet 20 July 2022
Investment categories authorised for use 2022/23

Investment	Standard	Non-standard	Comments
UK Government - Debt Management Account Deposit Facility (DMADF) (regulation investment)	**unlimited**	×	6 months maximum available
UK Government - Treasury Bills (T-Bills) (regulation investment)	**unlimited**	×	6 months maximum available
UK local authorities term deposits (regulation investment) *	**unlimited**	**£45m across these categories**	Up to 40 years in duration (non-standard)
UK Government – Gilts	**unlimited**		
Money Market Funds	✓	×	100% of total investments in this category. Individual MMF - Lower of 0.50% of individual MMF size or 25% of total forecast cash balances per MMF
Term deposits with banks and building societies	✓	×	50% of total investments in this category. Lower of 5% (unsecured) or 10% (secured) of total forecast cash balances or £30m per counterparty
Certificates of deposit (banks / building societies)	×	**Maximum £100m per investment category and £200m in total across all categories**	Up to 10 years in duration (non-standard)
Bonds issued by Multilateral Development Banks	×		
Collective Investment Schemes	×		
Covered Bonds	×		
Real Estate Investment Trusts	×		
Repos (repurchase agreement)	×		

** Up to 12 months*

Appendix 6

Cabinet 20 July 2022

Treasury Management Glossary

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: : the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

FOMC: the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.

GDP: gross domestic product – a measure of the growth and total size of an economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--who meet annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

IMF: International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.

LIBID: the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. This benchmark ceased on 31st December 2021 and have, generally, been replaced by SONIA, the Sterling Overnight Index Average.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: quantitative easing – is a form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy and this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target. QE is reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).