Cabinet Meeting on Wednesday 19 July 2023

Treasury Management Outturn Report 2022/23

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. In addition to 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 face financial pressures, rising costs and uncertainty over the long-term funding of some services but we will continue to spend and invest where necessary, focusing our efforts and resources on where they are most needed."

Report Summary:

1. This report describes the County Council's investment and borrowing activity during 2022/23. 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 2023, the County Council's overall debt level stood at £459m, which reflects capital expenditure decisions made in the past. Investments totalled £425m. The County Council holds no commercial investments.

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 war in Ukraine and global inflationary pressures.

Recommendation(s)

I recommend that:

a. the treasury management activities for the year ended 31 March 2023, 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 2023 for £20.441m as set out in **paragraphs 31 and 32**.

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 19 July 2023

Treasury Management Outturn Report 2022/23

Recommendations of the Cabinet Member for Finance and Corporate Matters

I recommend that:

a. the treasury management activities for the year ended 31 March 2023, 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 2023 for £20.441m as set out in **paragraphs 31 and 32**.

Report of the Director of Finance

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 2022/23, in the context of the strategy for the year, which was agreed by Cabinet on 27 January 2022. 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. Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, it is no surprise that UK interest rates have been volatile, from Bank Rate through to 50-year gilt yields, for all of 2022/23.

7. With the view that elevated global inflation was a temporary phenomenon giving way to concerns over persistent and embedded high inflation, bond markets were volatile during 2022/23. UK, Eurozone, and US 10-year yields all rose by over 2.0% in 2022. The table below provides a snapshot of the issues facing central banks in raising interest rates to combat inflation, with tight labour markets making it a matter of fine judgment as to how far they can raise interest rates without unduly damaging economies.

	UK	Eurozone	US
Bank Rate	5.00%	4%	5%-5.25%
GDP	+0.1% q/q	-0.1% q/q	1.3% q/q
Inflation	8.7%y/y (April)	6.1%y/y (May)	4.0%y/y (May)
Unemployment Rate	3.8% (Apr)	6.5% (Apr)	3.7% (May)

As at June 2023.

8. Q2 of 2022 saw UK GDP deliver growth of +0.1% q/q, but this was reversed in Q3 with some of the fall in GDP attributed to the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1% q/q. Most recently, January saw a 0.3% m/m increase in GDP as the number of strikes reduced compared to December. In addition, the resilience in activity at the end of 2022 was in part due to a 1.3% q/q rise in real household disposable incomes. This reflects the £5.7bn payments received by households from the government under the Energy Bills Support Scheme. The Council's Treasury Advisers, Link, expect real GDP to contract by around 0.2% q/q in Q1 and forecast a recession in 2023 involving a 1.0% peak-to-trough fall in real GDP.

9. CPI inflation peaked at 11.1% in October; significant falls from this level depend on the gas and electricity markets, as well as the supply-side factors impacting food prices. On balance, most commentators expect the CPI measure of inflation to drop back towards 4% by the end of 2023. As of March 2023, CPI was 10.1%. To combat this Bank Rate was increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.

10. In the US, markets are pricing in further interest rate increases of 0.25%-0.50%, on top of the current interest rate range of 4.75% - 5%. In addition, the Fed is expected to continue to reduce its balance sheet once the on-going concerns about some elements of niche banking provision have receded. US inflation in March 2023 is currently at c6% but with the economy expected to weaken during 2023, and wage data already falling back, there is the prospect that should the

economy slide into a recession there will be scope for rates to be cut at the end of 2023 or shortly after.

11. In the EU the Euro-zone inflation rate has fallen below 7%, the ECB is still aware that it has further work to do to reduce inflation and it is expected that interest rates could be raised to 4% to do so. Like in the UK, growth has remained more robust than anticipated but a recession in 2023 is still seen as likely by most commentators.

Long-term borrowing 2022/23

12. The Treasury Management Strategy Report for 2022/23, approved by Cabinet on 27 January 2022, outlined the long-term borrowing strategy for the year, which was:

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

13. 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 (such as inflation);
    - 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 2022/23:

2022/23	**£m**
Balance funded from cash brought forward	**99.294**
New debt	18.309
Minimum Revenue Provision (MRP) *	(20.441)
Loan repayments at maturity	5.034
Loans taken out	0
Balance funded from cash carried forward	**102.196**

* *£18.832m of the MRP is payable by the County Council, but the treasury team manage the entire position, including MRP for transferred services.*

14. In 2022/23, the amount of debt funded from internal cash balances has increased from £99.294m at the start of the financial year to £102.196m by the end of the year. New debt created was less than MRP by £2.132m but there was a large loan amount maturing of £5m meaning that the overall use of cash increased as £2.868m required alternative funding.

15. 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

16. 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 left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16 December 2021, 0.50% at its meeting of 4 February 2022 and 0.75% on 17 March 2022. The following table shows Bank Rateduring 2022/23, it can be seen that the Bank of England have raised it a number of times to tackle inflation.

Date	Bank Rate %
5 May 2022	1.00
16 June 2022	1.25
4 August 2022	1.75
22 September 2022	2.25
3 November 2022	3.00
15 December 2022	3.50
2 February 2023	4.00
23 March 2023	4.25
11 May 2023	4.50
21 June 2023	5.00

The County Council’s independent treasury advisers, Link, see interest rates rising to 5.50% in the second half of 2023/24 before reducing to 4.75% in September 2024 and 2.75% by September 2025.

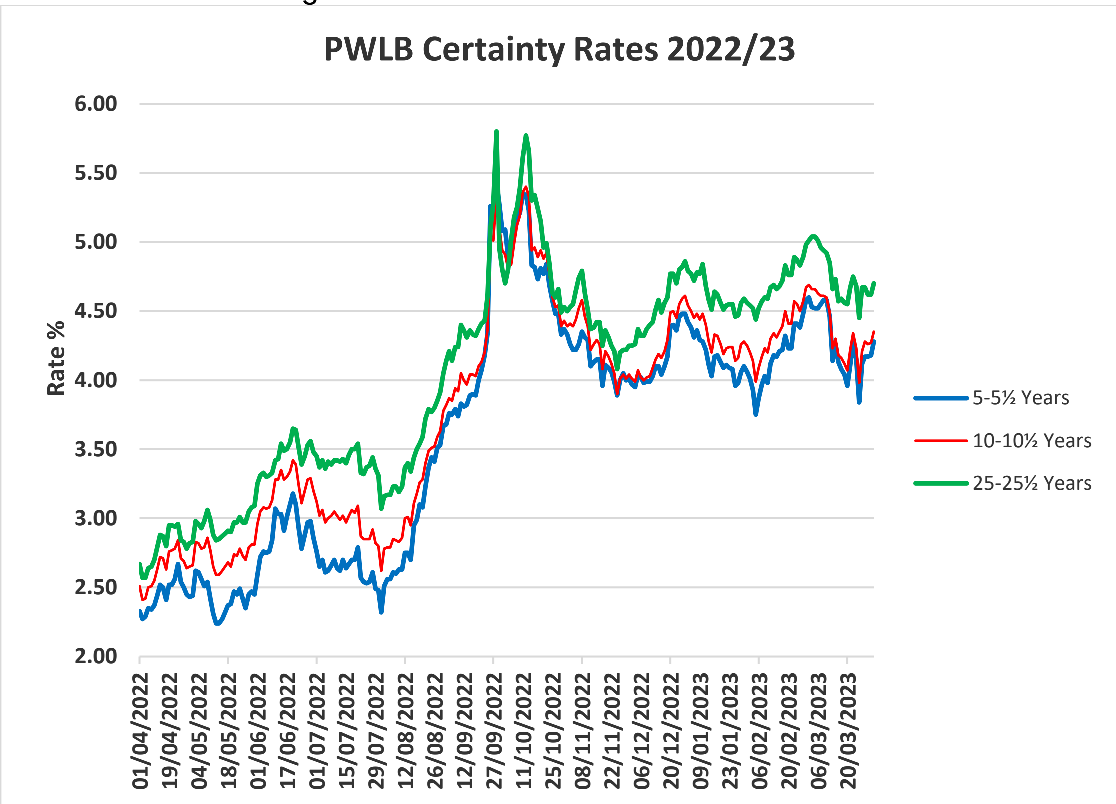
Bank Rate	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
26.06.23	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75

17. 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 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 2024.

18. 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 to historical comparisons.

19. 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.

20. The following chart shows PWLB interest rates (at certainty rate) for three indicative loans throughout 2022/23:



21. The chart shows rates rising steadily throughout the beginning of 2022/23 as global economic and political issues affected inflation and government borrowing levels. The UK cost of borrowing spiked in September as the then Prime Minister, Liz Truss announced the 'fiscal event' but eased as a new government took control.

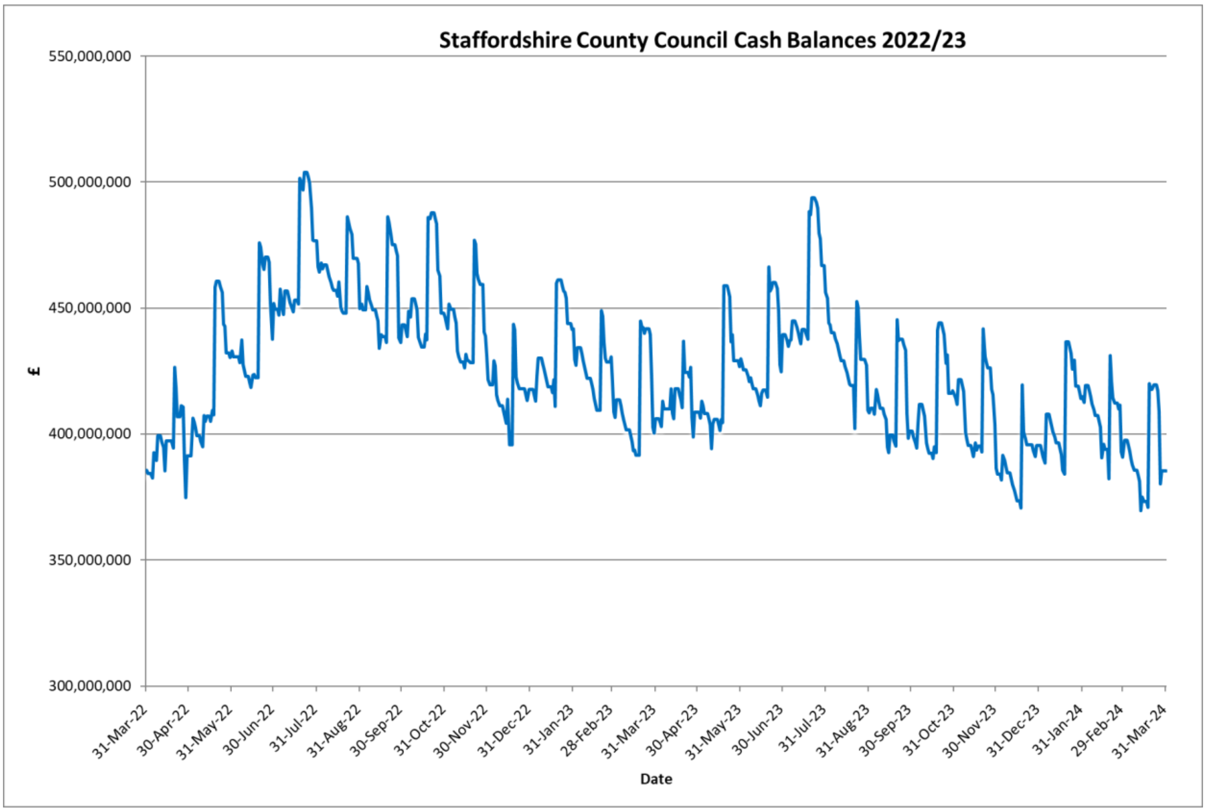
22. During 2021/22, HM Treasury introduced measures to prevent public bodies using PWLB funding to finance commercial investments and established mechanisms to recall such funding. After consultation with Local Authorities the Department of Levelling Up Housing and Communities (DLUHC) ratified the measures and they were incorporated into the latest CIPFA Prudential Code and legislation.

23. 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 lower than the cost of the borrowing. At present this difference would be around 0.5% to 1% depending on the length of the loan, so avoiding raising new loans can result in significant savings (see **paragraph 26**).

Availability of Cash

24. 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 2022/23, which were sufficient to fund the use of cash of £102.196m (**see paragraph 13**).



25. 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.

	2021/22 %	**2022/23 %**
Weighted average rate of interest for external loans	4.64%	4.58%
Adjusted for the use of cash	3.97%	4.27%

26. The average rate on external loans is slightly lower than last year as the loan maturity of £5m on 20 August 2022 was at a higher rate than the rest of the loan portfolio. On average, internally funding from cash balances in lieu of borrowing has saved the County Council £1.721m in interest payments this year. The interest rate adjusted for the use of cash was marginally higher in 2022/23 as rapidly rising interest rates meant the opportunity cost of using the cash in lieu of borrowing became higher and this portion of the County Council's debt was effectively funded at a higher cost.

27. A graph illustrating the maturity profile of the long-term debt at 31 March 2023 is provided at **Appendix 2**.

28. The financing of the County Council's long-term debt at 31 March 2023 is summarised in the following table.

	£m	**% of Total**
PWLB fixed maturity loans and other	407.516	73
Lender Option Borrower Option (LOBO) loans	51.000	9
Internal funding from cash	102.196	18
Total debt position	**560.712**	**100**

Loan rescheduling in 2022/23

29. 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.

30. A combination of factors throughout 2022/23 meant that loan restructuring was not financially viable:
    - gilt yields rose but on average were still lower than historical rates, which means a penalty would be payable to repay debt;
    - 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)

31. 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.

32. In accordance with the approved policy, the Minimum Revenue Provision of £20.441m has been used to reduce the County Council's level of capital financing requirement.

Annual Investment Strategy - Approved Lending List

33. 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.

34. 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).

35. The current approved lending list of County Council counterparties is attached as **Appendix 3**.

36. 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 2022/23

Treasury Management Panel

37. The treasury team monitor the financial markets to monitor and manage risk. Regular reports are provided to the Director of Finance, 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.

38. The Panel discussed the high level of County Council cash balances throughout the year and agreed secure ways to hold monies in line with the Annual Investment Strategy (AIS). The AIS sets out clearly the parameters that the County Council 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 Director of Finance and all investments were made in compliance with these rules.

39. The Panel monitored geopolitical developments, such as implications of global inflation and supply issues, 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, in conjunction with the County Council’s treasury advisor, considered utilising Short Dated Bond Funds (SDBFs) as an investment vehicle. After a tender exercise and a full due diligence review two funds were selected and an initial deposit of £15 million invested into each.

41. During the year, the Panel discussed and adhered to the treasury reporting requirements 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 2022/23, the County Council's 2022/23 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 2022/23.

43. The Panel discussed the implications of the revision to the CIPFA Codes of Practice for 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. The Panel agreed that Officers should continue to 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 2022**	**31 March 2023**
	£m	**£m**
AAA	304.8	208.0
AA range (including AA+ and AA-)	32.0	85.5
A range (including A+ and A-)	18.8	71.1
Unrated Bond Funds	0	30.0
Local Authorities	30.0	30.0
Total investments	**385.6**	**424.6**

46. The 2022/23 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.

48. During 2022/23 the County Council has invested in two Short Dated Bond Funds as permitted by the Treasury Management Strategy. Officers undertook a rigorous selection process from a shortlist of 12 funds in conjunction with the Council's independent advisers, Link to identify the most suitable funds. These funds are high performing but need to be held over a longer period to accrue returns. These funds are monitored on a regular basis and reported formally in the County Council's Statement of Accounts.

Treasury Management Investment transactions

49. 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.

50. 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.

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

52. 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.

53. 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.

54. The County Council now holds investments in two Short Dated Bond Funds, these are diversified pooled investment vehicles with an extended investment horizon over MMFs and Enhanced MMFs. There is a risk that these investments may suffer diminishing capital in certain economic conditions but may also enhance capital investment in the favourable conditions whilst earning enhanced interest returns. After a comprehensive due diligence review the two funds invested into in 2022/23 met the County Councils investment criteria.

55. The following table summarises some key facts about the County Council's investments over the last two years.

	2021/22	2022/23
Total Interest receipts	£1.447 million	£9.329 million
Average return on investments	0.41%	2.21%
7-day LIBID* (benchmark)	(0.04%)	N/A
SONIA** rate	N/A	2.26%
Differential to Benchmark	0.37%	-0.05%
Adjusted without long-term local authority investments	0.08%	2.07%

** London Interbank BID interest rate*
*** Daily Sterling Overnight Index Average*

56. The table above shows that the level of total interest receipts in 2022/23 was far higher than in the previous year. This reflects the impact of the rising interest rate environment that has occurred over the last 12 months. The Council's return is slightly less than the SONIA benchmark as this rate rises immediately in line with rising rates whereas the physical investments are placed in a market where the rates a slower to react. The opposite would be true in a falling interest rate environment. 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% in 2013, significantly higher than current market interest rates at that time.

57. 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.

58. Approved investments at 31 March 2023 stood at £424.596m (£385.595m at 31 March 2022) 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	10.000	09/06/2023
Debt Management Office	11.000	28/04/2023

Debt Management Office	9.000	22/05/2023
Debt Management Office	9.000	24/05/2023
Debt Management Office	5.000	01/09/2023
Debt Management Office	4.000	07/06/2023
Debt Management Office	5.000	08/09/2023
Debt Management Office	3.000	10/08/2023
Debt Management Office	6.000	15/06/2023
Debt Management Office	4.500	15/06/2023
Debt Management Office	10.000	15/09/2023
Debt Management Office	2.000	19/07/2023
Debt Management Office	7.000	21/08/2023
Banks and building societies		
Lloyds (as banking provider)	1.096	Instant Access
Goldman Sachs International	5.000	19/04/2023
Goldman Sachs International	5.000	24/04/2023
Goldman Sachs International	5.000	30/05/2023
Landesbanken Hessen Thueringen Girozentrale	5.000	11/04/2023
Landesbanken Hessen Thueringen Girozentrale	5.000	20/06/2023
Lloyds Bank Corporate Markets	5.000	18/04/2023
NatWest Markets	10.000	26/04/2023
SMBC Bank International	5.000	05/04/2023
SMBC Bank International	5.000	20/06/2023
SMBC Bank International	5.000	21/06/2023
Standard Chartered Bank	5.000	05/05/2023
Standard Chartered Bank	5.000	15/05/2023
Standard Chartered Bank	5.000	24/07/2023
Money Market Funds		
Black Rock	84.050	Instant Access
Insight	4.000	Instant Access
Federated	18.050	Instant Access
Aberdeen	57.900	Instant Access
State Street	24.000	Instant Access
Bond Funds		
AXA Sterling Credit Short Duration Bond Fund	15.000	3-day notice
Royal London Investment Grade Short Dated Credit Fund	15.000	3-day notice
Enhanced Money Market Funds		
Royal London Cash Plus Fund	20.000	2-day notice
TOTAL	**424.596**	

Of the total funds invested, £14.7m are held on behalf of third parties such as the Midland Engine and the Local Enterprise Partnership.

59. The County Council approved the use of Non-Standard Investments, with increased limits agreed by Cabinet on the 20 July 2022 as set out in the Treasury Management Outturn Statement 2021/22. 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. The use of these has been discussed in **paragraph 54**.

60. Currently, Non-Standard Investments have an individual investment limit per asset class of £100m and £200m for this group in total. Non-Standard Investments may be considered more widely by the Treasury Management Panel where there are suitable opportunities, as has been the case during 2022/23 in setting up Short Dated Bond Funds.

Compliance with other matters

61. The following other matters can be confirmed:

(i) In accordance with financial regulations, the Treasury Management Panel, chaired by the Director of Finance (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;

(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 2022/23 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 2024/25; and

(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 except for the indicator relating to variable interest rates. This indicator is calculated based on the highest expected cash balance in the year but has been surpassed due to the levels of cash that have been held in grants, CCG prepayments and reserves over the last 3 years. 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**.

(vi) Treasury activity is reported regularly to Cabinet.

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.

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Appendix 1

Cabinet 19 July 2023

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.

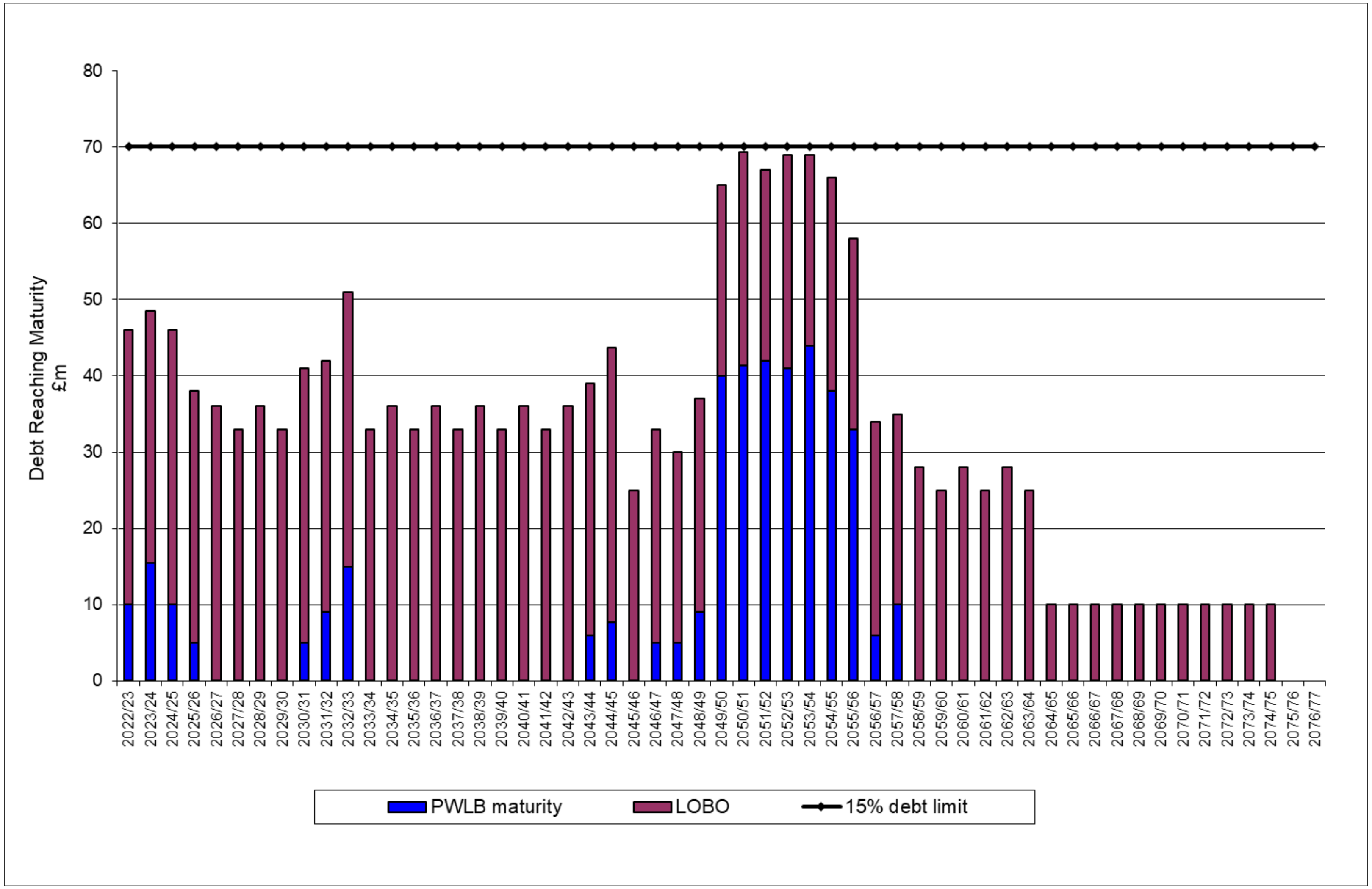
Risk implications – Counterparty, interest rate and refinancing risk arising because of treasury management activity have been considered in the body of this report.

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 19 July 2023
County Council Debt Maturity Profile



Appendix 3

Cabinet 19 July 2023

Approved lending list – 31 March 2023	
	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	6 Months
Landesbanken Hessen-Thueringen Girozentrale	6 Months
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	2-day notice
Bond Funds	
AXA Sterling Credit Short Duration Bond Z Gross Inc	3-day notice
Royal London Investment Grade Short Dated Credit Fund	3-day notice

Appendix 4

Cabinet 19 July 2023

Prudential Indicators for Treasury Management

Indicator	Estimate 2022/23	Actual Position at 31/03/23
1. External debt		
Authorised Limit for borrowing	£662m	£459m
Authorised Limit for other liabilities	£258m	£223m
TOTAL	**£920m**	**£682m**
Operational Boundary for borrowing	£515m	£459m
Operational Boundary for other liabilities	£258m	£223m
TOTAL	**£773m**	**£682m**
External loans	**£721.6m**	**£459m**
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)	£543m	£429m
b. Upper Limit (Variable)	(£316m)	(£424m)
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 19 July 2023
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*

Cabinet 19 July 2023

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.

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).