ITEM No …3………..

REPORT TO: POLICY & RESOURCES COMMITTEE – 23 JANUARY 2023

REPORT ON: TREASURY MANAGEMENT ACTIVITY 2022/2023 (MID-YEAR REVIEW)

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 12-2023

1 PURPOSE OF REPORT

To review the Treasury Management activities for the period 1 April to 30 September 2022.

2 RECOMMENDATION

The Committee is asked to note the information contained herein.

3 FINANCIAL IMPLICATIONS

The Treasury Management activity during the first half of the current financial year indicates that the Loans Fund interest rate of 3.40%, assumed when setting the 2022/2023 Revenue Budget, will be achieved. A saving of around £2.3m against budget provision for capital financing costs in HRA and General Services is being projected. Capital financing costs are continually monitored throughout the financial year.

4 BACKGROUND

The Council operates a balanced budget, which broadly means cash raised during the year will meet its revenue cash expenditure. An integral part of the treasury management operations is to ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

At its meeting on 7 March 2022, the Policy and Resources Committee approved the Council's Treasury Policy Statement (Report no. 49-2022, article III of minute refers) setting out the policies which would govern all borrowing and lending transactions carried out by the Council.

The Treasury Policy Statement requires that the Policy and Resources Committee will receive and consider the Treasury Management Strategy at the beginning of each new financial year. On 7 March 2022, the Policy and Resources Committee approved the Council's Treasury Management Strategy for 2022/2023 (Report no. 50-2022, article IV of minute refers). This monitoring report covers the Treasury Management activity over the first six months of 2022/2023 financial year.

5 DEBT POSITION

The Council's gross debt position at the beginning and mid-point of the financial year was as follows:

		1 April 2022		30 September 2022	
Funding type		Principal £m	Average Rate %	Principal £m	Average Rate %
Long-term Fixed Rate	PWLB (Public Works	480.9	3.9	473.9	3.9

	Loans Board)				
	Market	25.0	4.4	25.0	4.4
Long-term Variable Rate	PWLB	-	-	-	-
	Market	15.0	4.3	15.0	4.3
Total Long-term Debt		520.9	3.9	513.9	3.9
Short-term Fixed Rate	Market	21.8	0.7	11.9	1.0
Total Debt		**542.7**	**3.8**	**525.8**	**3.8**

6 ACTUAL BORROWING

6.1 Long-Term - Public Work Loans Board

No long-term borrowing was undertaken in the report period.

6.2 Short-Term - Market

In order to indicate the level of short-term borrowing, shown below are the lowest and highest daily amounts outstanding each month, together with the short-term borrowing position at the end of every month and the range of interest rates at which borrowing was undertaken:

Month	Lowest Amount Outstanding £m	Highest Amount Outstanding £m	End of month Amount Outstanding £m	Interest Rate Range %	
2022				Min	Max
April	21.8	31.8	31.8	0.47	0.95
May	26.8	31.8	26.9	0.65	0.95
June	16.9	26.9	16.9	0.83	0.95
July	16.9	16.9	16.9	0.94	0.95
August	16.9	16.9	16.9	0.95	0.95
September	11.9	16.9	11.9	0.95	0.95

The Council's Treasury Strategy document provides that the amount of the overall borrowing which may be outstanding by way of variable rate exposure should be no greater than 30% of net borrowings included in Prudential Code Indicators (circa £151m).

7 ACTUAL LENDING

Balances on reserves and variations in cash flow requirements mean that there will be surplus funds which will be invested for short periods (maximum of 364 days). Short-term investments will be restricted only to those institutions identified in the Council's Approved Counterparties list provided they have maintained a suitable credit rating.

The lending figures shown include funds held on behalf of Tay Road Bridge Joint Board, Tayside Valuation Joint Board and Tayside Contracts.

An analysis of the lending position to 30 September 2022 below shows:

Month	Lowest Amount Lent £m	Highest Amount Lent £m	End of month Amount Lent £m	Interest Rate Range %	
2022				Min	Max
April	32.0	56.9	56.9	0.51	0.79
May	38.0	60.0	38.0	0.63	0.94
June	40.7	60.0	40.7	0.89	1.13
July	39.5	63.2	51.2	1.11	1.35

August	51.2	70.0	51.5	1.11	1.73
September	42.4	67.4	42.4	1.64	2.54

All of the above investments complied with the approved Treasury Policy Statement.

8 SPECIFIED INVESTMENTS

In accordance with the Treasury Management Strategy, in specific circumstances, specified funds identified by the Executive Director of Corporate Services are invested in longer term investment vehicles. These funds are Common Good; General Insurance; and Maintenance and Perpetuity of Lairs. These investments may have a higher risk threshold and can be subject to market fluctuation. Investment activity in the current financial year is summarised as follows:

Value of funds invested at 1 April 2022	£6,814,678
Withdrawals made within period	-
Value of funds invested at end of period	£6,814,678
Value of funds at 30 September 2022	£5,589,115
Unrealised Capital Gain / (Loss) on Investments	(£1,225,563)
Income from Investments	£114,740
Total Unrealised Gain / (Loss) on Investments	(£1,110,823)

The specified investment portfolios have decreased in value as a result of the sharp rise in gilt yields following the mini-budget. These investments are long-term in nature and thus temporary volatility should be noted, but as there is no intention to sell, the loss in value is not crystallised. These investments continue to provide the required budgetary income. Please also note that as at 30 November 2022, the value of funds invested had recovered to £5,978,226 as gilt yields began stabilising.

9 OUTLOOK FOR THE SECOND HALF OF 2022/2023

The Council's appointed treasury advisors (Link Group) assist the Council in formulating a view on interest rates. Link Group provided the following forecasts on 8 November 2022. These interest rate forecasts are for various terms, PWLB certainty rates are gilt yields plus 80bps:

	Dec-22	**Mar-23**	**Jun-23**	**Sep-23**	**Dec-23**	**Mar-24**
Base Rate View	3.50%	4.25%	4.50%	4.50%	4.50%	4.00%
3m average earnings	3.60%	4.30%	4.50%	4.50%	4.50%	4.00%
6m average earnings	4.20%	4.50%	4.60%	4.50%	4.20%	4.10%
12m average earnings	4.70%	4.70%	4.70%	4.50%	4.30%	4.20%
5yr PWLB Rate	4.30%	4.30%	4.20%	4.10%	4.00%	3.90%
10yr PWLB Rate	4.50%	4.50%	4.40%	4.30%	4,20%	4.00%
25yr PWLB Rate	4.70%	4.70%	4.60%	4.50%	4.40%	4.30%
50yr PWLB Rate	4.30%	4.40%	4.30%	4.20%	4.10%	4.00%

	Jun-24	**Sep-24**	**Dec-24**	**Mar-25**
Base Rate View	3.75%	3.50%	3.25%	3.00%
3m average earnings	3.80%	3.30%	3.00%	3.00%
6m average earnings	3.90%	3.40%	3.10%	3.00%
12m average earnings	4.00%	3.50%	3.20%	3.10%
5yr PWLB Rate	3.80%	3.60%	3.50%	3.40%
10yr PWLB Rate	3.90%	3.70%	3.60%	3.50%
25yr PWLB Rate	4.10%	4.00%	3.90%	3.70%
50yr PWLB Rate	3.80%	3.70%	3.60%	3.40%

Bank of England Monetary Policy Committee has now increased interest rates eight times in as many meetings in 2022 and has raised rates to their highest level since the Global Financial Crisis. The interest rate forecast table above shows base rate is expected to increase to 4.50% during 2023 then begin to fall to 3.25% during 2024.

10 **PRUDENTIAL CODE INDICATORS**

The Treasury Management activity at mid year was maintained within the prudential code limits. Updated indicators are shown in Appendix 1. Limits for future years have been amended to take account of current expectations.

11 **RISK**

The Treasury Risks have been reviewed and note the following change has been made to the Treasury Risk Register since last assessment in September 2022 (attached in Appendix 2):

- Risk 2. Decline / rise in interest rates

Due to recent rises in interest rates and also forecast outlook for further increases, the likelihood of the potential outcome of this risk affecting revenue budgets is almost certain.

12 **POLICY IMPLICATIONS**

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

13 **CONSULTATIONS**

The Council's Leadership Team have been consulted in the preparation of this report.

14 **BACKGROUND PAPERS**

None.

ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **12 JANUARY 2023**

APPENDIX 1

PRUDENTIAL CODE INDICATORS - TREASURY MANAGEMENT INDICATORS

Adoption of Revised CIPFA Treasury Management Code of Practice	Yes

Upper limit for variable and fixed rate exposure

	Net principal re variable rate borrowing / investments	Net principal re fixed rate borrowing / investments
2022/23	30%	100%
2023/24	30%	100%
2024/25	30%	100%
2025/26	30%	100%
2026/27	30%	100%
2027/28	30%	100%

Actual External Debt

	31/03/2021	31/03/2022
	£'000	£'000
Actual borrowing	535,842	542,657
Actual other long- term liabilities	156,055	168,748
Actual external debt	**691,897**	**711,405**

Maturity structure of fixed rate borrowing 2022/23

Period	Lower %	Upper %
Under 12 months	0	10
12 months & within 24 months	0	15
24 months & within 5 years	0	25
5 years & within 10 years	0	25
10 years +	50	95
Upper limit for total principal sums invested for over 364 days	n/a	No sums will be invested longer than 364 days

External debt, excluding investments, with limit for borrowing and other long-term liabilities separately identified

	Authorised Limit			Operational Boundary		
	Borrowing £000	Other £000	Total £000	Borrowing £000	Other £000	Total £000
2022/23	600,000	165,000	765,000	570,000	165,000	735,000
2023/24	670,000	160,000	830,000	640,000	160,000	800,000
2024/25	734,000	154,000	888,000	704,000	154,000	858,000
2025/26	751,000	148,000	899,000	721,000	148,000	869,000
2026/27	758,000	142,000	900,000	728,000	142,000	870,000
2027/28	755,000	135,000	890,000	725,000	135,000	860,000

PRUDENTIAL CODE INDICATORS - PRUDENTIAL INDICATORS

	Capital Expenditure		
	Non-HRA £000	HRA £000	Total £000
2022/23	57,553	19,073	76,626
2023/24	103,292	29,735	133,027
2024/25	76,468	25,781	102,249
2025/26	42,486	17,957	60,443
2026/27	22,717	23,631	46,348
2027/28	14,000	25,082	39,082

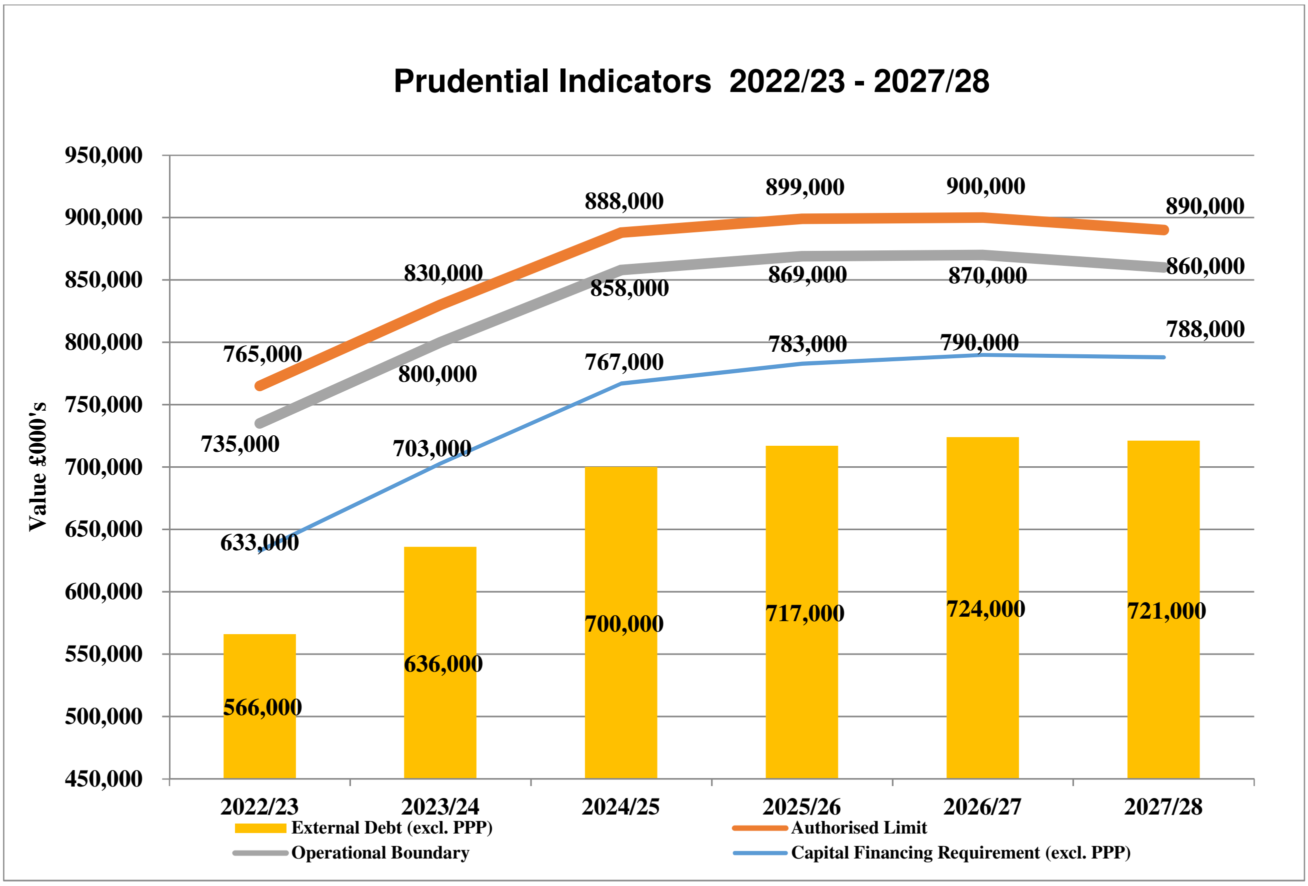
Ratio Commercial & Service Income to Net Revenue Stream	Ratio of financing costs to net revenue stream	
Non-HRA %	Non-HRA %	HRA %
1.5	4.9	36.8
1.5	5.5	36.0
1.5	6.6	36.6
1.5	7.8	37.2
1.5	7.8	34.6
1.5	7.9	35.1

	Net Borrowing Requirement (NBR)		
	1 April £000	31 March £000	Movement £000
2022/23	503,486	566,000	62,514
2023/24	566,000	636,000	70,000
2024/25	636,000	700,000	64,000
2025/26	700,000	717,000	17,000
2026/27	717,000	724,000	7,000
2027/28	724,000	721,000	(3,000)

Capital Financing Requirement (CFR)			
Non-HRA £000	HRA £000	Total £000	Movement £000
449,000	184,000	633,000	25,053
508,000	195,000	703,000	70,000
561,000	206,000	767,000	64,000
574,000	209,000	783,000	16,000
571,000	219,000	790,000	7,000
561,000	227,000	788,000	(2,000)

	NBR v CFR Difference
	Total £000
2020/21	67,000
2021/22	67,000
2022/23	67,000
2023/24	66,000
2024/25	66,000
2025/26	67,000

The following provides a graphical representation of the 5 year projection of External Debt, Capital Financing Requirement, Authorised Limit and Operational Boundary :

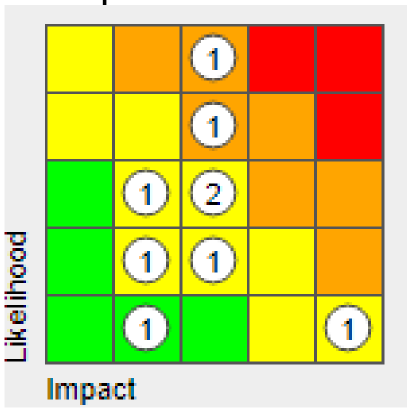

Prudential Indicators 2022/23 - 2027/28
Value £000's
950,000
900,000
850,000
800,000
750,000
700,000
650,000
600,000
550,000
500,000
450,000
765,000
830,000
888,000
899,000
900,000
890,000
735,000
800,000
858,000
869,000
870,000
860,000
633,000
703,000
767,000
783,000
790,000
788,000
566,000
636,000
700,000
717,000
724,000
721,000
2022/23
2023/24
2024/25
2025/26
2026/27
2027/28
External Debt (excl. PPP)
Authorised Limit
Operational Boundary
Capital Financing Requirement (excl. PPP)

APPENDIX 2
Six Monthly Risk Report

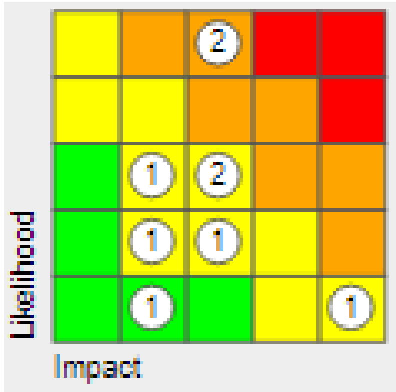
Treasury Risk Register Report
Report Author: Executive Director of Corporate Services
Generated: 9 December 2022

Total Risk Summary

Residual risk at last report
September 2022



Residual risk at
December 2022



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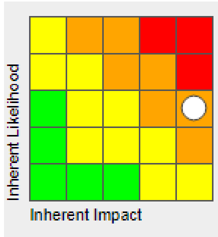
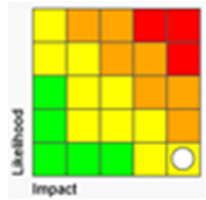
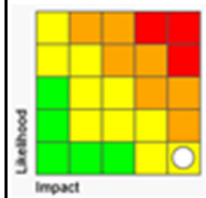
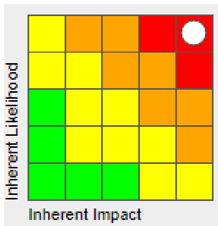
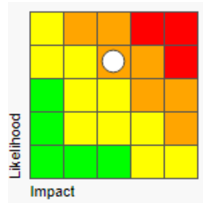
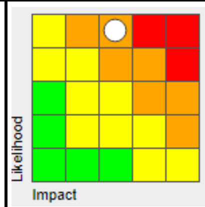
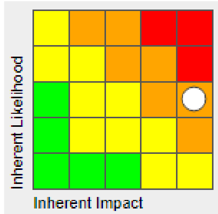
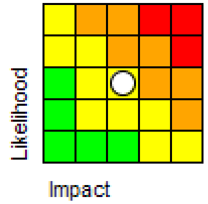
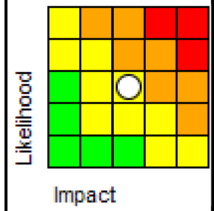
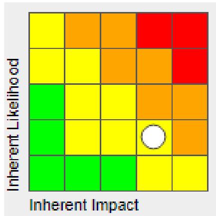
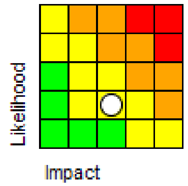
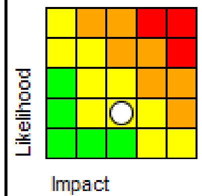
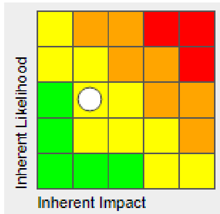
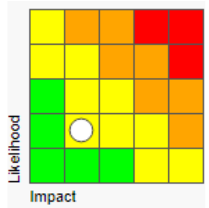
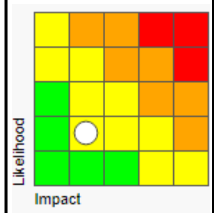
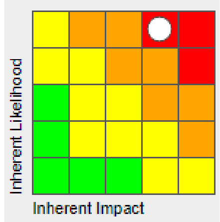
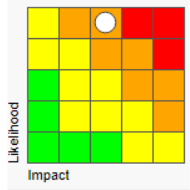
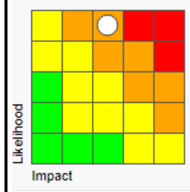
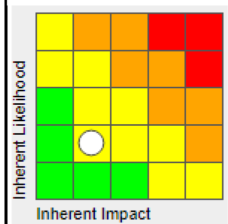
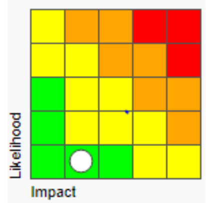
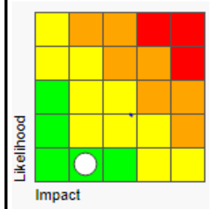
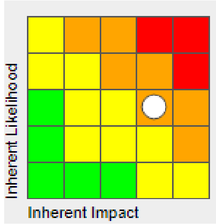
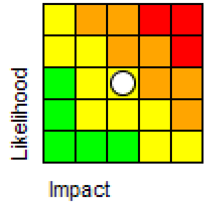
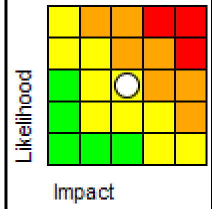
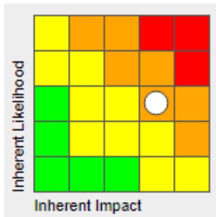
Six Monthly Risk Report

Treasury Risk Register Report
Report Author: Executive Director of Corporate Services
Generated on: 9 December 2022

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk at Sept 2022	Control Measures/Mitigation	Residual Risk Sep 2022	Residual Risk at Dec 2022
1. Loss of capital due to counterparty collapse	The Council loses its principal investment or investment becomes impaired	Counterparty collapses or faces a financial crisis rendering it unable to repay investments	. The Council may suffer financial loss . The repayment of funds from the counterparty could be significantly delayed or impaired Either of these outcomes could have an adverse impact on operational funding levels		Per the Treasury Management Strategy: . Maximum investment value on approved counterparties in order to spread and reduce risk. . Controls and procedures are in place to ensure investment and durations limits with approved counterparties are not exceeded. . Counterparties are also monitored and reviewed on a weekly basis at least or more regularly if considered necessary to do so. .Limited threshold rating for approval of counterparties.		
2. Decline / rise in interest rates	The Council may not achieve its target level of interest payable / receivable for budgetary purposes.	Impact on revenue budget resulting in mandatory efficiencies affecting service delivery	. Base rate rising affecting associated market borrowing rates. . Lower risk counterparties not offering competitive rates in low rate environment affecting deposits.		. Arranging longer term investments where investment objectives and criteria allows in order to capitalise on higher rate of returns without risk of opportunity cost. . Offsetting the loss of interest income / cost of borrowing by undertaking refinancing loans at lower rates than previously undertaken as opportunities arise.		

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk at Sept 2022	Control Measures/Mitigation	Residual Risk Sep 2022	Residual Risk at Dec 2022
					The Council continually monitors base rate and rates being achieved against budget to ensure it has secured the best value possible in the challenging economic climate.		Increased Likelihood
3. Fraudulent activity (now incorporating cybercrime)	. Financial loss to the Council as a direct consequence of fraudulent activity . Loss of money for the Council Disciplinary action for the staff involved . Reputational damage	Potential fraud by staff	Fraudulent activity		. Segregation of staff duties. . Review and monitor of internal controls to ensure the correct protocol across all relevant areas is being followed. . Ensure all insurance policies and relevant guarantees (Fidelity £2m per individual circumstance) are fully up to date.		
4. Money laundering	. Fine and/or imprisonment . Reputational damage	Money laundering by external parties	External parties pay a transaction by cash and subsequently request a refund		. Ensure the money laundering policy is reviewed and up to date. . Reconcile refunds back to source of income. . Raise awareness of this issue amongst staff . Review requirements of financial regulations.		
5. Network Failure / banking system being inaccessible	Daily Treasury functions will not be carried out	The Council is unable to carry out its daily treasury functions due to a network failure	RBS Bankline is unavailable or the Council's network has failed		Invoke the business continuity plan to minimise the effects of a network issue.		

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk at Sept 2022	Control Measures/Mitigation	Residual Risk Sep 2022	Residual Risk at Dec 2022
6. Revenue Budgets	The Council may not be able to execute some desired projects	Revenue budgets are unable to meet borrowing costs of capital schemes	Revenue budgets come under pressure from restricted government funding or non-delivery of programmed savings		. Revenue budgets monitored on monthly basis and future year forecasts undertaken. . Reserve some capital receipts to cover borrowing costs in the short term. . Ensure monthly financial reports and Forecasts are produced and analysed . All borrowing decisions are made based on prudential indicators and are planned based on long term projections. . Capital Plans and borrowing is reviewed annually before the revenue budget is set to ensure that the costs are affordable.		
7. Lack of suitable counterparties	Use of counterparties not paying best value rates.	The Council does not have enough "space" with approved counterparties to place investments/deposit surplus cash balances.	Rising cash balances and a restricted counterparty list		The Council continually monitors its approved counterparty listing in conjunction with cash balances. Any potential new investment opportunities are discussed at Treasury Management performance meetings. The Council uses call accounts and money market funds to deposit surplus cash balances However, there are also limits on the amounts deposited to such funds. The Council has a facility to deposit cash with the Debt Management Office should all other investment options be exhausted.		

Risk Title	Risk Factors	Potential Effect	Potential Outcome	Inherent Risk at Sept 2022	Control Measures/Mitigation	Residual Risk Sep 2022	Residual Risk at Dec 2022
8. Lack of expertise of Committee or amongst officers	Financial consequence	Lack of training and continuous professional development.	Detrimental decisions made in relation to financial investment management.		. Provision of training . External investment advice . Consultation with peer groups.		
9. Over reliance on key officers	Detrimental decisions made in relation to financial investment management.	Specialist nature of work means there are relatively few experts in this field	If an officer leaves or falls ill knowledge gap may be difficult to fill.		. Key officers transfer specialist knowledge to colleagues. . Procedures & guidance available. . In the short-term advice can be sought from external investment adviser and/or peer support.