



Cyngor Castell-nedd Port Talbot  
Neath Port Talbot Council

## **NEATH PORT TALBOT COUNTY BOROUGH COUNCIL**

### **CABINET**

### **REPORT OF THE CHIEF FINANCE OFFICER HUW JONES**

**22<sup>nd</sup> February 2023**

#### **MATTERS FOR: MONITORING**

#### **WARDS AFFECTED - ALL**

#### **TREASURY MANAGEMENT MID YEAR REVIEW REPORT 2022/23**

##### **Purpose of the Report**

1. To review treasury management activities for the 6 month period to 30<sup>th</sup> September 2022.

##### **Background**

2. The Council operates a cash balanced treasury budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering maximising investment return.
3. 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.

4. As a consequence treasury management is defined as:

“The management of the local authority’s investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. ”

### **Introduction**

5. The Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice on Treasury Management (revised 2011) was adopted by this Council at the Council meeting in 28<sup>th</sup> February 2013.

The primary requirements of the Code are as follows:

- (i) Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council’s treasury management activities.
- (ii) Creation and maintenance of Treasury Management Practices set out in the manner in which the Council will seek to achieve those policies and objectives.
- (iii) Receipt by the full Council of an Annual Treasury Management Strategy Statement – including the Annual Investment Strategy and Minimum Revenue Provision Policy – for the year ahead, a **Mid-year Review Report** and an Annual Report (stewardship report) covering activities during the previous year.
- (iv) Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- (v) Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated bodies are the Audit and Policy and Resources Committees.

## Scheme of Delegation

<b>Area of Responsibility</b>	<b>Council/ Committee</b>	<b>Frequency</b>
Treasury Management Strategy / Annual Investment Strategy / MRP policy	Cabinet for approval by Full Council	Annually before the start of the year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – mid year report	Cabinet	Mid year
Treasury Management Strategy / Annual Investment Strategy / MRP policy – updates or revisions at other times	Cabinet for approval by Full Council	Periodically
Annual Treasury Outturn Report	Cabinet	Annually by 30 <sup>th</sup> September after the end of the year
Treasury Management Monitoring and Performance Reports	Cabinet and Audit Committee	Quarterly Quarterly
Treasury Management Practices	Cabinet for approval by Full Council	Annually
Scrutiny of Treasury Management Strategy	Cabinet (and Audit Committee)	Annually

6. This mid-year report has been prepared in compliance with CIPFA's Code of Practice, and covers the following:
- An economic update for 2022/23;
  - A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
  - The Council's capital expenditure (prudential indicators);
  - A review of the Council's investment portfolio for 2022/23;
  - A review of the Council's borrowing strategy for 2022/23;
  - A review of any debt rescheduling undertaken during 2022/23;

- A review of compliance with Treasury and Prudential Limits for 2022/23.
- Revised Treasury and Prudential Limits for 2022/23 to 2024/25.

7. There have been no changes to the approved Treasury Management and Investment Strategies for the 6 months up to 30<sup>th</sup> September 2022

## Economic Update

8. 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 right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2022.

This volatility is shown by the increase in the Bank of England base rate from 0.25% at the start of the calendar year to 2.25% at the end of September, with this rate expected to increase again over the coming months.

Market commentators' misplaced optimism around inflation has been the root cause of the rout in the bond markets with, for example, UK, EZ and US 10-year yields all rising by over 200bps since the turn of the year.

## Interest rate forecasts

9. The Council's treasury advisor, Link Group, provided the following forecasts on 27th September 2022

Link Group Interest Rate View 27.09.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

## The Council's Capital Position (Prudential Indicators)

10. This part of the report updates:
- The Council's capital expenditure plans;
  - How these plans are being financed;
  - The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
  - Compliance with the limits in place for borrowing activity.

### The Council's Capital Expenditure and Financing 2022/23

	<b>2021/22 Actual £'000</b>	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Current Estimate £'000</b>
Capital expenditure	70,624	70,415	72,540
Resourced by:			
• Capital receipts	2,693	401	486
• Capital grants & contributions	48,105	44,424	46,064
• Capital reserves + DRF	2,810	3,088	3,204
<b>Capital Expenditure to be financed from borrowing</b>	<b>17,016</b>	<b>22,502</b>	<b>22,786</b>

11. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). The CFR results from the capital activity of the Council and what resources have been used to pay for the capital spend. It represents the unfinanced capital expenditure, and prior years' unfinanced capital expenditure which has not yet been paid for by revenue or other resources.
12. Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, through the Public Works Loan Board [PWL] or the

money markets), or utilising temporary cash resources within the Council.

13. Reducing the CFR – the Council’s underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need. This differs from the treasury management arrangements which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.
  
14. The total CFR can also be reduced by:
  - The application of additional capital financing resources (such as unapplied capital receipts); or
  - Charging more than the statutory revenue charge (MRP) each year through a Voluntary Revenue Provision (VRP).
  
15. The Council’s 2022/23 MRP Policy (as required by CIPFA Code of Practice on Treasury Management) was approved by Council as part of the Treasury Management Strategy Report for 2022/23 on 28<sup>th</sup> February 2022.
  
16. The Council’s CFR for the year is shown below, and represents a key prudential indicator.

<b>CFR</b>	<b>2021/22 Actual £'000</b>	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Current Estimate £'000</b>
Opening balance	343,055	354,215	349,573
Add unfinanced capital expenditure (point 10)	17,016	22,502	22,786
Less MRP/Set aside receipts	(10,498)	(10,755)	(10,695)
<b>Closing balance</b>	<b>349,573</b>	<b>365,962</b>	<b>361,664</b>

The borrowing activity is constrained by prudential indicators for net borrowing and the CFR, and by the authorised limit.

17. Net borrowing and the CFR – in order to ensure that borrowing levels are prudent over the medium term the Council’s external borrowing, net of investments, must only be for a capital purpose. This essentially means that the Council is not borrowing to support revenue expenditure. Net borrowing should not therefore, except in the short term, have exceeded the CFR. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs in 2022/23. The following table highlights the Council’s net borrowing position against the CFR. This shows the Council is complying with this prudential indicator as projected net borrowing is less than the CFR.

	<b>2021/22 Actual £'000</b>	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Current Estimate £'000</b>
External Debt (Gross) Less Investments	310,517 (73,300)	283,961 (52,500)	283,866 (52,500)
Net Borrowing Position	237,217	231,461	231,366
CFR	349,573	365,962	361,664

18. The authorised limit – the authorised limit is the “affordable borrowing limit” required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level.
19. The operational boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	<b>2021/22 Actual £'000</b>	<b>2022/23 Original Estimate £'000</b>	<b>2022/23 Current Estimate £'000</b>
Authorised Limit	399,573	415,962	411,664
Operational Boundary	379,573	395,962	391,664
Gross Borrowing *	310,517	283,961	283,866

\* Total maximum long term and short term

20. This report confirms that during the first 6 months of 2022/23 Council has maintained gross borrowing within the Authorised Limit.

### **Investment Portfolio 2022/23**

21. In accordance with the Code, it is the Council's priority to ensure security of capital and liquidity, and to obtain an appropriate level of return which is consistent with the Council's risk appetite. Due to the increase in the Bank of England base rate previously mentioned, this will lead to an increase in the expected return on investments made – albeit making sure we remain consistent with the Council's risk appetite.
22. It is confirmed that the approved limits within the Annual Investment Strategy have not been breached during the first six months of 2022/23.
23. The Council's original budget for investment return for 2022/23 has been set at £200k. However, due to the increase in the Bank of England base rate, it has been decided to increase this target to £800k. This is being reviewed regularly and if there is any shortfall the balance will be funded from the Treasury Management Reserve.
24. The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, sets out the Council's investment priorities as being:
- Security of Capital
  - Liquidity
25. There has been no change in the Council's Investment Strategy aims from those approved on 28<sup>th</sup> February 2022. The aim continues to be to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate, it is considered appropriate to keep an adequate level of investments which can be instantly accessed to cover short term cash flow needs. The Council also seeks out value where available in significantly higher

rates in periods up to 12 months with approved institutions that meet the Council's stringent credit rating assessment.

26. Investment rates available have continued at historically low levels. The average level of funds available for investment purposes during the period was affected by the timing of precept payments, receipt of grants and progress on the Capital Programme.

### **Investment performance to the 30<sup>th</sup> September 2022**

27. The Council held £75.8m of investments as at 30th September 2022 and the investment portfolio yield for the first six months of the year is 1.07%. This yield is also expected to increase in the second half of the year due to the increased interest rates.

A full list of investments held as at 30<sup>th</sup> September 2022 is provided in Appendix 1.

### **Investment counterparty criteria and proposed amendments**

28. The current investment counterparty criteria approved by Members earlier this year are detailed in Appendix 3 of this report.

### **Borrowing**

29. The Council's agreed Strategy in relation to borrowing is set out in the Treasury Management Strategy Report as approved by Council. This strategy outlined that consideration would be given to entering into new external borrowing if PWLB (or money market) rates became more favourable.
30. During 2022/23 the Council has not entered into any new loans with the PWLB.

### **Borrowing in advance of need**

31. The Council has not borrowed in advance of need during the six month period ended 30<sup>th</sup> September 2022. Members should note that the total external debt projection for 31<sup>st</sup> March 2023 is as follows:

	£'000
Public Works Loans Board (PWLB)	216,446
Market Loans	62,500
WG Town Centre Loan	1,500
Salix (Public Lighting) Loan	1,846
Temporary Borrowing	1,574
<b>Total</b>	<b>283,866</b>

### **Debt Rescheduling**

32. Debt rescheduling opportunities have been non-existent during 2022/23 due to the penalties involved in entering into such arrangements.

### **Compliance with Treasury and Prudential Limits**

33. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's original approved Treasury and Prudential Indicators (affordability) limits were included in the approved Treasury Management Strategy Statement as reported to Council on 28<sup>th</sup> February 2022.
34. During the financial year to date, the Council has operated within the Treasury Limits and Prudential Indicators set out in the Treasury Management Strategy Statement and in compliance with the Treasury Management Practices. The Prudential and Treasury Indicators for 2022/23 onwards have been revised and are presented in Appendix 2.

### **Financial Impact**

35. All relevant financial information is provided in the body of the report.

### **Integrated Impact Assessment**

36. There is no requirement to undertake an Integrated Impact Assessment as this report is for information purposes.

### **Valleys Communities Impacts**

37. No implications

### **Workforce Impacts**

38. There are no workforce impacts arising from this report.

### **Legal Impacts**

39. There are no legal impacts arising from this report.

### **Risk Management**

40. There are several risks associated with the treasury management activities. These include interest rate fluctuations, counter party investment, international economic and political etc. The treasury management strategy is included within the Council's Corporate Risk Register.

### **Consultation**

41. There is no requirement under the Constitution for external consultation on this item.

### **Recommendation**

42. Members **note** the Treasury Management activities to date this financial year, and how they relate to the proposed activities within the original 2022/23 Treasury Management Strategy and Annual Investment Strategy Statements.

### **Appendices**

43. Appendix 1 – Investment Position as at 30<sup>th</sup> September 2022  
Appendix 2 – Prudential Indicators  
Appendix 3 – Specified Investments - Current Criteria

### **List of Background Papers**

44. Link Asset Services Mid-year Reporting Template  
Investment and Borrowing Records 2022/23

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## Appendix 1

### Investment Position as at 30<sup>th</sup> September 2022

Borrower	Maturity	Rate %	Total £'000
<b><u>Banks and Building Societies</u></b>			
Goldman Sachs	23 <sup>rd</sup> Dec 2022	2.27	5,000
Goldman Sachs	17 <sup>th</sup> Feb 2023	2.50	5,000
Santander	20 <sup>th</sup> Jan 2023	2.28	5,000
Nationwide BS	3 <sup>rd</sup> Nov 2022	1.69	5,000
Nationwide BS	15 <sup>th</sup> Nov 2022	1.80	5,000
<b><u>Other Local Authorities</u></b>			
Cambridgeshire CC	6 <sup>th</sup> Dec 2023	0.40	5,000
East Ayrshire CC	13 <sup>th</sup> Dec 2022	0.45	5,000
Police and Crime Comm for Merseyside	4 <sup>th</sup> May 2023	1.20	5,000
Cornwall Council	17 <sup>th</sup> Oct 2022	1.73	5,000
Plymouth CC	7 <sup>th</sup> Sep 2023	3.05	5,000
<b><u>Call Deposit</u></b>			
Santander	Instant Access	1.75	9,100
DMO	various	various	16,700
<b>Total</b>			<b>75,800</b>

## PRUDENTIAL INDICATORS

<b>PRUDENTIAL INDICATORS</b>	<b>2021/22 Actual</b>	<b>2022/23 Original Estimate</b>	<b>2022/23 Revised Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Capital Expenditure	70,624	70,415	72,540	74,251	31,812
Capital Financing Requirement	349,573	365,962	361,664	366,628	356,824
Ratio of financing costs to net revenue stream	6.46%	6.08%	5.73%	6.17%	6.21%

## PRUDENTIAL INDICATORS

<b>TREASURY MANAGEMENT INDICATORS</b>	<b>2021/22 Actual</b>	<b>2022/23 Original Estimate</b>	<b>2022/23 Revised Estimate</b>	<b>2023/24 Estimate</b>	<b>2024/25 Estimate</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Authorised Limit for External Debt:</b> Borrowing and other long term liabilities	399,573	415,962	411,664	416,628	406,824
<b>Operational Boundary for External Debt:</b> Borrowing and other long term liabilities	379,573	395,962	391,664	396,628	386,824
External Debt (Gross)	310,517	283,961	283,866	280,148	274,736
Less Investments	(73,300)	(52,500)	(52,500)	(52,500)	(52,500)
<b>Net Borrowing Position</b>	<b>237,217</b>	<b>231,461</b>	<b>231,366</b>	<b>227,648</b>	<b>222,236</b>

## PRUDENTIAL INDICATORS

	<b>2022/23 limit</b>
	<b>£'000</b>
Upper Limit on Fixed Interest Rate Exposure Lower Limit on Fixed Interest Rate Exposure	349,573
Upper Limit on Variable Rate Exposure Lower Limit on Variable Rate Exposure	174,787
<b>Upper Limit for Total Principal Sums Invested for Over 364 Days (per maturity date)</b>	£25m

<b>Maturity Structure of Fixed Rate Borrowing During 2022/23</b>	<b>2021/22 Actual</b>	<b>2022/23 Estimate</b>		
	%	%	<b>Upper Limit %</b>	<b>Lower Limit %</b>
Under 12 months	9	3	15	0
12 months to 2 years	2	2	15	0
2 to 5 years	3	1	40	0
5 to 10 years	5	8	60	0
10 years and above	81	86	100	15

## Appendix 3

### Specified Investments Criteria

	<b>Minimum 'High' Credit Criteria</b>	<b>Funds Managed</b>	<b>Max Amount</b>	<b>Max Duration</b>
<b>Term deposits</b>				
Term deposits - Debt Management Office	N/A	In-house	Unlimited	1 year
Term deposits – local, police and fire authorities	N/A	In-house	£10m	1 year
Term deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1+	In-house	£20m	1 year
Term deposits – UK banks/Building Societies	Fitch short-term rating F1	In-house	£15m	6 months or 185 days
<b>Callable deposits</b>				
Callable deposits – Debt Management Agency deposit facility	N/A	In-house	Unlimited	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F1+, F1	In-house	£20m	
Callable deposits – Nationalised & Part Nationalised UK banks/Building Societies	Fitch short-term rating F2	In-house	£10m	
Callable deposits - UK banks/Building Societies	Fitch short-term rating F1+ or F1	In-house	£15m *	
Term deposits – non UK banks	Fitch short-term rating F1+	In-house	£5m	6 months or 185 days

\* Where necessary this limit may be temporarily exceeded with the Authority's bankers only.