

---

**Audit and Standards Committee – 26<sup>th</sup> September 2022**

**Report of the Director of Finance and Legal**

**Treasury Management**

**Purpose**

1. To outline treasury activity during the financial year 2021/22 and in the current financial year up to the end of July 2022.

**Recommendations**

2. It is recommended that the Audit and Standards Committee:
  - comments and notes the treasury activities outlined in this report;
  - refers all of the above to full Council for noting at its meeting on 10<sup>th</sup> October.

**Background**

3. The Treasury Management strategy for 2022/23 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice (2021 edition). The Code recommends that members are informed of Treasury Management activities at least twice a year. This report ensures that the Council is embracing best practice in accordance with CIPFA's recommendations.
4. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.

5. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund (WMDAF). We are responsible for administering capital funding of approximately £740m on our own account and another £78m on behalf of other West Midlands councils in respect of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

#### Treasury activity in 2021/22 on the Dudley fund

6. Our treasury activities were undertaken in the context of the Treasury Strategy Statement 2021/22 approved by Audit and Standards Committee and Full Council in February 2021. The Strategy Statement stated:

*“The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We will seek to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity”*

7. In 2021/22 our investments averaged £45.0 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.08%. All investments were placed with institutions that satisfied the criteria for creditworthiness set out in the Treasury Strategy Statement 2021/22. Our investment activity for 2021/22 is set out in more detail in Appendix 1.
8. The average value of long-term borrowings in 2021/22 was £620.0 million. The average rate of interest on these borrowings was 3.60%. The loans were due to mature on dates ranging from 2022 to 2061. In 2021/22 we did not need to take out any long-term loans (over 1 year duration).
9. Due to cash flow requirements in 2021/22, it was necessary to undertake short-term borrowing on 1 occasion. The value of this loan was £2.0m at a rate of 0.50% for a duration of 3 days.

#### Treasury activity in 2021/22 on the WMDAF



10. It was necessary to undertake short-term borrowing on 6 occasions for cashflow purposes for the WMDAF, at an average value of £2.92m at an average rate of 0.04% for an average duration of 148 days. No investments were made in 2021/22 for the WMDAF.

#### Performance comparisons 2021/22

11. Our treasury management advisors Link Asset Services have compared our treasury performance with their other clients using borrowing and investment data at financial year end. The results are summarised in the table below:

## Performance Benchmarking

	<b>Dudley</b>	<b>Client Average</b>
<b>Gross Borrowing (£M)</b>	593.3	215.6
<b>Investments (£M)</b>	4.5	101.9
<b>Net Borrowing (£M)</b>	588.8	113.7
<b>Gross average borrowing rate</b> (the cost of borrowing, ignoring the return on investments)	3.69%	3.54%
<b>Investment return rate</b> (the return on investments, ignoring the cost of borrowing)	0.09%	0.49%
<b>Net average borrowing rate</b> (a combination of the above, representing the cost of borrowing net of the return on investments)	3.60%	3.76%

12. The data above is based on a snapshot of treasury portfolios as at 31 March 2022 and includes long and short term borrowing and investments.
13. It should be remembered that treasury performance measurement is not an exact science. These statistics represent the cumulative effect of decisions dating back over many years and the performance of other local authorities may have been achieved in circumstances different from our own.

## Prudential indicators 2021/22

14. The 2021 Prudential Code for Capital Finance in Local Authorities sets out a framework for the consideration and approval of capital spending plans. In so doing, it requires the Council to set a number of prudential indicators, some of which concern matters of treasury management. Appendix 2 outlines those indicators for 2021/22.

## Treasury activity 2022/23 to July

15. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2022/23 approved by Audit and Standards Committee and Council in February of this year. In that document we anticipated that long term borrowing would be required in the next 12 months due to cash flow need.
16. Our investments up to the end of July have averaged £24.9 million (with significant day to day variation as a result of cash flow). The average return on these investments was 0.22%. All investments were placed with institutions that satisfied the criteria for creditworthiness set out in the Treasury Strategy Statement 2022/23. Our investment activity for 2022/23 is set out in more detail in Appendix 3.
17. The Monetary Policy Committee has increased the Bank of England base rate five times since the last report to this Committee (the previously reported rate was 0.25% as voted for in December 2021 and the latest rate change was agreed in August 2022 which put the rate to 1.75%). This is in response to inflationary pressures. This rate is expected to rise further during the coming year.
18. The average value of long-term borrowings up to the end of July has been £589.8 million. The average rate of interest on Dudley's loans is 3.64%. The maturity dates for the loans range from the current year to 2061. To date no new loans have been taken out in 2022/23. Due to cash flow requirements, it has been necessary to undertake short-term borrowing on 1 occasion. The value of this loan was £8.0m at a rate of 1% for a duration of 1 day.
19. We are monitoring interest rates and cash flow closely and anticipate that some new long term borrowing may be required before the end of the current financial year. It is likely that this borrowing will be at higher rates than have been experienced in recent years and therefore our average rate of borrowing will increase and this will need to be reflected as a pressure in setting budgets.
20. On the WMDAF no loans have been taken in 2022-23 to date although there are plans to borrow short-term in September and November 2022. We have made 1 investment on the WMDAF to date in 2022/23 with a value of £1.1 million at a rate of 0.59% for a duration of 31 days.

## **Finance**

21. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates.

## **Law**

22. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

## **Risk Management**

23. Treasury Management, by its nature entails the management of financial risks, specifically credit risk for investments which is mitigated by limiting acceptable counterparties to those of the highest credit quality and imposing counterparty limits for non-government institutions; and interest rate risk which is mitigated by prudential indicators detailed in Appendix 2.

## **Equality Impact**

24. The treasury management activities considered in this report have no direct impact on issues of equality.

## **Human Resources/Organisational Development**

25. There are no Human Resources/Organisational Development implications associated with this report.

## **Commercial/Procurement**

26. The over-riding purpose of the Council's Investment Strategy is day to day cash management and not income generation. The strategy prioritises security and liquidity of cash investments over yield. Once those are met, we aim to secure the maximum yield from our investments

held with the small number of counterparties that meet the strict criteria laid out in our Annual Investment Strategy.

### **Council Priorities and Projects**

27. Treasury Management supports the Council's capital investment priorities as set out in the approved Capital Strategy



Iain Newman  
Chief Officer Finance and Legal

Contact Officer: Jennifer McGregor  
Telephone: 01384 814202  
Email: [jennifer.mcgregor@dudley.gov.uk](mailto:jennifer.mcgregor@dudley.gov.uk)

### **List of Background Papers**

Treasury Policy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.

## Investment Activity 2021/22

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Debt Management Office	84	9.02	0.02	10
Other Local Authorities	5	3.12	0.31	29
Bank of Scotland	N/A	0.04	0.06	Call Account
HSBC Call Account	N/A	7.81	0.01	Call Account
HSBC 31 Day Notice	N/A	4.83	0.15	Deposit Account
Santander Call Account	N/A	6.40	0.06	Call Account
Santander 35 Day Notice	N/A	5.35	0.23	Deposit Account
Barclays Call Account	N/A	8.44	0.01	Call Account



### Prudential indicators relating to treasury management 2021/22

#### External Borrowing

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The operational boundary is a lower threshold allowing for a prudent but not worst case scenario for cash flow.

	£m
Authorised limit for external borrowing	876
Operational boundary for external borrowing	805
Outturn - actual external borrowing	767

#### Interest rate exposures and maturity structure of borrowing and investments

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

#### Dudley MBC

	Indicator	Outturn
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	10%	0%
Upper limit of principal maturing in any one year for sums invested for over 364 days	£10m	Nil
Maturity structure of fixed rate borrowing:-		
under 12 months	0-15%	8.6%
12 months and within 24 months	0-15%	5.7%
24 months and within 5 years	0-20%	5.3%
5 years and within 10 years	0-25%	6.6%
10 years and above	50-100%	73.8%

## West Midlands Debt Administration Fund

	Indicator	Outturn
Maturity structure of fixed rate borrowing:-		
under 12 months	0-26%	23.3%
12 months and within 24 months	0-20%	21.0%
24 months and within 5 years	0-54%	55.6%

## Appendix 3

### Investment Activity 2022/23 to July

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Debt Management Office	56	14.34	0.34	11
Other Local Authorities *	0	N/A	N/A	N/A
Bank of Scotland	N/A	0.04	0.00	Call Account
HSBC Call Account	N/A	4.51	0.00	Call Account
HSBC 31 Day Notice	N/A	0.02	0.24	Deposit Account
Santander Call Account	N/A	5.33	0.11	Call Account
Santander 35 Day Notice	N/A	0.02	0.21	Deposit Account
Barclays Call Account	N/A	0.65	0.07	Call Account