

# Treasury Management Briefing

8 June 2023

Reigate & Banstead  
BOROUGH COUNCIL  
Banstead | Horley | Redhill | Reigate

## Treasury Management Briefing 2023

- Welcome and Introductions – Councillors Nick Harrison and Victor Lewanski
- Overview – Pat Main
- Briefing – Arlingclose
- Member Questions



Arlingclose Ltd:  
Independent treasury management services

# Treasury Management for Elected Members

## Reigate & Banstead Borough Council

June 2023

Greg Readings and Laura Fallon

# Agenda: Local Authority Treasury Management

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- 1 What is Treasury Management?
  - 2 Key Reports and Role of Members
  - 3 Key Risks
  - 4 Investing
  - 5 Borrowing
  - 6 Local Context: Reigate & Banstead in Focus
  - 7 Economic Context
  - 8 Any Questions?
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# Arlingclose - Treasury Management Advice

## EXPERIENCE

Formed in 2004  
17 Advisory staff  
Local authority  
Financial market  
External audit

## INFORMATION

Legislation  
Official guidance  
Credit ratings  
Market data  
Provider contacts  
Research

## INVESTMENT ADVICE

## BORROWING ADVICE

Publications  
Strategy meetings  
Workshops  
Training courses  
Helpline

# What is Treasury Management?

## **CIPFA (Chartered Institute of Finance and Accountancy) definition:**

“The management of the organisation’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”

## **Management of the Council’s**

- Investments
- Cash flows
- Banking arrangements
- Money market transactions (short term)
- Capital market transactions (long term)

## **Effective control of the associated risks**

## **Pursuit of optimum performance**

- Within the context of effective risk management

# What is Treasury Management?

## RECEIPTS

- Grants
- Council tax
- Fees & charges
- Investment income
- Capital receipts
- Business Rates



**Reigate & Banstead**  
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## PAYMENTS

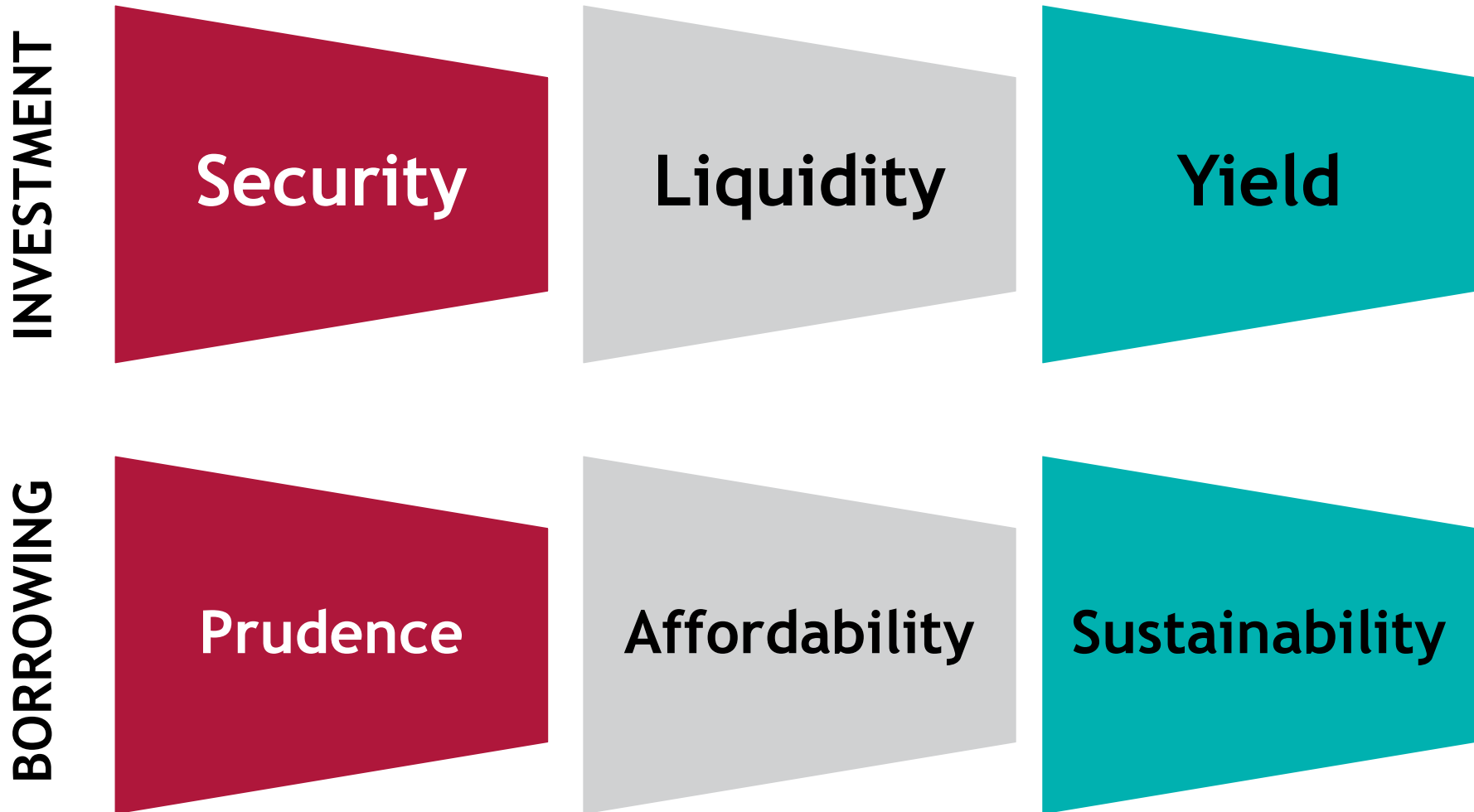
- Salaries
- Goods & services
- Benefits
- Precepts
- Interest on loans
- Capital expenditure

Surplus in liquidity =  
net investments

Timing differences between the  
movements of money in the Council  
create a cash flow leading to  
surpluses and deficits

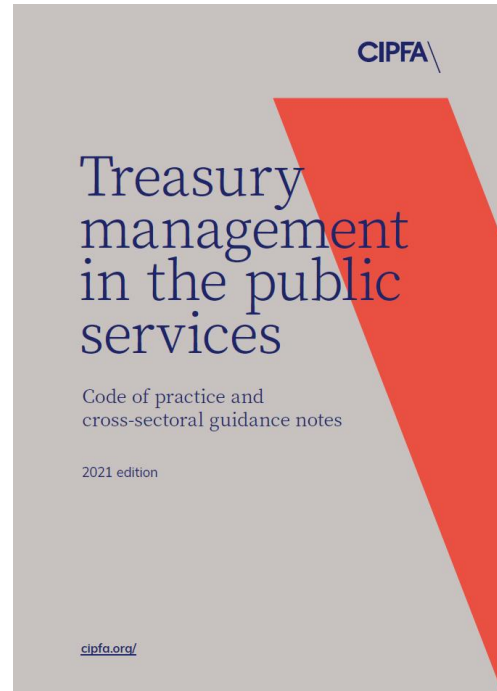
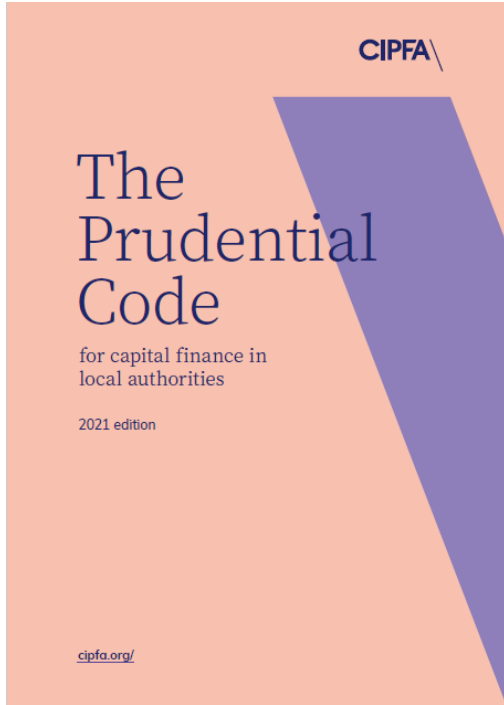
Deficit in liquidity =  
net borrowing

# Key Principle of Treasury Management





# Statutory Guidance



Department for Levelling Up,  
Housing & Communities

**STATUTORY GUIDANCE ON LOCAL GOVERNMENT INVESTMENTS**

(3<sup>rd</sup> Edition)

Issued under section 15(1)(a) of the *Local Government Act 2003* and effective  
for financial years commencing on or after 1 April 2018

# Treasury Management Reports

There are three forward looking reports each year:

- **Treasury Management Strategy Statement (TMSS):** a more detailed document on the Council’s ‘traditional’ treasury management activities. Covers topics such as sources of borrowing and investment counterparties and limits. Includes prudential treasury management indicators.
- **Investment Strategy:** covers the Council’s investments including ‘traditional’ treasury management investments but with more emphasis on other investments made for service and/or commercial reasons
- **Capital Strategy:** a summary document outlining the Council’s capital expenditure plans and core borrowing and investing activities. Includes prudential indicators.

There are two backward looking reports each year:

- **Mid-year and end of year** reports detailing what treasury management activity has taken place, including on adherence to the forward-looking strategies.

Other reports:

- Prudential indicators including the liability benchmark are reported on quarterly as part of quarterly budget monitoring reporting
- The Council must maintain a Treasury Management Policy Statement and Treasury Management Principles and Schedules

# Treasury Management Reports at Reigate & Banstead

The Treasury Management Strategy Statement, Investment Strategy and Capital Strategy twice-yearly monitoring reports are prepared by officers and go to:

- Overview & Scrutiny Committee for scrutiny
- The Executive for recommendation to Council
- Full Council for approval

Delegated to the Chief Finance Officer (CFO) is:

- Day to day treasury management
- Operational decisions
- All within the framework set out by the strategy documents

# Prudential Indicators

Treasury Management	Capital
Liability benchmark	Capital expenditure
Maturity structure of borrowing	Capital financing requirement
Long-term treasury management investments	Authorised limit and operational boundary
Interest rate exposures *	Gross debt and the capital financing requirement
Credit risk *	Financing costs to net revenue stream
Liquidity risk *	Net income from commercial and service investments to net revenue stream

\* Recommended but not mandatory indicator

# Treasury Management Risks



# Credit and Counterparty Risk

## The risk of an investment counterparty defaulting

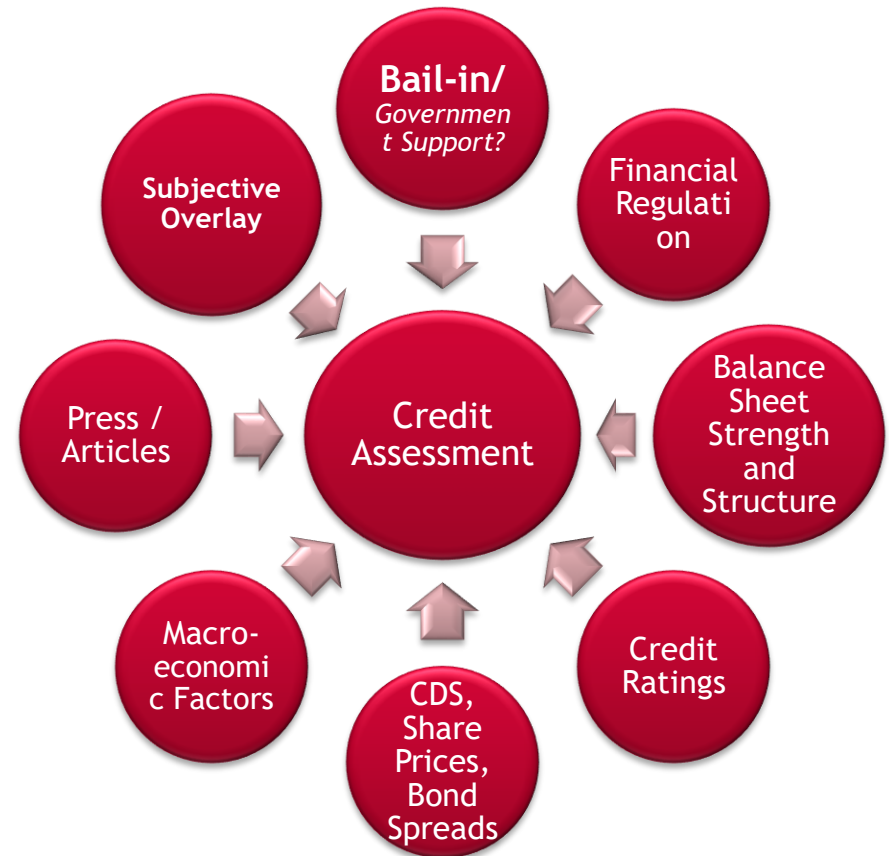
- Leading to loss of principal and/or interest
- Rarely a 100% loss but always a delay in return

## The risk of an investment being bailed-in

- For LA unsecured investments
- A loss is incurred straight away

## Credit risk is managed by

- Measurement of risk, especially with **credit ratings**
  - Main agencies : **Fitch, Moody's, Standard & Poor's**
- Also assessing other credit rating metrics such as Credit Default Swaps (CDS)
- Setting minimum acceptable criteria
- Setting scaled lending limits - cash and time limits
- **Diversification**
- Awareness of credit developments, reaction



# Investment Counterparties & Limits

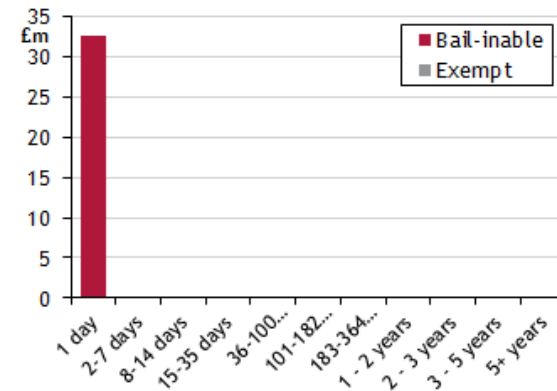
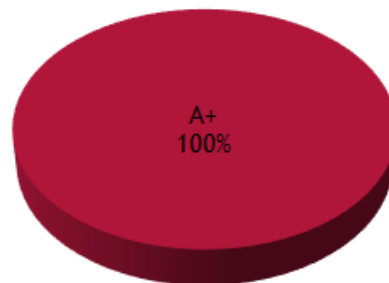
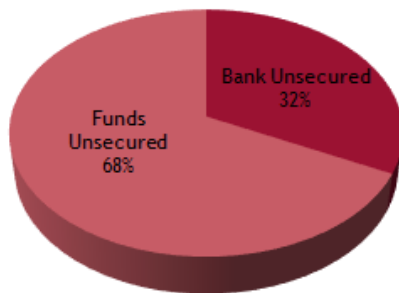
## Rationale for having limits

- First line of defence - avoiding default in the first place - may not always be successful
- Second line of defence - if the authority is exposed to a default, it should be small enough to be manageable

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	50 years	Unlimited	n/a
Local authorities & other government entities	25 years	£10m	Unlimited
Secured investments <sup>1</sup>	25 years	£6m	Unlimited
Banks (unsecured) <sup>1</sup>	13 months	£6m	Unlimited
Building societies (unsecured) <sup>1</sup>	13 months	£3m	£10m
Registered providers (unsecured) <sup>1</sup>	5 years	£3m	£13m
Money market funds <sup>2</sup>	n/a	£10m	Unlimited
Strategic pooled funds	n/a	£2m	£25m
Real estate investment trusts	n/a	£2m	£13m
Other investments <sup>1</sup>	5 years	£2m	£5m

# Investment Summary

Summary of Investments - 16 May 2023									
Type of Investment	Number	Principal	Total Return	Income Return	Days to Maturity	Days to Next Rate Reset	Average Credit Rating	Average Credit Score	Volatility
Bank Accounts	2	£ 10,515,000	4.40%		1	1	A+	5.0	-
Bank Deposits	-	£ -	-		-	-	-	-	-
Money Market Funds	3	£ 22,000,000	4.37%		1	32	A+	5.2	-
Reverse Repo	-	£ -	-		-	-	-	-	-
DMO Deposits	-	£ -	-		-	-	-	-	-
Local Authorities	-	£ -	-		-	-	-	-	-
Government Bonds	-	£ -	-		-	-	-	-	-
Covered Bonds	-	£ -	-		-	-	-	-	-
Corporate Bonds	-	£ -	-		-	-	-	-	-
Company/RP Loans	-	£ -	-		-	-	-	-	-
<b>Total Internal Investments</b>	<b>5</b>	<b>£ 32,515,000</b>	<b>4.38%</b>		<b>1</b>	<b>22</b>	<b>A+</b>	<b>5.1</b>	<b>-</b>
Cash Plus and Short Bond Funds	-	£ -	-		-	-	-	-	-
Strategic Pooled Funds	-	£ -	-		-	-	-	-	-
<b>Total Investment Portfolio</b>	<b>5</b>	<b>£ 32,515,000</b>	<b>4.38%</b>	<b>4.38%</b>					





# What is a Money Market Fund (MMF)?

## Pooled Investment in money market instruments

- Fund manager pools investors' cash together
- Buys a diverse range of high quality deposits; CDs, treasury bills etc

## Main benefits to the Authority

- Access to a wider range of highly rated banks
- Greater diversification than can easily be achieved in-house
- Funds actively managed within rigid guidelines
- Cash can be withdrawn at short notice (same day)

## Fees

- Typically 0.10% to 0.15% p.a. deducted from income generated (waived during pandemic when yields were ultra low)

## Access

- Directly or via online portal

## Security

- Funds aim to preserve capital
- AAA credit rated fund of mostly AA/A rated bank and corporate investments
- Professional credit analysis teams at fund managers

## Liquidity

- Same day or next day access to your cash
- Funds must maintain minimum daily and weekly liquidity levels

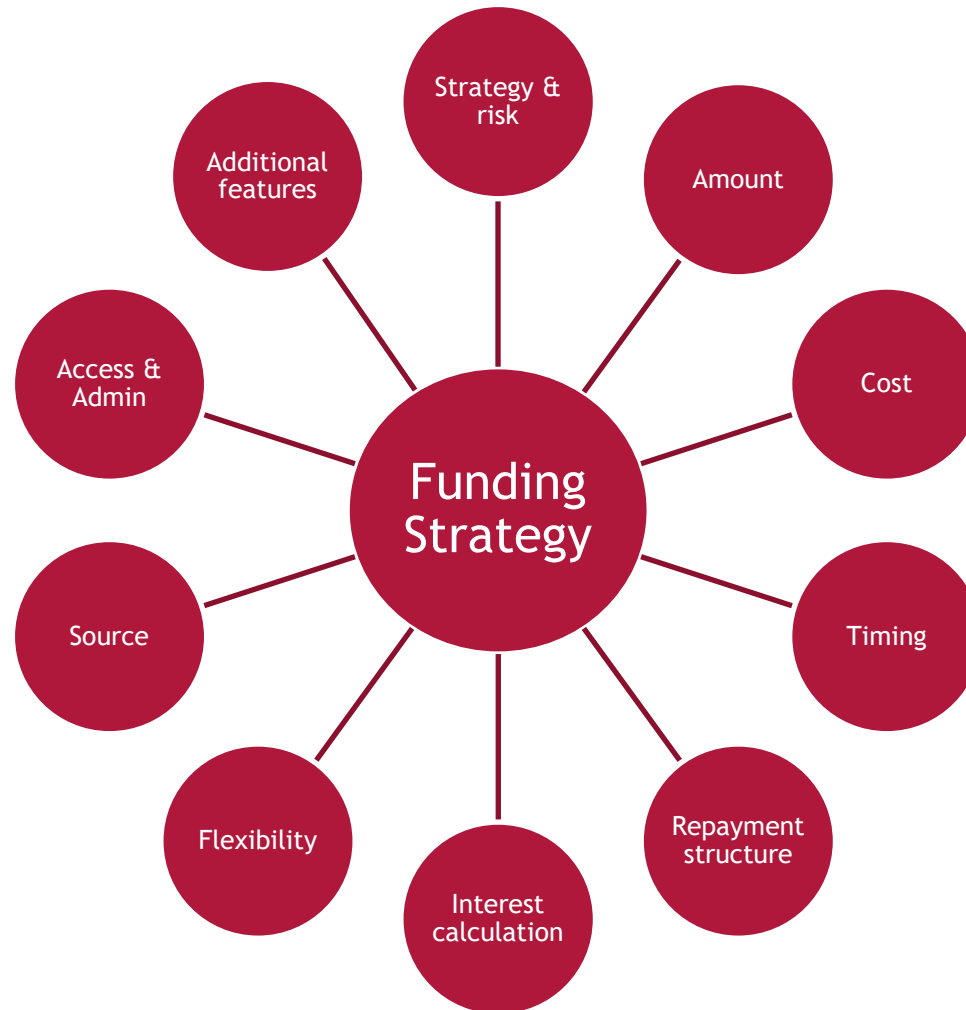
## Yield

- Currently yielding around 4.4%
- Yield will typically rise/fall with a lag compared to market interest rates

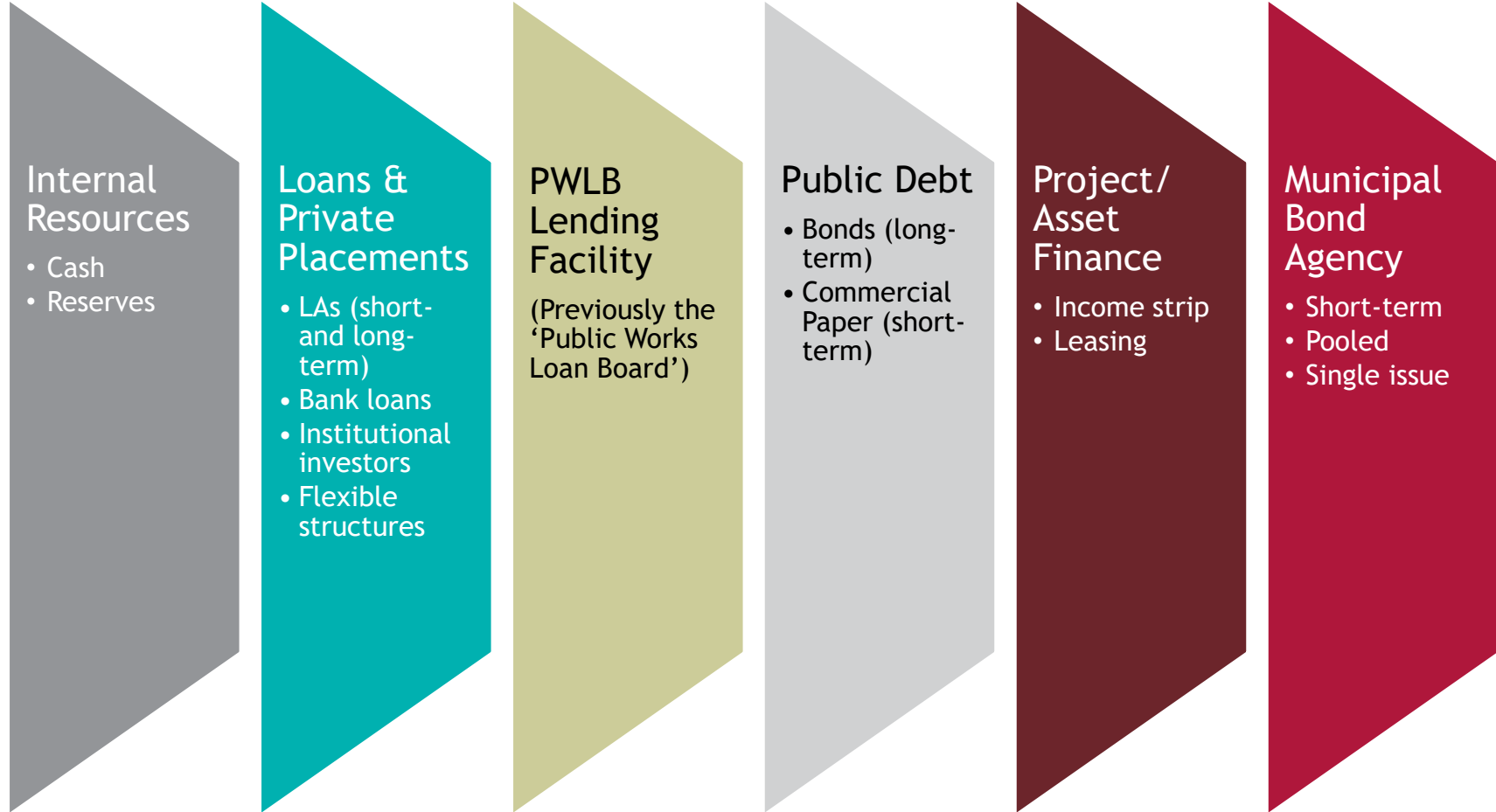
# Key Questions on Treasury Management (Investments)

- How are investment priorities (security, liquidity, yield) managed?
  - What investment instruments are used?
  - Diversified?
  - Awareness and understanding of risks?
- Any market intelligence/concern which heightens risk?
- Conflicts of interest in advice given?
- Performance (return): **What is driving it?**
  - Why is it poor?
  - *Why is it so good?*

# Borrowing Decisions



# Borrowing Sources



# Short Term Variable vs Long Term Fixed

## Short Term Variable

- Pros
- Usually cheaper than long term borrowing
- Better if borrowing is only needed for a short period
- Flexible
- Can be repaid easily if not needed
  
- Cons
- It will get more expensive if interest rates rise
- There is no certainty about what future interest costs will be
- It could be unavailable in future (although this is unlikely for local authorities)
- There is currently only one source: other local authorities

## Long Term Fixed

### Pros

- Provides long term certainty over interest costs
- Provides long term availability of funding
- Easy and quick to arrange if through the PWLB (Public Works Loans Board) lending facility

### Cons

- Usually more expensive than short term variable rate borrowing
- Can be difficult to get out of if you borrow more than you need
- Onerous and difficult to arrange if borrowing from non-PWLB sources
- Restrictions on use if through the PWLB (although there are restrictions on use of all borrowing now)

# Key Questions on Treasury Management (Borrowing)

- Is our borrowing/funding **affordable** ?
- Have **alternative forms of financing/funding** been evaluated ?
- Is there **consistency with the CFR** (i.e. “Capital Financing Requirement” - the underlying need to borrow?)
- **Budgeting certainty?**
  - What proportion of debt which is at fixed rates / variable rates ?
  - What would be the impact of a (say 1%) increase and decrease in interest rates on debt financing costs?
- Who has **flexibility and control over our debt portfolio?**
  - Lender ? / Council ?
- Early repayment of loans ?
- “**Maturity Profile**” - **when do loans mature** ?
- What **Refinancing risks** do we face?

# Prudential and TM Codes - Published December 2021

## Borrowing to Invest

- A local authority must not borrow to invest primarily for financial return
- The code does not require existing commercial investments to be sold, but options to exit investments as an alternative to borrowing should be reviewed in the TM strategy

## Risk management

- Investment risks should be proportionate to financial capacity - so that plausible losses can be absorbed in budgets or reserves without unmanageable detriment to local services
- Investment counterparty policy to include ESG considerations
- Detailed requirements on knowledge and skills inc. policy, schedules, monitoring and review

## Reporting

- Capital strategy requirements expanded greatly - moving away from being a short summary
- Prudential indicators to be reported to members quarterly - not necessarily to full council
- New indicators: liability benchmark and income from service and commercial investments

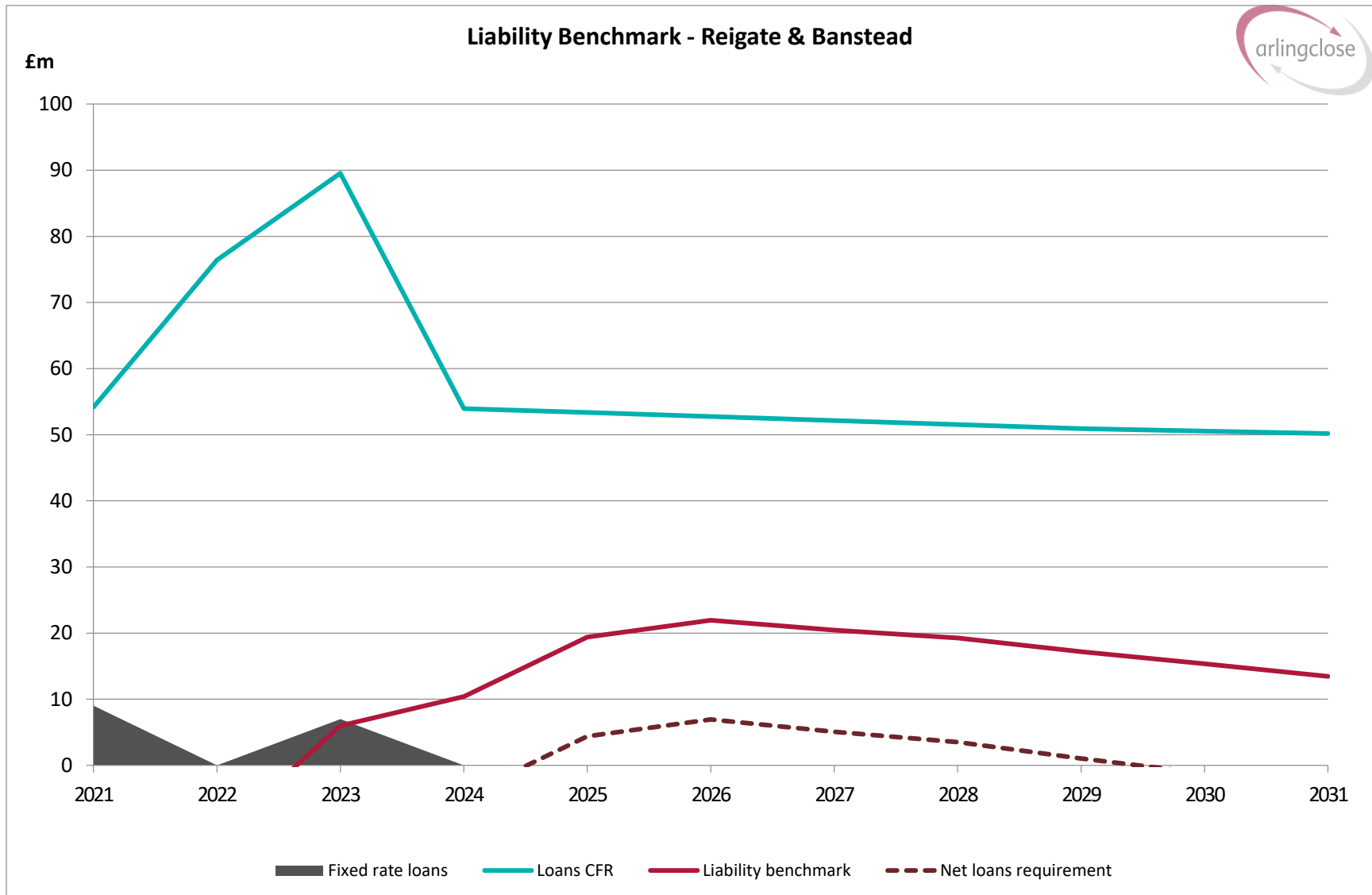
# Local Context: Reigate & Banstead in focus



# Balance Sheet Projections (£m)

Position at 31 March	2021	2022	2023	2024	2025	2026
Loans CFR	54.2	76.4	89.5	53.9	53.4	52.8
External borrowing	-9.0	0.0	-7.0	0.0	0.0	0.0
Internal (over) borrowing	45.1	76.4	82.5	53.9	53.4	52.8
Balance sheet resources	-81.3	-102.3	-98.5	-58.6	-49.0	-45.8
Investments (new borrowing)	36.1	25.9	16.0	4.6	-4.4	-7.0
Treasury investments	36.1	25.9	16.0	15.0	15.0	15.0
New borrowing	0.0	0.0	0.0	10.4	19.4	22.0
Net loans requirement	-27.1	-25.9	-9.0	-4.6	4.4	7.0
Liquidity allowance	15.0	15.0	15.0	15.0	15.0	15.0
Liability benchmark	-12.1	-10.9	6.0	10.4	19.4	22.0

# Liability Benchmark



# Investments



Investment Benchmarking  
31 March 2023

Reigate & Banstead  
45 English Non-Met Districts Average  
122 LAs Average

Internal Investments	£7.0m	£26.1m	£66.5m
Cash Plus & Short Bond Funds	£0.0m	£2.3m	£2.2m
Strategic Pooled Funds	£0.0m	£10.9m	£12.1m
<b>TOTAL INVESTMENTS</b>	<b>£7.0m</b>	<b>£39.3m</b>	<b>£80.8m</b>

## Security

Average Credit Score	4.78	4.74	4.71
Average Credit Rating	A+	A+	A+
Average Credit Score (time-weighted)	4.78	4.52	4.56
Average Credit Rating (time-weighted)	A+	A+	A+
Number of Counterparties / Funds	2	11	12
Proportion Exposed to Bail-in	100%	63%	59%

## Liquidity

Proportion Available within 7 days	100%	42%	49%
Proportion Available within 100 days	100%	62%	70%
Average Days to Maturity	1	56	12

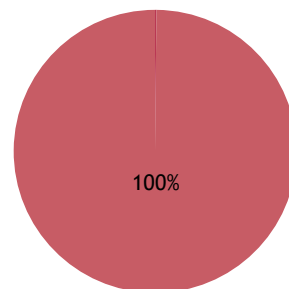
## Market Risks

Average Days to Next Rate Reset	39	72	44
Strategic Fund Volatility	-	4.8%	7.3%

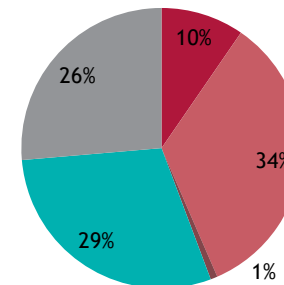
## Yield

Internal Investment Return	4.16%	3.57%	3.67%
Cash Plus Funds - Income Return	-	1.45%	1.37%
Strategic Funds - Income Return	-	3.99%	3.93%
<b>Total Investments - Income Return</b>	<b>4.16%</b>	<b>3.55%</b>	<b>3.66%</b>
Cash Plus Funds - Capital Gain/Loss	-	-0.15%	-0.06%
Strategic Funds - Capital Gain/Loss	-	-11.14%	-11.85%
<b>Total Investments - Total Return</b>	<b>4.16%</b>	<b>0.73%</b>	<b>1.59%</b>

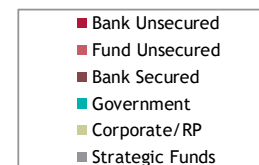
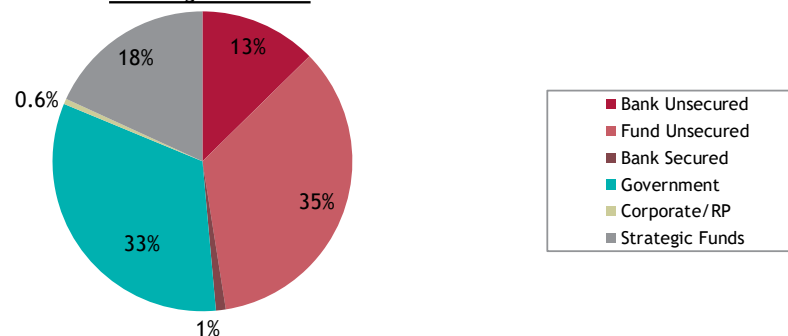
Reigate & Banstead



English Non-Met Districts



All Arlingclose Clients



## Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

# Reigate & Banstead's Non-Treasury Service and Commercial Investments

# Investments - Service and Commercial

## Service Investments

- Investments made primarily to meet the Council's service objectives and help local residents and businesses.
- Examples include loans to local businesses, loans to local charities, loans to developers to assist regeneration or companies owned or part-owned by the Council to build housing or regenerate an area.
- Unlike a grant these amounts are either expected to be repaid and/or to provide a return through interest or dividend payments. However, this would be a secondary objective to their service purpose.
- Reigate:
  - £10.5m of loans to Council Subsidiaries.
    - Largest loan is to a Subsidiary to provide a vehicle for economic regeneration.
  - £1.1m shareholding in Pathway for Care Limited.

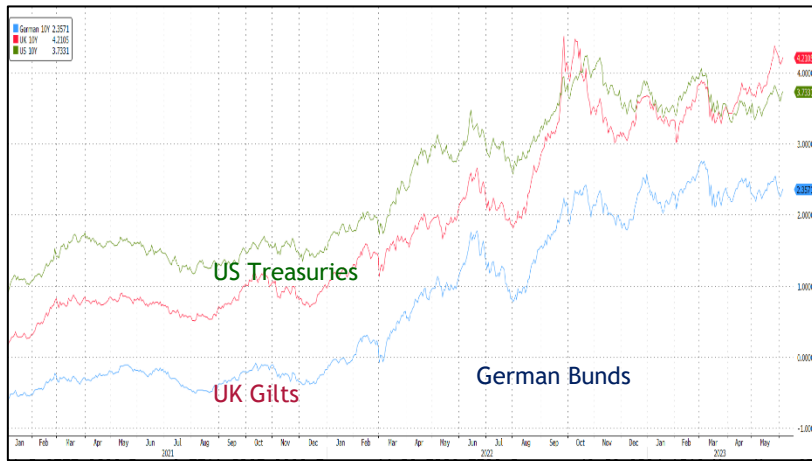
## Commercial Investments

- Investments made purely for commercial return. Often commercial property, e.g. buying an office block in a different area of the country for rental returns.
- Borrowing in order to purchase commercial investments is now banned which means in practice they cannot be undertaken.
- Reigate:
  - £39.5m of commercial & residential investment property in local area (this would still be classed as a service investment in the Capital Strategy)

# Economic Context

# Economic Sentiment

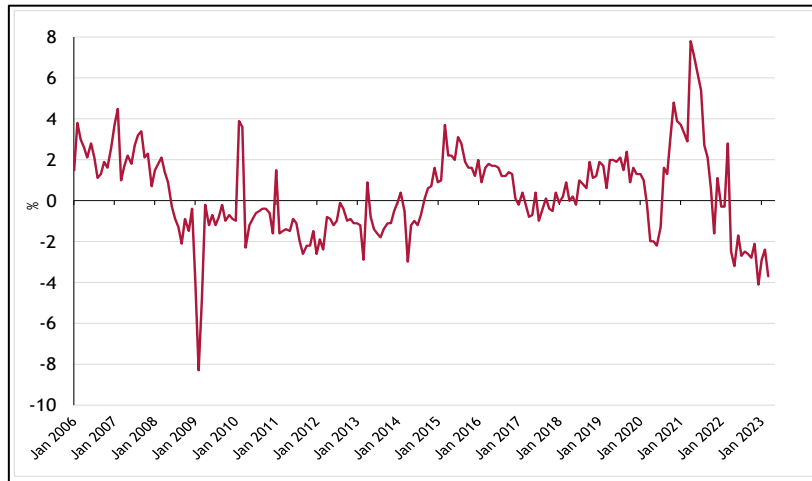
## Gilt Yields



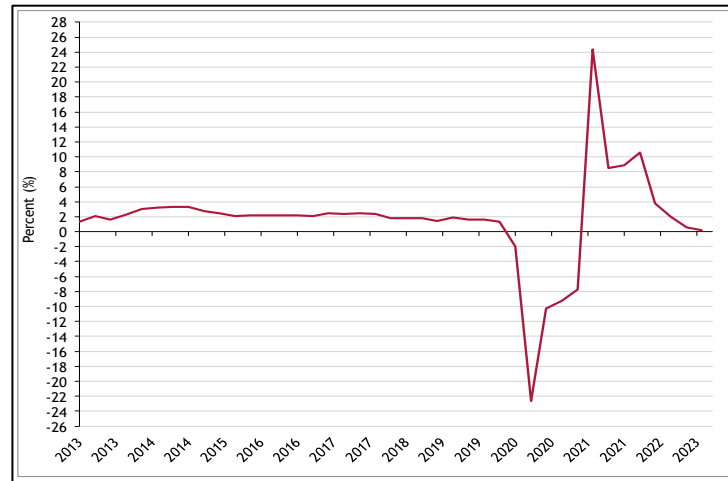
## CPI Inflation



## Real Earnings Growth

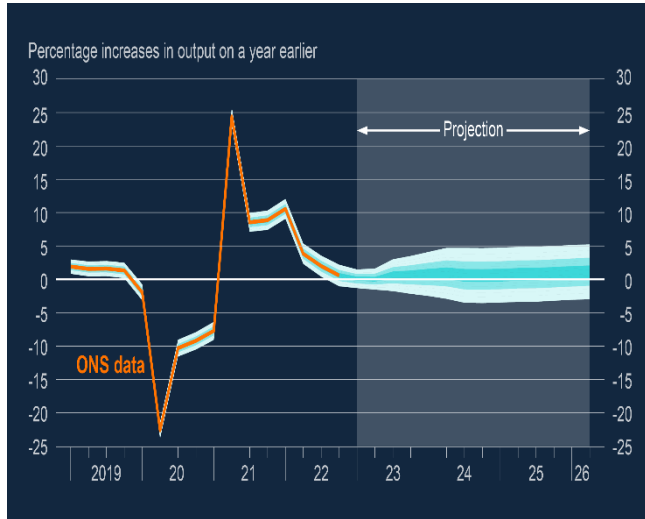


## GDP Growth

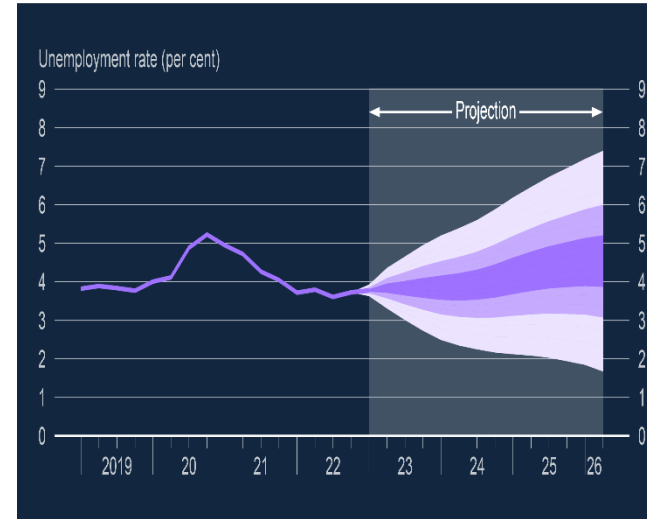


# BoE Monetary Policy Report - May 2023

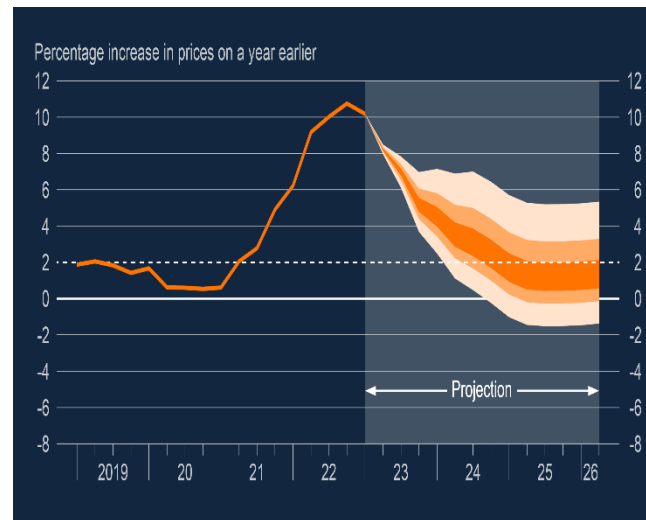
## Outlook for UK GDP growth



## Outlook for UK Unemployment



## Outlook for UK CPI inflation





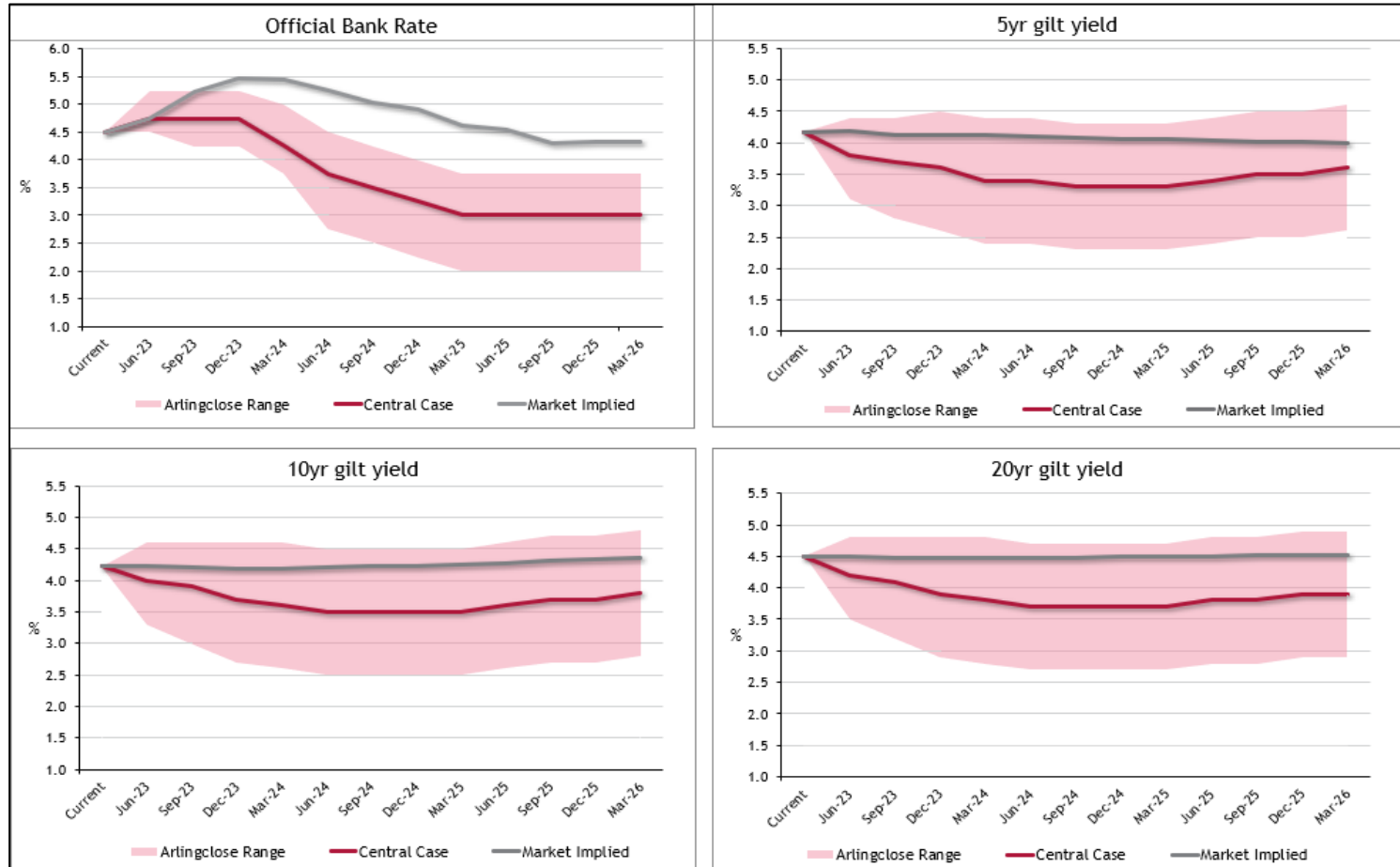
# Arlingclose and Market Projections

Charts show the Arlingclose central case along with upside and downside risks:  
 Arlingclose judges that the risks around its Bank Rate and gilt yield forecasts are weighted to the upside in the near-term and to the downside in the medium-term.

PWLB Standard Rate (Maturity Loans) = Gilt yield + 1.00%  
 PWLB Certainty Rate (Maturity Loans) = Gilt yield + 0.80%  
 UKIB Rate (Maturity Loans) = Gilt yield + 0.60%

Arlingclose forecast:  
 15<sup>th</sup> May 2023

Market forward curves:  
 5<sup>th</sup> June 2023



# Glossary of Common Terms

- **Basis Point:** 1 basis point (or 1bp) is 0.01%
- **Capital market transactions:** borrowing or investing for more than a year
- **CD:** Certificate of Deposit, a tradable bank deposit
- **CDS:** Credit Default Swap, derivate that pays out in the event of an institutions defaulting
- **CFO:** Chief Finance Officer
- **CFR:** Capital Financing Requirement
- **CIPFA:** Chartered Institute for Public Finance and Accountancy
- **DLUHC:** Department for Levelling Up, Housing and Communities, central government department for local authorities
- **DMADF:** Debt Management Account Deposit Facility, a facility to deposit investments in the DMO (see below)
- **DMO:** Debt Management Office, a part of Her Majesty’s Treasury that local authorities can deposit money with
- **EIP:** Equal Instalment of Principal
- **ESG:** Environmental, Social and Governance
- **Gilts:** Bonds issued by the UK government
- **Liquidity:** how quickly money can be accessed, money that can be accessed quickly with little risk is considered ‘liquid’
- **Money market transactions:** borrowing or investing for less than a year
- **MRP:** Minimum Revenue Provision
- **Outturn:** financial year end
- **PWLB lending facility:** a part of Her Majesty’s Treasury that lends to local authorities, commonly called just ‘the PWLB’
- **T-bills:** Treasury bills, an instrument the UK government uses to borrow short term
- **TMSS:** Treasury Management Strategy Statement. Sometimes called just the ‘TMS’ or ‘Treasury Management Strategy’

# Any Questions?

All data has been sourced from Bloomberg and other publicly available information.

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