PAPER C1 – APPENDIX 1
Decision Report - Executive Decision
Forward Plan Reference: FP/23/06/11
Decision Date – 14/07/2023
Key Decision – no

Somerset County Council Annual Treasury Management Outturn Report 2022-23

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Local Member(s) and Division: All
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1. Compliance, Governance & Risk Management

During the year, all Council treasury management policies, practices, and activities remained compliant with all relevant statutes and guidance, namely DLUHC investment guidance issued under the Local Government Act 2003, the CIPFA Code of Practice for Treasury Management, and the CIPFA Prudential Code. The DLUHC's Guidance on Investments reiterates security and liquidity as the primary objectives of a prudent investment policy. All investments were compliant with guidance issued by the DLUHC, with the investment strategy agreed, and activities conducted within the procedures contained in the Treasury Management Practices.

The Treasury Management Strategy Statement and Prudential Indicators were considered by Audit and approved by Full Council in February 2022 and the CIPFA TM Code and the mid-year review was presented to Full Council in November 2022.

Arlingclose have been retained independent Treasury Advisors throughout the period. Officers from the Treasury Management team reported debt and investment positions and performance via comprehensive reports at regular meetings with the Section 151 Officer and/or the Strategic Manager (Pensions Management). During the year Treasury staff have continued to attend (virtual) courses and seminars provided through the CIPFA Treasury Management Network (TMN), Arlingclose and other ad hoc events.

MiFID II is an EU regulatory framework designed to regulate financial markets and improve protections for investors. MiFID II aims to standardise practices throughout the EU and brings a larger number of firms under the supervision of an EU financial regulator The Council continues to meet the conditions to opt up to professional status under MiFID II and as a result, will continue to have access to products including money market funds, pooled funds, treasury bills, bonds, shares and to financial advice.

2. Prudential indicators

The Council can confirm that it has complied with its Prudential Indicators for 2022-23. Those indicators agreed by Full Council and actual figures as at 31st March are included below:

Debt Limits

Borrowing	Limit for 2022-23	As at 31-03-23
Authorised Limit	£452m	£333m
Operational Boundary	£407m	£333m

Investment Limits

Maturity Structure of Borrowing	Upper	Lower	Actual
Under 12 months	50%	15%	29.0%
>12 months and within 24 months	25%	0%	1.5%
>24 months and within 5 years	25%	0%	15.3%
>5 years and within 10 years	20%	0%	4.8%
>10 years and within 20 years	20%	5%	6.0%
>20 years and within 30 years	20%	0%	6.0%
>30 years and within 40 years	45%	15%	37.4%
>40 years and within 50 years	15%	0%	0.0%
>50 years and above	5%	0%	0.0%

Limit for Principal sums invested > 365 days £75m   Actual £50m

Credit Risk Indicator

The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating / credit score of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk (in conjunction with Arlingclose) and will be calculated quarterly.

Credit risk indicator (to be below target)	Target	Actual
Portfolio average credit rating (score)	A (6)	A+(4.70)

3. Non-Financial assets, regulatory changes, and risk management

Some Local Authorities have continued to invest in non-financial assets, with the primary aim of generating profit. Others have entered into very long-term investments or providing loans to local enterprises or third sector entities as part of regeneration or economic growth projects.

In response, CIPFA published its revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments.

To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules governed by HM Treasury.

HM Treasury proposed on changes to the PWLB, which it said would attempt to "focus PWLB loans on service delivery, housing, and regeneration, and ensure that this money is not diverted into financial investments that serve no direct policy purpose".

In August 2021 HM Treasury significantly revised guidance for the PWLB lending facility with more detail and 12 examples of permitted and prohibited use of PWLB loans. Authorities that are purchasing or intending to purchase investment assets primarily for yield will not be able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

Revised HM Treasury guidance specifically stated "Any investment asset bought primarily for yield which was acquired after 26th November 2020 would result in the Authority not being able to access the PWLB in that financial year, or being able to use the PWLB to refinance this transaction at any point in the future"

Some of the Somerset District Councils had been purchasing assets primarily for yield, and some after the cut-off date of November 2020 imposed by HM Treasury. This would have meant that a sizeable portion of debt would not be able to be funded via the PWLB. However, due to the exceptional circumstance of becoming a unitary, HM Treasury have confirmed that the limiting of access to PWLB will not apply to the new Somerset Council for assets held at the inception of the new Council. The Secretary of State will allow Somerset Council unfettered access to PWLB loans.

Treasury outturn and performance

4. Economic background

Financial markets are constantly changing, both proactively in anticipation of upcoming scenarios and events, and reactively, in response to news and outcomes. Whilst it is important to review and report on performance, it must be borne in mind that Treasury decisions are made in dynamic conditions. It is important therefore to give some background and context to Treasury performance.

The war in Ukraine continued to keep global inflation above central bank targets and the UK economic outlook remained relatively weak with the chance of a mild recession. The economic backdrop during the January to March period continued to be characterised by high energy and commodity prices, high inflation, and the associated impact on household budgets and spending. Central Bank rhetoric and actions remained consistent with combatting inflation. The Bank of England, US Federal Reserve, and European Central Bank all increased interest rates over the period, even in the face of potential economic slowdowns in those regions.

Starting the financial year at 5.5%, the annual Consumer Price Index (CPI) measure of UK inflation rose strongly to hit 10.1% in July and then 11.1% in October. Inflation remained high in subsequent months but appeared to be past the peak, before unexpectedly rising again in February. Annual headline CPI registered 10.4% in February, up from 10.1% in January, with the largest upward contributions coming from food and housing.

The unemployment rate eased from 3.8% April-June to 3.6% in the following quarter, before picking up again to 3.7% between October-December. The most recent information for the period December-February showed an unemployment rate of 3.7%.

Nominal earnings were robust throughout the year, with earnings growth in December-February at as 5.7% for both total pay (including bonuses) and 6.5% for regular pay. Once adjusted for inflation, however, both measures were negative for that period and have been so throughout most of the year.

Quarterly Gross Domestic Product (GDP) was soft through the year, registering a 0.1% gain in the April-June period, before contracting by (an upwardly revised) -0.1% in the subsequent quarter. The October-December period was revised upwards to 0.1% (from 0.0%), illustrating a resilient but weak economic picture. The annual growth rate in Q4 was 0.6%.
The Bank of England increased the official Bank Rate to 4.25% during the financial year. From 0.75% in March 2022, the Monetary Policy Committee (MPC) pushed through rises at every subsequent meeting over the period, with recent hikes of 50bps in December and February and then 25bps in March, taking Bank Rate to 4.25%. March's rise was voted by a majority of 7-2, with two MPC members preferring to maintain Bank Rate at 4.0%. The Committee noted that inflationary pressures remain elevated with growth stronger than was expected in the February Monetary Policy Report.

After reaching 9.1% in June, annual US inflation slowed for eight consecutive months to 6% in February. The Federal Reserve continued raising interest rates over the period with consecutive increases at each Federal Open Market Committee meetings, taking policy rates to a range of 4.75%- 5.00% at the March meeting.

From the record-high of 10.6% in October, Eurozone CPI inflation fell steadily to 6.9% in March 2023. Energy prices fell, but upward pressure came from food, alcohol, and tobacco. The European Central Bank continued increasing interest rates over the period, pushing rates up by 0.50% in March, taking the deposit facility rate to 3.0% and the main refinancing rate to 3.5%.

Financial markets: Uncertainty continued to be a key driver of financial market sentiment and bond yields remained relatively volatile due to concerns over elevated inflation and higher interest rates, as well as the likelihood of the UK entering a recession, and for how long the Bank of England would continue to tighten monetary policy. Towards the end of the period, fears around the health of the banking system following the collapse of Silicon Valley Bank in the US, and the purchase of Credit Suisse by UBS caused further volatility.

Over the period the 5-year UK benchmark gilt yield rose from 1.41% to peak at 4.70% in September before ending the financial year at 3.36%. Over the same timeframe the 10-year gilt yield rose from 1.61% to peak at 4.51% before falling back to 3.49%, while the 20-year yield rose from 1.82% to 4.96% and then declined to 3.82%. The Sterling Overnight Rate (SONIA) averaged 2.24% over the period.

5. The Treasury Position as at 31st March 2023

The Treasury position as at 31st March 2023 and a comparison with the previous year is shown in the table below.

Table 1 – Debt Portfolio

	Balance on 31-03-2022 £m	Debt Matured / Repaid £m	New Borrowing £m	Balance on 31-03-2023 £m	Increase/ Decrease in Borrowing £m
Short Term Borrowing	0.00	0.00	0.00	0.00	0.00
PWLB	159.05	0.00	0.00	159.05	0.00
LOBOs	108.00	0.00	0.00	108.00	0.00
Fixed Rate Loans	57.50	0.00	0.00	57.50	0.00
Total Borrowing	**324.55**	**0.00**	**0.00**	**324.55**	**0.00**

Table 2 – Debt interest

	31-03-2022 Rate %	31-03-2023 Rate %	Increase/ Decrease Rate %
Short Term Borrowing	N/A	N/A	0.00
PWLB	4.59	4.59	0.00
LOBOs	4.74	4.74	0.00
Fixed Rate Loans	4.73	4.73	0.00
Total Borrowing	**4.66**	**4.66**	**0.00**

The Council's need to borrow for capital purposes is determined by the Capital Programme and Capital Strategy. Council Members were aware of the major projects identified for 2022 to 2025 where the capital strategy forecast £109m of expenditure during 2022-23. £46m was identified for highways maintenance, major engineering, and traffic management; £31m for the delivery of schools' basic need and schools' condition; £9m for Economic Development projects and £23m for other programmes. Much of this was to be funded by a combination of grant, contributions, and capital receipts, with capital spend to be funded by borrowing in 2022-23 predicted to be £41.2m.

In the first half of the year, due to slippage and a positive cash flow, there had been no need for additional external borrowing to fund the SCC Capital Programme, and with the imminent coalescence of the 5 Council's debt and investment portfolios, it seemed appropriate to collate and analyse that information before deciding if and for what period any new debt would be taken. With a review of both commercial and strategic fund investments to take place, and with a healthy level of investment balances, it was decided that longer-term borrowing would not be taken in 2022-23.

The level of internal borrowing stood at £63.9m as at 31 March 2022. With the additional funding requirement and the fact that no new borrowing was taken, the estimated balance of internal borrowing by March 2023, may be around £96.2m.

During 2022-23, there were no scheduled debt maturities. The Public Works Loans Board (PWLB) portfolio remained the same.

Table 3 – Investments as at 31st March 2023

	Balance as at 31-03-2022 £m	**Rate of Return at 31-03-2022 %**	**Balance as at 31-03-2023 £m**	**Rate of Return at 31-03-2023 %**
Short-Term Balances (Variable)	49.00	0.59	79.75	4.15
Comfund (Fixed)	245.00	0.60	120.00	3.37
Pooled Funds	45.00	2.70	45.00	3.51
Total Investments	**339.00**	**0.87**	**244.75**	**3.65**

Table 4 - Investment balances by type

	31 March 2022 £m	31 March 2023 £m	Change
Money Market Funds	24.00	16.75	-7.25
Notice Bank Accounts	80.00	00.00	-80.00
Time Deposits/CD's - Banks	85.00	70.00	-15.00
Time Deposits - LAs	105.00	65.00	-40.00
Time Deposits – Somerset Districts	0.00	48.00	+48.00
Pooled Funds	45.00	45.00	+0.00
Total Investments	**339.00**	**244.75**	**-94.25**

Table 5 - Breakdown of investment balances by source

	31 March 2022 £m	31 March 2023 £m	Change
ENPA / SWC / SCT / PACCTS	1.83	8.15	+6.32
Organisations in the Comfund	10.05	0.00	-10.05
LEP – Growth Deal Grant	31.70	15.36	-16.34
CCG s256 money	80.40	97.74	+17.34
Earmarked funds held on behalf of other decision-making bodies	11.82	10.89	-0.93
Total Externals	**135.80**	**132.14**	**-3.66**
SCC	203.20	112.61	-90.59
Total Investments	**339.00**	**244.75**	**-94.25**

Total investments as at 31st March 2023, including unspent LEP money, and NHS Clinical Commissioning Group (CCG) s256 money, stood at £244.75m, a decrease of over £94m from 2022.

The investments balance has decreased significantly during the year, mostly being expenditure by SCC. The reduction in LEP money has been replaced by further s256 money from the CCG.

Although the Comfund was ended in March, there were £120m of legacy loans from that portfolio that will mature during 2023-24.

Revenue balances held on behalf of others at year-end decreased due to closing of the Comfund. LEP payments throughout the year meant a decrease of £16.34m of that money. In total £34.4m was managed on behalf of others at year-end 2023, a decrease of £21.0m, plus s256 money of £97.74m that has been made by the CCG.

The cash managed on behalf of others includes that of Exmoor National Park Authority (ENPA) and South-West Councils (SWC). Somerset Council (SC) continues to manage revenue balances on their behalf, and under contractual arrangements sweeps their cash into the SC account daily, from where it is lent into the market in the name of SC. There are arrangements in place for the allocation of interest received on these amalgamated balances, and SC retains a small amount for the management of the monies.

6. Summary of performance

During the year, Council treasury management policies, practices, and activities remained compliant with relevant statutes and guidance, namely the Department of Levelling Up, Housing and Communities (DLUHC) investment guidance issued under the Local Government Act 2003, and the CIPFA Treasury Management and Prudential Codes. The Council can confirm that it has complied with its Prudential Indicators for 2022-23.

At year-end, with no new debt taken, total debt stood at £324.55m, with an average rate paid on total borrowings of 4.66%.

Security of capital remained the Council's main investment objective. This was achieved by following the counterparty policy as set out in the Annual Treasury Management Strategy, and by the approval method set out in the TMPs. SCC has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment.

In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable. In September Fitch revised the outlook on HSBC to stable from negative.

In October following the Government 'fiscal event' both Fitch and Moody's revised the outlook on the UK sovereign to negative from stable. Moody's made a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank, and Santander.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

Credit Default Swap (CDS) Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks and institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

The average Credit Rating of the SCC investment portfolio (excluding pooled funds) as at 31st March 2022 was A+. To give this some perspective, the United Kingdom Government is rated AA- by two of the three main ratings agencies, the other being one notch higher at AA.

An account of issues and any restrictions implemented throughout the year can be found in appendix D.

Liquidity. In keeping with the DLUHC guidance, the Council maintained a sufficient level of liquidity through the use of call accounts, Money Market Funds, and short-term deposits. SCC did not need to borrow short-term money during the year.

Yield (excluding Pooled Funds). Interest of over £5.06m was earned on cash investments during 2022-23. This was due to the 8 base rate rises in the year, taking base rate from 0.75% to 4.25%.

When compared with average cash rates for the year, the ex-Pooled Funds yield of 1.90% was 0.40% below the average base rate, which is expected in a rapidly rising rate environment.

Pooled Funds. During 2022-23, Pooled Fund investments remained at £45m and delivered an average net income yield of 3.30%.

Yield (including Pooled Funds). Interest of nearly £6.55m was earned on total investments during 2022-23.

Security and liquidity have been achieved with the income return of 2.10% achieved for the year, being 0.20% below average base rate.

7. Temporary borrowing

Temporary borrowing has not been necessary at all during 2022-23.

8. Long term borrowing

The borrowing strategy for 2022-23 recognised that borrowing of up to £105.1m (including externalising current internal borrowing) may have been necessary.

Due to slippage and a positive cash flow, there had been no need for additional external borrowing to fund the SCC Capital Programme to date, and with the imminent coalescence of the 5 Council's debt and investment portfolios, it seemed appropriate to collate and analyse that information before deciding whether any new debt would be taken.

During 2022-23, there were no scheduled debt maturities. The debt portfolio therefore remained at £324.55m during the year. All details of long-term borrowing rates and any activity during the year can be found in appendix C.

9. Cash managed on behalf of others

During 2022-23 SCC provided treasury management services to the Police and Crime Commissioner for Avon and Somerset. As from 1st April 2020, a new contract had been signed, for Treasury Management services to be supplied to the Police, by SCC, for a 3-year period, with an option to extend. Funds continue to be lent on a segregated basis, with PCC funds lent in its own name.

The Comfund was closed in March and funds returned to most participants. SC continues to manage cash on behalf of others, namely Exmoor National Park Authority (ENPA), South-West Councils (SWC), the Society of County Treasurers (SCT)), and the Police & Crime Commissioners Treasurers Society (PACCTS) via service level agreements. These balances were just over £8.1m at year-end.

In addition, during 2022-23, SCC was retained to manage the Local Enterprise Partnership (LEP) Growth Deal Grant on behalf of the other Enterprise Partners. An average balance in excess of £22m was managed, with a year-end balance of £15.36m.

All treasury management activities, including a fee for the management of the LEP money, brought in income just over £108k during the year.

10. Investments

The Council holds significant investment balances, details shown by balance, type, source, and return achieved, is shown in tables 3-5 above. During the year, investment balances ranged between £243.6m and £370.6m, averaging £311.5m. The minimum and lowest balance were lower than last year's by £17m, and £6m, with the highest figure being £7.4m higher than the previous year.

Net asset value money market funds (LVNAV MMFs) were relatively quick to respond to rate rises. Their rates usually crept up to within 10 or so basis points of base rate, at just the time another base rate rise was announced.

Investment activity, especially during the second half of the year, was driven by the rapidly rising interest rate environment. Deposits were generally kept short to be able to reinvest at the ever-increasing rates. A couple of longer-term deposits with Local Authorities were taken when it was judged that the market had been overly high, to provide a hedge in case the market did not rise as high as expected.

Investing for shorter periods complimented the fact that by now it was known that the new Council would have a lot of short-term debt that would need to be repaid or refinanced early in the 2023-24 year. Also, cash flow was not going to be totally predictable, so more cash had to be held short-term to cover any unknown expenditure.

When measuring the cash investment performance of its treasury management activities in terms of its security, the credit risk target of A(6) has been bettered, being AA- throughout most of the year, and being A+(4.70) at year-end. The yield achieved has been under in relationship to benchmark interest rates, but with 8 rate rises in the year, that is to be expected.

The Guidance on Local Government Investments in England gives priority to security and liquidity and the Council's aim is to achieve a yield commensurate with these principles.

Security: Security of capital remained the Council's main investment objective. This was maintained by following the counterparty policy as set out in the Annual Investment Strategy, and by the approval method set out in the Treasury Management Practices.

SCC has continuously monitored counterparties, and all ratings of proposed counterparties have been subject to verification on the day, immediately prior to investment. Other indicators considered have been:

- Credit Default Swaps and Government Bond Spreads.
- GDP and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Banking resolution mechanisms for the restructure of failing financial institutions i.e. bail-in.
- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.

In July Fitch revised the outlook on Standard Chartered and Bank of Nova Scotia from negative to stable. In September Fitch revised the outlook on HSBC to stable from negative.

In October following the Government 'fiscal event' both Fitch and Moody's revised the outlook on the UK sovereign to negative from stable. Moody's made a similar move for a number of local authorities and UK banks including Barclays Bank, National Westminster Bank, and Santander.

During the last few months of the reporting period there were only a handful of credit changes by the rating agencies, then in March the collapse of Silicon Valley Bank in the US quickly spilled over into worries of a wider banking crisis as Credit Suisse encountered further problems and was bought by UBS.

CDS Prices had been rising since the start of the period on the back of the invasion of Ukraine, and in the UK rose further in September/October at the time of the then-government's mini budget. After this, CDS prices had been falling, but the fallout from SVB caused a spike on the back of the heightened uncertainty. However, they had moderated somewhat by the end of the period as fears of contagion subsided, but many are still above their pre-March levels reflecting that some uncertainty remains.

On the back of this, Arlingclose reduced its recommended maximum duration limit for unsecured deposits for all UK and Non-UK banks and institutions on its counterparty list to 35 days as a precautionary measure. No changes were made to the names on the list.

As market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

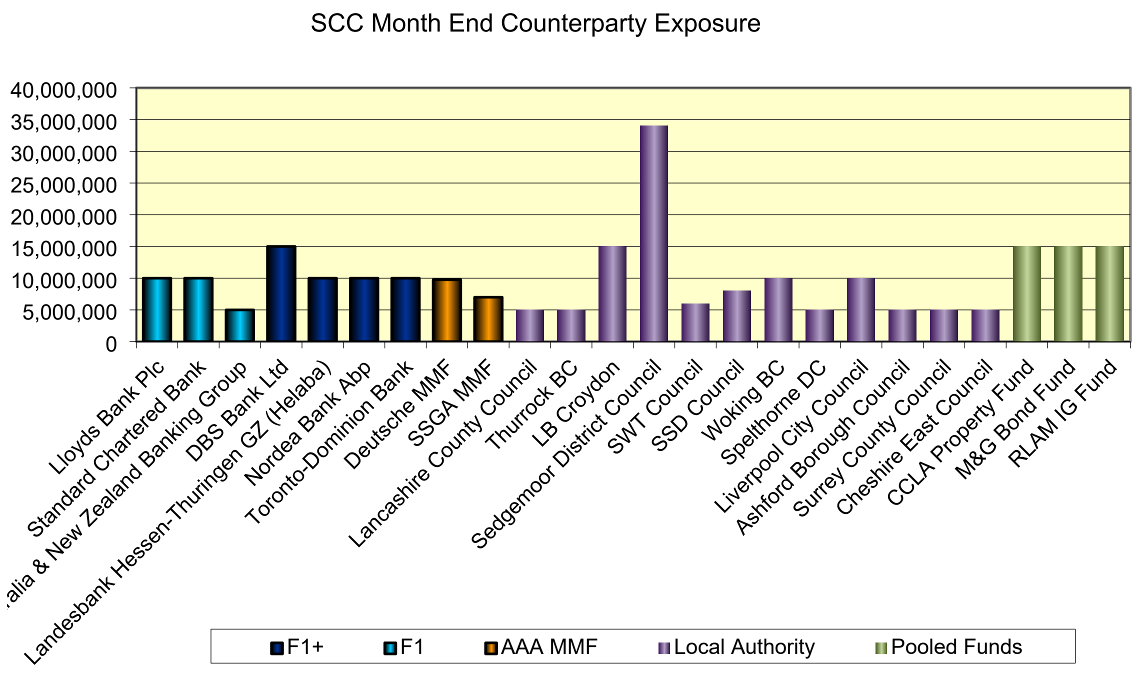
Local authorities remain under financial pressure, but Arlingclose continues to take a positive view of the sector, considering its credit strength to be high. Section 114 notices have been issued by only a handful of authorities with specific issues. While Arlingclose's advice for local authorities on its counterparty list remains unchanged, a degree of caution is merited with certain authorities.

Another means of assessing inherent risk in an investment portfolio is to monitor the duration, the average weighted time to maturity of the portfolio. As change to a unitary council became closer, the lending of SCC became increasingly shorter. This was because it was known that there would be a lot of short-term debt in the new council, and because cash flow was inevitably uncertain.

This, coupled with Arlingclose advice meant that there were no bank deposits maturing beyond early July 2023. Some longer dated deposits had been placed with local authorities to take advantage of elevated rates at year-end, and £48m was lent to Somerset District Councils, to mature on 1st April.

Thirty-Eight loans were with Local Authorities during the year (49 in 2021-22). This allowed for longer-dated maturities with excellent creditworthiness and an appropriate yield.

The chart below shows the names of approved counterparties with deposit exposures as at 31st March 2023.



Liquidity: In keeping with the DLUHC guidance, the Council maintained enough liquidity through the use of call accounts, money market funds (MMFs), and short-term deposits. This was beneficial not just for liquidity and yield, but in mitigating counterparty and interest rate risk. During the year, identified core balances and reserves have been lent for longer periods when deemed appropriate, via the Comfund. The Comfund's aim was to create a portfolio of deposits with a rolling maturity providing sufficient liquidity, whilst enabling advantage to be taken of the extra yield offered in longer periods. With the coming of Somerset Council, and the knowledge that short-term borrowing would be taken on, longer term loans had been reduced over the year, and Comfund was wound up in March.

Yield: The Council sought to optimise returns commensurate with its objectives of security and liquidity. After 3 successive rises in Base Rate during the 2021-22 financial year, the MPC delivered rises at each of its' 8 meetings in 2022-23, raising rates from 0.75% to end the financial year at 4.25%.

Last year rates were as low as 0.15% for a 1-year deposit with a bank. Local Authority rates were less than this, with 1-year money trading as low as 0.06%. Whilst current rates are higher, it can take time for previous deposits to drop out of the portfolio.

1-month, 3-month, 6-month and 12-month Money Market rates averaged 2.43%, 2.83%, 3.20% and 3.67% respectively for 2022-23, and as at 31st March 2023 were 4.11%, 4.43%, 4.59% and 4.89% respectively. A table of rates is shown below.

Money Market Rates 2022-2023, Source = Arlingclose

	Base Rate	7-Day	1-Month	3-Month	6-Month	12-Month	2-Yr SWAP
01/04/2022	0.75	0.67	0.60	1.10	1.33	1.57	2.02
30/04/2022	0.75	0.85	0.94	1.25	1.40	1.80	2.22
31/05/2022	1.00	0.92	1.02	1.42	1.71	1.95	2.34
30/06/2022	1.25	1.23	1.24	1.60	2.20	2.70	2.63
31/07/2022	1.25	1.22	1.49	1.90	2.40	2.88	2.49
31/08/2022	1.75	1.70	1.89	2.30	2.95	3.60	3.89
30/09/2022	2.25	2.22	2.32	3.89	4.10	4.95	5.39
31/10/2022	2.25	2.82	2.98	3.43	3.83	4.55	4.53
30/11/2022	3.00	2.95	3.19	3.46	3.98	4.55	4.35
31/12/2022	3.50	3.45	3.57	3.91	4.18	4.60	4.46
31/01/2023	3.50	3.90	3.86	4.03	4.25	4.65	4.04
28/02/2023	4.00	3.95	4.09	4.29	4.51	4.88	4.57
31/03/2023	4.25	4.20	4.11	4.43	4.59	4.89	4.27
Average 2022-23	**2.30**	**2.30**	**2.43**	**2.83**	**3.20**	**3.67**	**3.63**
Minimum	0.75	0.67	0.60	0.96	1.17	1.57	1.99
Maximum	4.25	4.20	4.28	4.45	4.76	5.32	5.86
Spread	3.50	3.53	3.68	3.49	3.59	3.75	3.87
Average 2021-22	**0.19**	**0.15**	**0.12**	**0.23**	**0.37**	**0.50**	**0.76**
Difference in average	**+2.11**	**+2.15**	**+2.31**	**+2.60**	**+2.83**	**+3.17**	**+2.87**

Comfund: The Comfund's aim was to create a portfolio of deposits with a rolling maturity providing sufficient liquidity, whilst enabling advantage to be taken of the extra yield offered in longer periods. With the coming of Somerset Council, and the knowledge that short-term borrowing would be taken on, longer term loans had been reduced over the year, and Comfund was wound up in March.

The average balance of the Comfund throughout 2022-23 was £211.9m. The Comfund vehicle, with an average return of 1.84% to March underperformed the benchmark for base rate of 2.30% for the year, by 0.46%. It can be difficult to maintain a positive performance when the comparator rate is moving up, particularly with quick successive rises.

A total of approximately £3.9m of income was earnt an increase of nearly £3.34m on the figure for 2021-22 of £562,000.

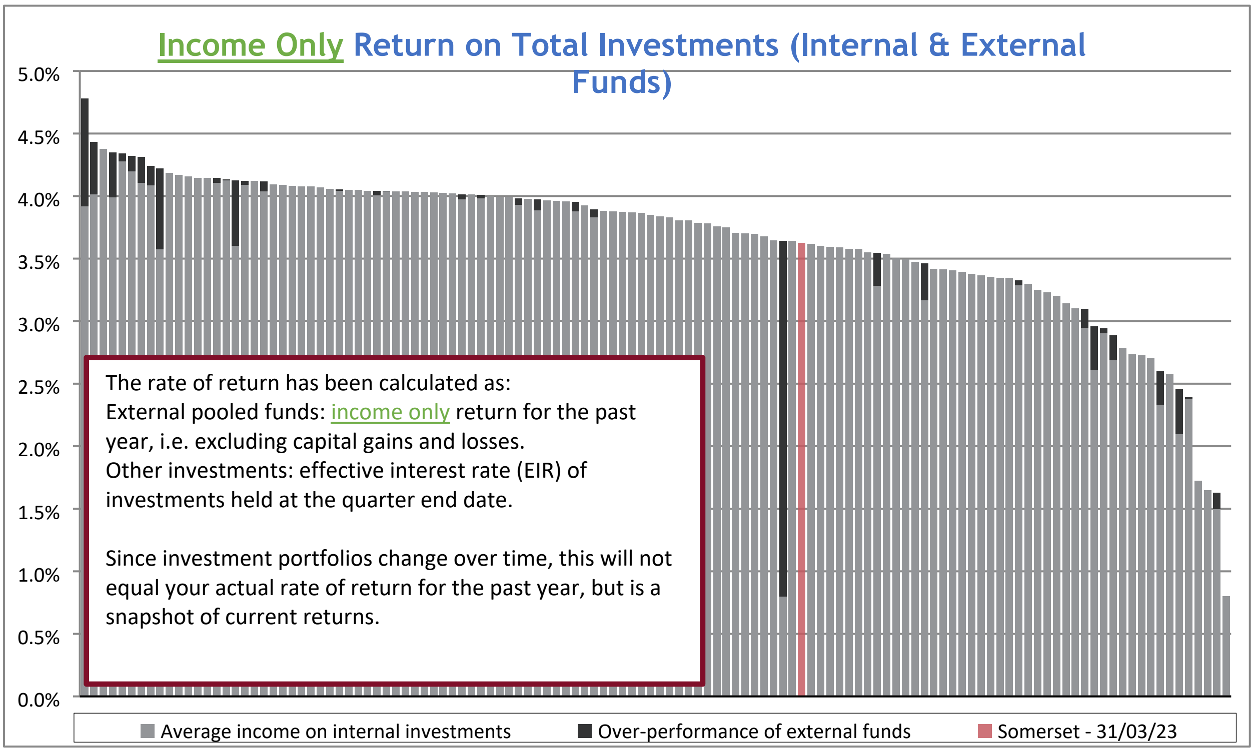
Revenue: Revenue balances averaged £54.6m during the year, with an average yield of 2.13%. This is closer to the average base rate as cash is reinvested at the higher rates more quickly. This income stream earned interest of over £1.16m.

Pooled Funds: £45m was invested in Pooled Funds during 2022-23 and delivered an average net income yield of 3.30%, and nearly £1.486m of income.

Combined: The combined average daily balance of the Council's investments during 2022-23 was £311.5 against £317.9m for 2021-22. The overall weighted investment return of combined investments was 2.10% against a return of 0.58% for 2021-22. Excluding the Pooled Funds, cash returns were 1.90% compared to 0.24% for 2021-22. Total income generated was in excess of £6.5m.

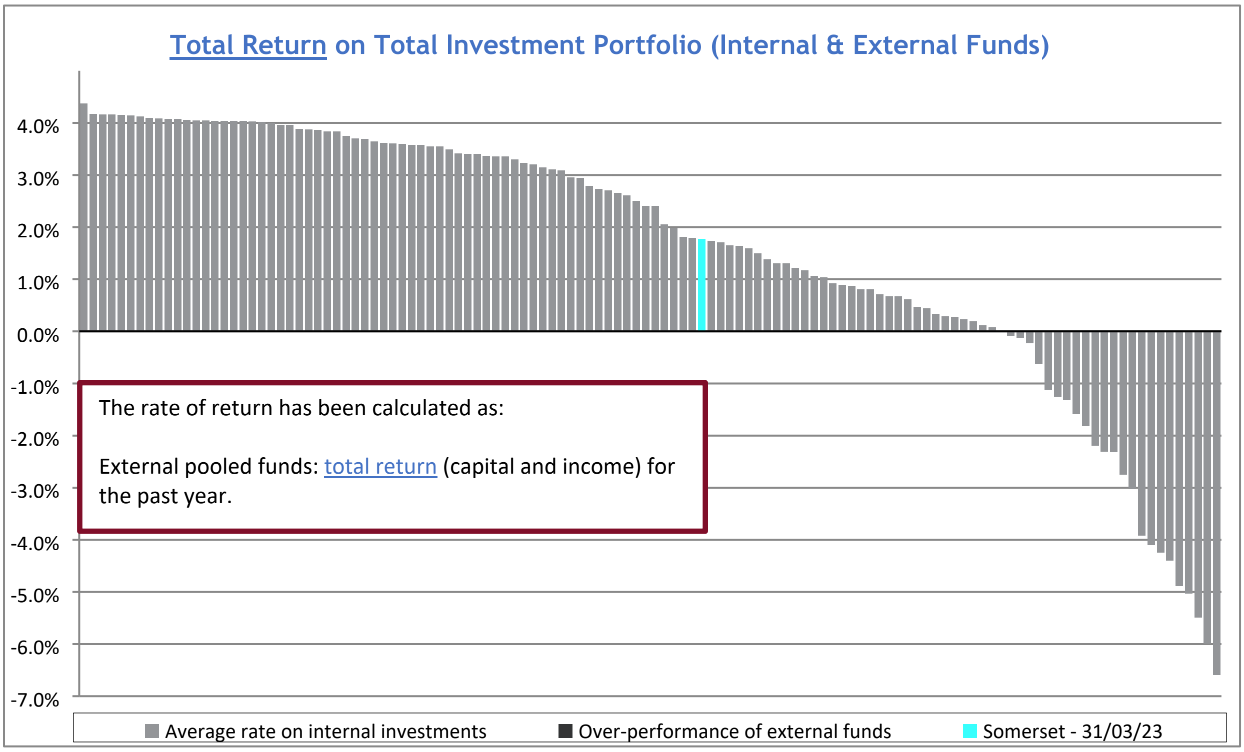
Comparison against other Local Authorities clients of Arlingclose

2022-23 was the thirteenth complete year that SCC had the services of retained Treasury advisors, Arlingclose. It would therefore seem appropriate to look at SCC performance compared with other Authorities that use Arlingclose, i.e. that share much of the same investment advice, particularly regarding counterparties.



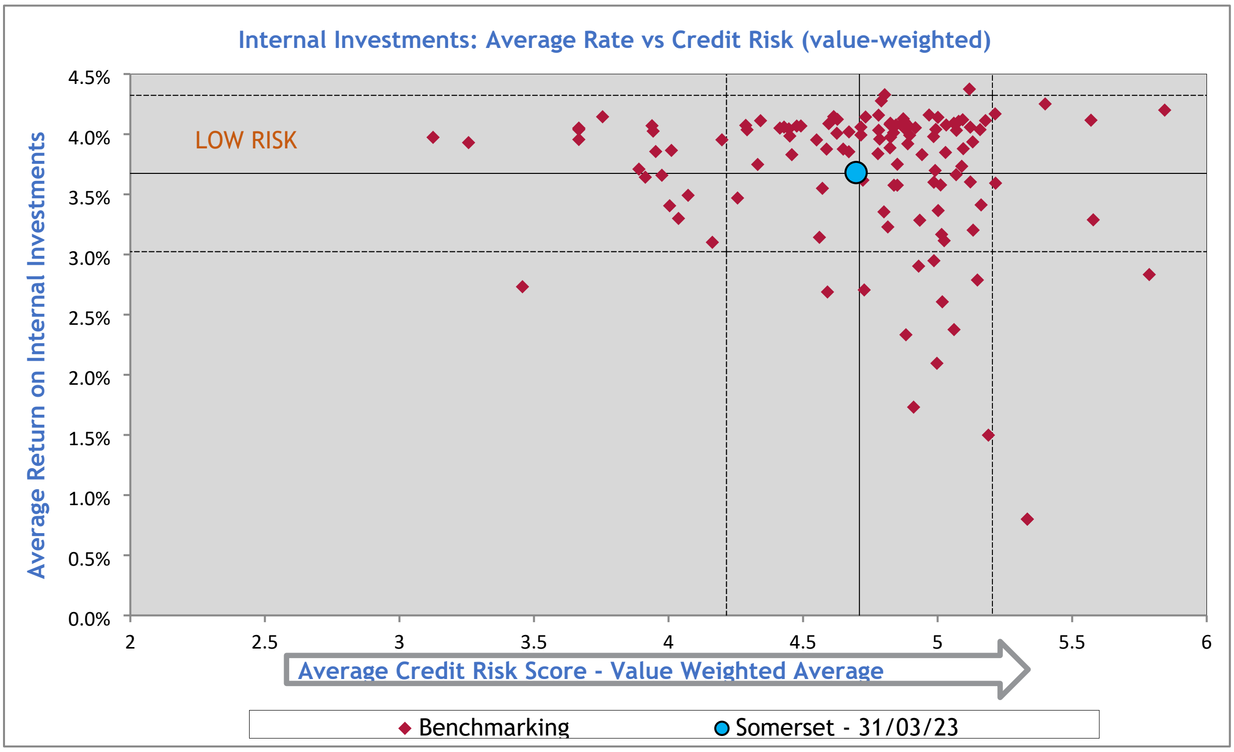
Returns as at 31st March 2023 can be seen in the graph above (if in black & white, SCC is the bar above the 'E' in the word external in 'Over-performance of external funds' in the graph legend).

A total return graph is shown below, with Somerset being directly above the right- hand side of the narrative box.



A comparison of internally managed investments only is included below, showing performance on a returns v credit risk basis. Note: The Arlingclose report compares quarter-end figures only.

This graph shows that SCC has a return and average credit risk score that is right on the average lines for both.



Security and liquidity have been achieved while returning an overall rate just 0.20% below average base rate in a market where base rate has increased 8 times during the year.

The overall return has produced a total income of £6.5m, up by £4.7m from 2021-22 on higher average rates but slightly reduced average balances.

All treasury management activities have mitigated risk to SCC to permit the achievement of objectives and including a fee for the management of the LEP money, have brought in income and benefits of approximately £140k.

11. Background papers

Treasury Management Strategy Statement 2022-23 and appendices. These were approved by SCC Full Council at the meeting on 23rd February 2022

Note: For sight of individual background papers please contact the report author.