Open Report on behalf of Andrew Crookham, Executive Director – Resources

Report to:	**Overview and Scrutiny Management Board**
Date:	**28 September 2023**
Subject:	**Treasury Management Performance 2023/24 - Quarter 1 to 30 June 2023**

Summary:

This report details the treasury management activities and performance for Quarter 1 of 2023/24 to 30 June 2023, comparing this to the Treasury Management Strategy and Annual Investment Strategy 2023/24 that was approved by the Executive Councillor for Resources, Communications and Commissioning on 13 March 2023. This report meets the reporting requirements as detailed in the CIPFA Code of Practice for Treasury Management that the Council follows.

Actions Required:

The Overview and Scrutiny Management Board is invited to review the report and pass any comments onto the Executive Councillor for Resources, Communications and Commissioning.

1. Background

1.1. The Treasury Management Strategy and Annual Investment Strategy 2023/24 sets the framework for how we manage the cashflow, borrowing and treasury investments of the Council and the risks involved.

1.2. Actual activity and performance compared to this strategy is reported quarterly, this report being the first quarter report for 2023/24 covering the period up to 30th June 2023.

1.3. Activity and performance up to 30th June 2023 compared to the Strategy is detailed in the Conclusion in Section 2 below. Supporting information is detailed in the attached appendices.

2. Conclusion

<u>**Comparison of Activity and Performance to Strategy for Period up to 30th June 2023**</u>

Interest Rate Forecast:

***Strategy*:**

At the time of writing the Strategy:

- *By Qtr4 of 2022/23, the Monetary Policy Committee (MPC) had increased Base Rate nine consecutive times from 0.50% to 3.50% to combat on-going inflationary and wage pressures and two more increases left Bank Rate at 4.25% at the end of the financial year.*
- *Further* ***increase in Bank Rate*** *was forecast* ***to peak at around 4.50% by May 2023, then fall back gradually from this point to end the year around 4.00%*** *and to 2.50% by December 2025. This forecast was linked to inflation falling back over the year as predicated so that the MPC could loosen monetary policy to promote growth.*
- ***Long term rates*** *were in the region of 4.10% to 4.70% over different periods and were* ***expected to fall gradually, by around 0.30% to 0.40% in 2023/24,*** *in line with the expectation for falling inflation.*
- *This forecast was linked to the expectation of inflation falling back over 2023/24 from is highs of over 10%. Growth was expected to contract in 2023/24 due to increases in interest rates and the cost of living squeeze, and the MPC was thought to be keen to reduce rates again as soon an inflationary pressures eased to promote growth.*

Activity and Performance to 30th June 2023:

Short term Rates.	Due to the stickiness of the inflation rate, (CPI still at 7.9% in June), the MPC increased Base Rate by 0.25% in May 2023 and then again by 0.50% in June 2023 to bring inflation down. Base Rate was therefore 5% at the end of June 2023. Strong wage growth and the resilience of GDP means that analysts are predicting further increases in Base Rate to come which is now **expected to peak at 5.50% by September 2023.** Link Asset Services expect this level of 5.50% to remain **for the rest of 2023/24,** but then expect it to come tumbling down in the following two years with a rate of **2.50% still expected by June 2026**.
Long Term Rates.	Gilt yields which impact long-term borrowing rates, have risen, not fallen, since the Strategy forecast, especially at the shorter end of the yield curve (5yrs to 10 yrs), and remain relatively volatile, again due to the stickiness of the inflation rate. **PWLB 5 year to 50 year rates were in the range of between 4.905 to 5.60% at the end of June 2023**. Link believe the markets have already built in nearly all the effects on gilt yields of the likely increases in Bank Rate and **do not expect any further significant increases in 2023/24** with rates to be in the range of **2.50% to 6.70% by June 2026.**

Economic Review.	Economies worldwide have been dominated by an environment of rising inflation, rising interest rates and weak growth. Central banks have a difficult balancing act to follow in getting inflation down without detriment to growth. In the UK, growth and consumer confidence has shown more resilience than expected due to a variety of factors such as post pandemic activity rebounds, pandemic savings being spent, a strong labour market and government support. However the feeling is that the **UK will move into recession at some point in 2023/24** as rates continue to rise to bring inflation down towards the 2% target level amid a tight labour market and high pay demands.

Appendix A shows a graph of key interest rate movements in 2023/24 to date together with the interest rate forecast and commentary from Link Asset Services Ltd (TM Advisor) dated 27th June 2023. (Note: At the time of writing, Link have not altered their interest rate forecast from this one).

Investments:

Strategy:

- *Investment priority – security first, liquidity second and finally yield.*
- *Aim to invest in all periods up to two years to suit direction of interest rates, at rates in excess of market levels.*
- *Low risk counterparty strategy adopted: minimum long-term rating for approved counterparties set at 'A' and Sovereign Rating of 'AA-' for any two from three credit rating agencies.*

Activity and Performance to 30th June 2023:

Investment Position and Performance.	Cash balances, in the main, have hovered just under £300m throughout the period, standing at **just below £295m on 30th June 2023.** This level is expected to fall over the course of 2023/24, as capital spending increases, which will be funded by Internal cash resources. (Internal Borrowing). The Councils Weighted Average Maturity or **WAM also increased slightly to 153 days** (from 145 days) at 30th June 2023. Investment return for the period has **increased to 4.630%,** the increase from last year reflecting the rising interest rate environment. This was **in excess of the new SONIA benchmark return of 4.496% by 0.134%** which, as indicated in the Strategy report, has been adjusted to take account of the lag incurred to investment portfolio returns compared to

	SONIA in a rapid rising interest rate environment. The adjustment has been achieved by deducting the difference, or lag, in the Council's Money Market Fund average daily return from the O/N SONIA rate. This represents the Councils lag effect which is neutralised by deducting it. **Without this adjustment the SONIA benchmark rate would be 4.511%, which is still below the Council return for the quarter by 0.119%.** (Note: the SONIA rate is already reduced by 0.10% to account for the lack of a bid-offer spread in the market rate). The Council's return on 30th June 2023 also **exceeded other Councils in the Link Benchmarking group by some margin** and was above the expected return for the Councils chosen Risk Profile. Achieved in some part by having a slightly longer WAM. For more detail on Investment activity see **Appendix B.**
Lending List Changes and Annual Investment Strategy.	In accordance with the Annual Investment Strategy, maximum amount limits have been set to align with maximum average cash balances of £300m. There have been no breaches in Investment limits during the quarter. There have been no changes to credit ratings for Counterparties during the year or no changes to the Annual Investment Strategy that sets the Council's investment risk appetite. The Lending List as on 30th June 2023 is shown in **Appendix C**.

Appendix D shows a full list of investments held on 30th June 2023, combined with the creditworthiness list provided by Link Asset Services (TM Advisor).

Borrowing:

Strategy:

- *Long term external borrowing at start of year was £467.8m, costing 3.725%.*
- *New borrowing requirement for 2023/24 to finance capital programme was set at £77.496m.*
- *Regard is made to the Debt Liability Benchmark for 2023/24, before any new borrowing is undertaken, taking into consideration the cash balance of the Council. As per the Strategy Report, no external borrowing is necessary on 2023/24 to meet the Debt Liability Benchmark.*
- *Any external long-term borrowing, if undertook, would be taken with the aim to reduce the overall cost of debt and for periods to ensure an even debt maturity profile.*

Activity and Performance to 30th June 2023:

Revised Borrowing Requirement.	Borrowing requirement brought forward from 2022/23 brings the balance of Borrowing Requirement at 30th June 2023 to £127.315m. This level has not yet been adjusted for target changes and any re-phasing. The total borrowing requirement balance will be converted to internal borrowing in 2023/24, as no external borrowing will be undertaken to meet the Debt Liability benchmark for the year.
Borrowing Position and Performance.	Debt maturing during the period has brought the balance of borrowing at 30th June 2023 to £462.091m with a yield of 3.721%. As no external borrowing will be undertaken in the year the balance of debt outstanding at the year-end is forecast to be £457.439m, at a reducing cost of 3.713%. A total of £10.329m debt will be maturing in 2023/24.
Temporary Borrowing.	No temporary borrowing was taken in the period.
Debt Rescheduling.	No debt rescheduling was undertaken in the period.
Prudential Indicator Limits 2023/24.	All prudential limits were met with no breaches during the period.

Appendix E shows borrowing detail and latest maturity profile on 30th June 2023.

Other Treasury Issues:

Banking Contract Procurement

The existing Council contract for Banking Services comes to an end on 31st March 2024 and a current tender procedure is underway for a new 5 year contract starting 1st April 2024. The process is in the evaluation stage at present with results expected to be confirmed in early October 2023.

3. Consultation

a) Risks and Impact Analysis

Risk and impact analysis for treasury management forms TMP1 of the Treasury Management Practices that are required by the CIPFA Code of Practice. A treasury management risk register details the main risks for treasury management, and this is reviewed annually. Both the TMPs and the risk register are held in the Corporate Section of Financial Strategy at County Offices.

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	Movement of Key Interest Rates for 2023/24 to date and Latest Interest Rate Forecast and Commentary from Link Asset Services Ltd
Appendix B	Investments: Activity and Performance on 30th June 2023
Appendix C	Authorised Lending List on 30th June 2023 and Credit Rating Key
Appendix D	Investment Analysis Review on 30th June 2023 - Link Asset Services Ltd
Appendix E	Borrowing: Activity and Performance and Long-Term Maturity Profile on 30th June 2023

5. Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
Treasury Management Strategy Statement and Annual Investment Strategy 2023/24 - 13/3/2022	13 Appendix 1 - Treasury Management Strategy Statement and Annual Insurance Strategy 2023-24.pdf (moderngov.co.uk)
Council Budget 2023/24 - 18/2/2023	Agenda for Council on Friday, 18th February, 2022, 10.00 am (moderngov.co.uk)

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