WEST NORTHAMPTONSHIRE COUNCIL
CABINET

13TH FEBRUARY 2023

CABINET MEMBER RESPONSIBLE FOR FINANCE: COUNCILLOR MALCOLM LONGLEY

Report Title	**Treasury Management Update Quarter 3, 2022-23**
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List of Appendices

Appendix A - Treasury and Prudential Indicators

1. Purpose of Report

1.1. The purpose of this report is to provide a third quarter update position on the Council's Treasury Management Strategy.

2. Executive Summary

The report sets out the treasury management activity covering the:

- Economic update
- Interest rate forecast
- Update on treasury activity covering:
- Treasury portfolio

- Borrowing & Investments
- Treasury Management budget performance
- Compliance update on TMSS approved, prudential and treasury limits

3. Recommendations

3.1 It is recommended that the Cabinet note the report and treasury activity for the third quarter of the 22-23 financial year.

4. Reasons for the Recommendation

4.1 To ensure that the Authority complies with its financial regulations and its Treasury management policies.

5. Report Background

Capital Strategy

5.1 In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following:

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services.
- an overview of how the associated risk is managed.
- the implications for future financial sustainability.

Treasury management

5.2 The Council operates a balanced 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 optimising investment return.

5.3 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, 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.

5.4 Accordingly, treasury management is defined as:

"The management of the local authority's borrowing, 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."

6. Introduction

6.1 The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code and it covers:

- An economic update for the third quarter of the 2022/23 financial year updated to reflect the most recent developments in the economy.
- The Council's capital expenditure, as set out in the Capital Strategy, and 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 to in the third quarter.
- A review of compliance with Treasury and Prudential Limits for 2022/23

7. Economics update

7.1. The third quarter of 2022/23 saw:

- A 0.5% month on month rise in GDP in October, mostly driven by the reversal of bank holiday effects.
- Signs of economic activity losing momentum as households increased their savings.
- CPI inflation fall to 10.7% in November and then to 10.5% in December after peaking at 11.1% in October.
- A small loosening in the labour market which pushed the unemployment rate up to 3.7% in October.
- Interest rates rise by 125bps over Q3 2022, taking Bank Rate to 3.50% on the 15th of December.
- Reduced volatility in UK financial markets but a waning in global risk appetite.

7.2. GDP fell by 0.3% in the quarter ending 30th September, which probably marked the start of the UK recession. About half of that decline was the effects of the extra bank holiday in September for the Queen's funeral. The unwinding of those bank holiday effects meant that GDP rebounded in October and explained at least 0.3 percentage points (ppts) of the 0.5% month on month rise. CPI inflation peaked in October at a 41-year high of 11.1% and fell to 10.7% in November and 10.5% in December. Goods price inflation, which is driven largely by global factors, has peaked. The sharp rises in energy prices in 2022 mean that energy price inflation will fall sharply in 2023. Meanwhile, the large fall in agricultural prices since May means that food price inflation should start to decline soon. What's more, upward pressure on goods price inflation from global supply shortages is fading quickly.

7.3. Domestic inflation pressures also eased in this quarter showing CPI inflation at 6.3% in November a drop from 6.5% in October. Services CPI inflation was stable at 6.3% in November despite the resilience of wage growth. And the easing of price expectations in the Bank of England's Decision Maker Panel survey in November suggests that inflation may become less persistent.

7.4. On 3rd November, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate by 75 basis points to 3.00%, and on 15th December moved rates up a further 50 basis points to 3.50%. The later increase reflected a split vote – six members voting for a 50 basis points increase, one for 75 basis points and two for none.

7.5. Through December, the rally in the FTSE 100 petered out as investors have become increasingly concerned by the prospect of a global recession. However, the relatively doveish tone of the Bank of England, compared to the Federal Reserve and the ECB meant that UK equities held up better than other developed market indices. Indeed, at 7,452 at the December month end, the FTSE 100 is only marginally below its peak of 7,568 on 5th December, while the S&P 500 is around 4% lower over the same period. Nevertheless, there is a great deal of uncertainty as to which direction markets will move in 2023 and at what pace. Continued volatility is anticipated.

8. Interest rate forecasts

8.1. The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates.

8.2. The latest forecast, made on 19th December, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, whilst the government is also providing a limited package of fiscal loosening to try and protect households and businesses from the ravages of ultra-high wholesale gas and electricity prices. PWLB rates reflect a less elevated yield curve than prevailed under the Truss/Kwarteng government, and the 17th of November Autumn Statement made clear the government's priority is the establishment and maintenance of fiscal rectitude. In addition, the MPC has tightened short-term interest rates with a view to trying to slow the economy sufficiently to keep the secondary effects of inflation – as measured by wage rises – under control.

8.3. Link Group's current and previous PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	19.12.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20

Link Group Interest Rate View	08.11.22												
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

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

LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

Link's forecasts for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

9. Summary WNC Treasury Portfolio Position

9.1 The highlight for the treasury portfolio position for the period to December 2022 is the council is forecasting net borrowing position of £391m compared to the approved TMSS estimate of £344m. The forecast for 2022/23 shows a change from the last report, and now shows a £47m adverse variance mainly as a reduction in our forecast liquid cash due to significant refunds of central govt grants and increased cash outgoings from what was reported in Q2.

9.2 The expected borrowing requirement to fund the capital programme is expected to be nil, due to slippage.

Table 1

West Northamptonshire Council 2022-23					
	TREASURY PORTFOLIO 22-23				
	TMSS Approved Estimates	Actual	Actual	Forecast out-turn	Forecast out-turn
		31-Dec-22	31-Dec-22	31-Mar-23	31-Mar-23
Treasury investments	**£000**	**£000**	**%**	**£000**	**%**
Total managed in house	201,359	152,828	95%	92,324	92%
Total managed externally	9,641	8,545	5%	8,545	8%
Total treasury investments	**211,000**	**161,373**	**100%**	**100,869**	**100%**
Third party loans	37,021	38,073		37,742	
Treasury external borrowing					
PWLB	513,831	462,212	86%	454,798	86%
Market, LOBO & other loans	78,790	75,602	14%	75,445	14%
Total external borrowing	**592,621**	**537,814**	**100%**	**530,243**	**100%**
Net treasury investments / (borrowing)	**(344,600)**	**(338,368)**		**(391,631)**	

9.3 The council has made £4.757m of loan repayments up until the end of the third quarter of the year. The details are below:

- Partial principal repayment of just over £1.538m on annuity PWLB loan.
- Full repayment of £3.173m on Growing Places Fund loan back in April 2022.
- Partial principal repayments of £0.045m on Homes & Communities Agency loan

9.4 The forecast position on total external borrowing is £530m compared to the TMSS approved estimated value of £593m. This demonstrates a reduction in anticipated borrowing requirements than originally anticipated. The position is continually monitored.

10. Borrowing

10.1 The need for further borrowing will be reviewed in line with the capital programme delivery schedule.

10.2 Table 2 below sets out the maturity profile of the Council's borrowing portfolio at the end of Q3 of £538.3m (*this differs to the value shown in £537.8m in Table 1 above due to* *capitalising of unpaid interest on a few NBC legacy loans that increases the balances on the loans in later years not shown in the table above.*)

Table 2

Term Remaining	Borrowing		Limits
	£m	%	%
Under 12 months	10.7	2%	80%
1-2 years	7.2	1%	50%
2-5 years	29.1	5%	50%
5-10 years	25.0	5%	50%
10-20 years	19.8	4%	100%
20-30 years	25.4	5%	100%
30-40 years	244.1	45%	100%
40-50 years	157.0	29%	100%
Over 50 years	20.0	4%	100%
TOTAL	**538.3**	**100%**	

11. Borrowing Restructuring

11.1 Rescheduling opportunities have been limited in the current economic climate. No debt rescheduling has therefore been undertaken in the current financial year to date. Officers continue to monitor the position regularly.

12. Investments

12.1 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on the 24 February 2022. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

12.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short-term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

As shown by the interest rate forecasts in Section 8 above, rates have improved dramatically for the period leading up to third quarter of 2022/23 and are expected to improve further as Bank Rate continues to increase over the next year or so.

12.3 The average level of funds available for investment purposes during this period to Dec 2022 was £159m. These funds were available on a temporary basis, and the level of funds available was dependent on the timing of payments, receipt of grants and other income. At the end of the period the Council held £66m of liquid cash balances and £100.5m of short terms investments expected to mature within the next 12 months.

13. Investment performance year to date as of 31st December 2022

9.1 Below is SONIA (Sterling Overnight Index Averages) indicators based on a backward look showing the performance of the market when investments were made in the past.

FINANCIAL YEAR TO QUARTER ENDED 31/12/2022

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	3.50	3.43	3.43	3.18	2.74	2.15	1.40
High Date	15/12/2022	28/12/2022	30/12/2022	30/12/2022	30/12/2022	30/12/2022	30/12/2022
Low	0.75	0.69	0.69	0.57	0.39	0.23	0.14
Low Date	01/04/2022	28/04/2022	29/04/2022	01/04/2022	01/04/2022	01/04/2022	01/04/2022
Average	1.79	1.73	1.68	1.57	1.31	0.99	0.59
Spread	2.75	2.74	2.74	2.61	2.35	1.92	1.26

Period	SONIA (backward look) benchmark performance	Council performance
180 days (Average)	0.99%	1.70%

9.2 As illustrated above, the Council outperformed the benchmark by 71 basis point for the reporting period. The Council's budgeted investment return for 2022/23 assumed an average of 0.30% return based on the timing of placed and future short-term investment at the time of budgets preparations and as such has outperformed the budget assumption to date. The improved return is reflected in the amount interest receivable in the section 14.2 below.

10. Treasury Management budget

10.1 Outlined below is the Treasury budget performance to date for 22/23. The net costs have varied significantly to budget as shown in the forecast out-turn with an improvement of £2.4m.

Table 5

Treasury revenue budget	TMSS Budget Approved	Forecast -out-turn	Variance
	£'m	£'m	£'m
Net financing costs -	14.32	13.79	(0.53)
Interest receivable on investments	(1.96)	(3.82)	(1.86)
Total	**12.36**	**9.97**	**(2.39)**

10.2 The key explanation for variance to the budgets are:

- **Within the net financing costs**-

  - **Loan costs, Other Finance charges & Insurance claims:** ~~-~~Loan costs are lower than budgeted by £(1.130)m as no new borrowing is anticipated in the year. This is offset by additional costs on finance charges on other transactional activity of £0.350m that formed by Shared services costs under the legacy councils, and budgets were not earmarked or transferred across to Treasury for the activity as part of council restructure. There is an additional provision for insurance claims of £0.500m.

  - **MRP charges and capitalised interest –** a reduction in MRP charges by (£0.350)m with reduction in capitalised interest and other variances totalling £0.1m

- **Interest receivable on investments –** we are expecting a better yield performance of £1.86m due to increased interest rates as highlighted in paragraph 13 above.

11. Approved Limits

11.1 Officers can confirm that the none of the approved limits within the Annual Investment Strategy were breached during the period ended 31st December 2022.

12. Compliance with Treasury & Prudential limits

12.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the third quarter ended 31st December 2022, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2022/23.

12.2 The Director of Finance reports that there are no difficulties expected for the current or future years in complying with these indicators.

12.3 All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices.

17. Implications

17.1 **Resources and financial**

- There are no resources or financial implications arising from the recommendations proposed in this report

17.2 **Legal**

- There are no legal implications arising from the recommendations in this report

17.3 **Risks**

- There are no significant risks arising from the proposed recommendations in this report.

18. Background Papers

None

Appendix A: Treasury and Prudential Indicators

Prudential Indicator	2022/23 Indicator	2022/23 Q3
Authorised limit for external debt *[Excluding PFI and Finance Lease Liabilities]*	----- £850.0m -----	
Operational boundary for external debt *[Excluding PFI and Finance Lease Liabilities]*	----- £800.0m -----	
Capital Financing Requirement (CFR) *[Excluding PFI and Finance Lease Liabilities]*	£935m	TBC
Ratio of financing costs to net revenue streams	1.6%	TBC
Principal sums invested > 365 days *[Excluding third party loans]*	£20m	£nil
Maturity structure of borrowing limits: -		
Under 12 months	Max. 80% Min. 0%	2%
12 months to 2 years	Max. 50% Min. 0%	1%
2 years to 5 years	Max. 50% Min. 0%	5%
5 years to 10 years	Max. 50% Min. 0%	5%
10 years and above	Max. 100% Min. 0%	87%