West Northamptonshire Council

Appendix C

Treasury Management Update 2023-24 – Period 7

1. Executive Summary

The report sets out the treasury management activity covering the following topics:

- 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

2. Report Background

Capital Strategy

2.1 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

2.2 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.

2.3 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.

2.4 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."

3. Introduction

3.1 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 to the period to October 2023 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 2023-24.
- A review of the Council's borrowing strategy for 2023-24.
- An update of any debt rescheduling undertaken during this reporting period.
- A review of compliance with Treasury and Prudential Limits for 2023-24

4. Economics summary update

4.1 Since the first quarter update and up to October 2023:

- GDP grew by 0.1% in Aug 0.2% in Sept.
- Core CPI inflation rising to 8.7% in May and has been steadily declining, with a sharp drop in Oct to 4.6%
- A further interest rate rise of 25bps, taking Bank Rate from 5.00 to 5.25% in August.

MPC Meetings

4.2 In the last monetary policy meeting (held on 20th Sept) up until the end of the reporting period, the Bank of England left interest rates unchanged at 5.25%, following the increase in Aug. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.

4.3 The latest meeting held on the 2nd of November 2023, the MPC voted to keep interest rates at 5.25% with a 6 to 3 majority vote.

4.4 The Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required".

Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".

4.5 This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting in December.

5. Interest rate forecasts

5.1. 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.

5.2. The last forecast for this period made on 25th Sept, 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, against a backdrop of a stubbornly robust economy and a tight labour market.

5.3. Note that Link's forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The rate has increased up until 3rd of August, where is has kept steady at 5.25%. Current data is suggesting that inflation is slowly dipping, and that the economy is heading for a shallow recession, which suggests further monetary policy tightening above 5.25% is not required, at least for now.

5.4. 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	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

5.5. 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.

5.6. 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.

6. Summary of WNC's Treasury Portfolio Position

6.1 The highlight for the treasury portfolio position for the period to Oct 2023 is the council is showing a net borrowing position of £388.2m and forecast to the end of year of £379.2m.

6.2 The expected borrowing requirement to fund the capital programme is expected to be nil for the rest of year, due to slippage.

6.3 There is reduction is the liquid cash available for investment since the last management update report. The cash -outflows, mainly to pay for operation activities, was running ahead of the council's previous forecast cash outflows per month. This included a payment to the Children Trust for last year's overspend on their contracted activities.

Table 1

WNC TREASURY PORTFOLIO 23-24				
	Period to date		**Forecast out-turn**	
	31-Oct-23		**31-Mar-24**	
Treasury investments	**£m**	**%**	**£m**	**%**
Total managed in house	96.1	92%	97.7	92%
Total managed externally	8.7	8%	8.7	8%
Total treasury investments	**104.8**	**100%**	**106.5**	**100%**
Third party loans	36.3		36.2	
Treasury external borrowing				
PWLB	453.8	86%	447.8	86%
Market, LOBO & other loans	75.4	14%	74.0	14%
Total external borrowing	**529.2**	**100%**	**521.8**	**100%**
Net treasury investments / (borrowing)	**(388.2)**		**(379.2)**	

6.4 The council has made £1.14m of long-term loan repayments. The details are below:

- Partial principal repayment of just over £0.973m on PWLB loans.
- Partial repayment of £0.117m on Growing Places Fund loan in June and Sept.
- Partial repayment of £0.049m on Homes & Communities Agency in Sept.

6.5 The council also made a payment of £15m for short term loans taken in August to assist with the timing of payments that exceeded planned available liquid cash in Aug and Sept for reasons explained in paragraph 6.3 above.

6.6 The forecast position on total external borrowing is £521.8m by the end of the financial year. The council does not anticipate any further borrowing for the rest of the year.

7. Borrowing

7.1 The need for further borrowing will be reviewed in line with the capital programme delivery schedule, but as highlighted above we don't anticipate any new requirement to take out any further loans.

7.2 Table 2 below sets out the maturity profile of the Council's borrowing portfolio at the end of October 2023 of £529.2m

Table 2

Term Remaining	Borrowing		Limits
	£m	%	%
Under 12 months	8.2	2%	80%
1-2 years	16.4	3%	50%
2-5 years	34.1	6%	50%
5-10 years	5.0	1%	50%
10-20 years	19.4	4%	100%
20-30 years	70.6	13%	100%
30-40 years	218.5	41%	100%
40-50 years	137.0	26%	100%
Over 50 years	20.0	4%	100%
TOTAL	**529.2**	**100%**	

8. Borrowing Restructuring

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

9. Investments

9.1 The Treasury Management Strategy Statement (TMSS) for 2023-24, which includes the Annual Investment Strategy, was approved by the Council on the 22nd of February 2023. 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

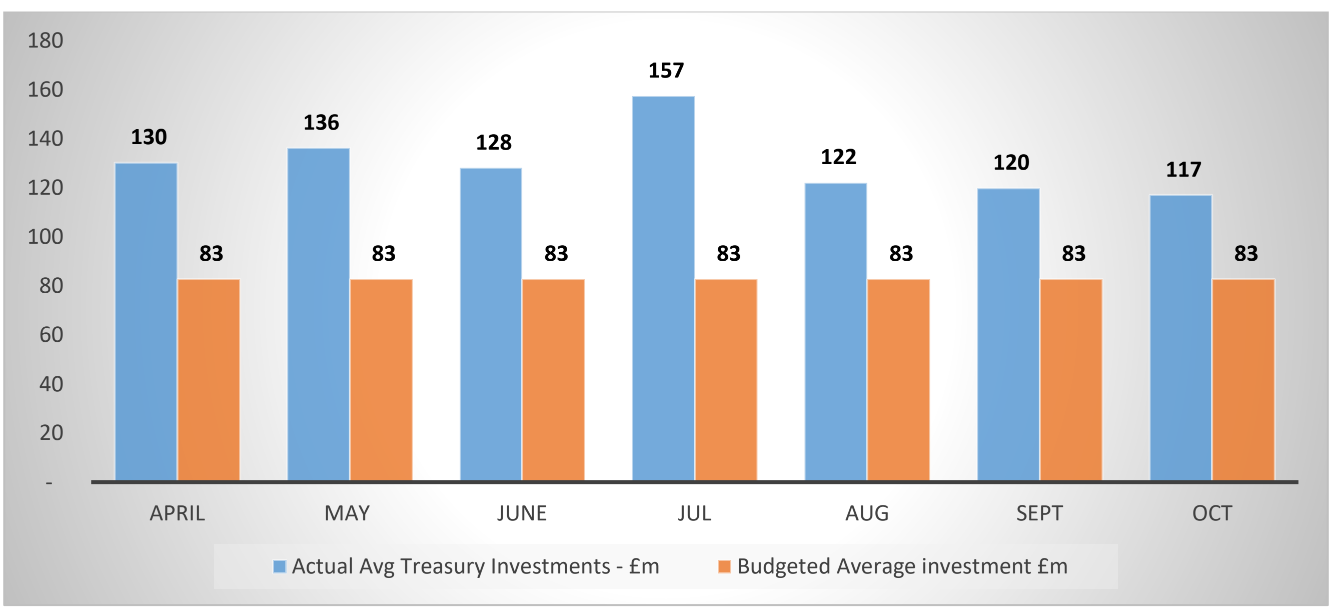
9.2 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and within the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short-term to cover cash flow needs, but 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.

9.3 The average level of funds available for treasury investment purposes during the first half of the year was £130m, a reduction on the previous average (£138m reported in July) as shown in the table below. 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 £31m of liquid cash balances and £65m of short terms investments expected to mature within the financial year.

Table 3 – Average Treasury Investment Funds per month (£m)

	April	May	June	Jul	Aug	Sept	Oct	For the period to date
Actual Avg. Investments	130	136	128	157	122	120	117	130
Budgeted Avg. investment	83	83	83	83	83	83	83	

Chart 1



10. Investment performance year to date as of 31st October 2023

10.1 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 31/10/2023 (SONIA - Backward Looking)						
	Bank Rate	SONIA	1 month	3 months	6 months	12 months
Bank Rate	5.25%	5.19%	4.64%	4.44%	4.10%	3.16%
Councils Performance			5.30%	5.21%	4.83%	n/a
(Under)/Outperforming SONIA			0.66%	0.77%	0.73%	

10.2 As illustrated above, the Council outperformed the benchmark by seventy-three basis point for the first 6 months of the reporting period. The Council's budgeted investment return for 2023-24 assumed an average of 3.5% return based on the timing of placed and future short-term investment following budgets preparations, the Council has outperformed the budget assumption to date. The improved return is reflected in the amount of interest receivable, as shown in the table below.

11. Treasury Management budget

11.1 Outlined below is the Treasury budget performance for the period to Oct 2023. The net costs have varied significantly to budget as shown in the forecast out-turn with an improvement of £4.2m. The treasury budget monitoring as figures following a budget review and reallocations of Minimum Reserves Provision budget to capital finance team for reporting and monitoring.

Table 4

Treasury revenue budget	Council Approved Budget	Forecast -out-turn	Variance
	£'m	£'m	£'m
Net financing costs -	11.73	10.19	(1.54)
Interest receivable on investments	(4.80)	(7.50)	(2.70)
Total	**6.93**	**2.69**	**(4.24)**

11.2 The key explanation for variance to the budgets are:

- **Interest receivable on investments –** we are expecting a better yield performance of £2.7m due to increased interest rates and more liquid cash being available for investment in comparison to the budget assumptions highlighted in paragraph 9.3 above.

- **Net Finance costs –** shows a net underspend of £1.54m. This is mainly due to the council not forecasting to undertake any new borrowing to support the capital programme in 2023-24 totalling £1.64m. This was offset by £0.098m incurred on short term borrowings that shows the net savings of £1.54m.

12. Approved Limits

12.1 Officers can confirm that the none of the approved limits within the Annual Investment Strategy were breached during the period ended 31st October 2023.

13. Compliance with Treasury & Prudential limits

13.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During this period ending 31 October 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023-24.

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

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

14. Treasury Prudential Indicators

Prudential Indicator	2023-24 Indicator	2023-24 - Period 7
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%	3%
2 years to 5 years	Max. 50% Min. 0%	6%
5 years to 10 years	Max. 50% Min. 0%	1%
10 years and above	Max. 100% Min. 0%	88%

15. Approved countries for investments as of 31st Oct 2023

Based on lowest available rating

AAA

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

AA+

- Canada
- Finland
- U.S.A.

AA

- Abu Dhabi (UAE)

AA-

- Belgium
- France
- Qatar
- U.K.