

## Treasury Management Update 2023-24 – Period 9

### 1. Executive Summary

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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

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#### 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

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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 December 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

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- The 3<sup>rd</sup> quarter saw: GDP drop by 0.3% in Oct. Growth for the second quarter, ending 30<sup>th</sup> September, was revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%.
- CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November, then a slight rise ending up at 4.0% in December.
- The Bank of England holding rates at 5.25% in November and December.

#### **MPC meetings 2<sup>nd</sup> November and 14<sup>th</sup> December 2023**

- On 2<sup>nd</sup> November, the Bank of England’s Monetary Policy Committee (MPC) voted to keep Bank Rate on hold at 5.25%, and on 14<sup>th</sup> December reiterated that view. Both votes still reflected a split vote, the latter by 6 votes to 3, with the minority grouping voting for an increase of 0.25% as concerns about “sticky” inflation remained in place.
- UK CPI inflation rose to 4.0% in December, and core inflation beginning to moderate (5.21%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. Of course, the data will be the ultimate determinant, so upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.
- In addition, what happens outside of the UK is also critical to movement in gilt yields. The US Federal Open Market Committee (FOMC) has kept short-term rates in the range

of 5.25%-5.50%, whilst the European Central Bank (ECB) has moved its Deposit rate to a probable peak of 4%. Markets currently expect both central banks to start cutting rates in 2024.

## 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. Links Group's forecast for interest rates was updated on 7th November and reflected a view that the MPC would be keen to underpin its anti-inflation credentials by keeping Bank Rate at 5.25% until at least Q2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are unequivocally supportive of such a move, and that there is a strong likelihood of the overall economy enduring tepid growth (at best) or a mild recession (at worst) over the coming months.
- 5.3. 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 07.11.23													
	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
<b>BANK RATE</b>	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

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
<b>BANK RATE</b>	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
<b>BANK RATE</b>	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

Link Group Interest Rate View 24.05.23													
	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
<b>BANK RATE</b>	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5 yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10 yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25 yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50 yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

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

## 6. Summary of WNC's Treasury Portfolio Position

- 6.1 The treasury portfolio position for the period to December 2023 is the council is showing a net borrowing position of £423.3m and forecast to the end of year of £423.9m.
- 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 continued expectation of reduced level of liquid cash being available which is reflected in table below.

Table 1

### West Northamptonshire Council 2023-24

TREASURY PORTFOLIO 23-24				
Period to date			Forecast out-turn	
31-Dec-23			31-Mar-24	
Treasury investments	£000	%	£000	%
Total managed in house	59,860	88%	54,051	86%
Total managed externally	8,545	12%	8,545	14%
<b>Total treasury investments</b>	<b>68,405</b>	<b>100%</b>	<b>62,596</b>	<b>100%</b>
Third party loans	35,710		35,477	
<b>Treasury external borrowing</b>				
PWLB	463,234	88%	457,842	88%
Market, LOBO & other loans	64,187	12%	64,198	12%
<b>Total external borrowing</b>	<b>527,422</b>	<b>100%</b>	<b>522,040</b>	<b>100%</b>
<b>Net treasury investments / (borrowing)</b>	<b>(423,306)</b>		<b>(423,967)</b>	

6.4 The council has made £12.949m of long-term loan repayments. The details are below:

- Partial principal repayment of just over £1.56m on PWLB loans.
- Partial repayment of £1.34m on Growing Places Fund loan in June and Sept.
- Partial repayment of £0.049m on Homes & Communities Agency in Sept.
- Full repayment of a £10m LOBO loan as the council exercised its option to repay the loan following the lender issuing a notice to increase the interest rate.

The council also made a payment of £15m for short term loans for reasons previously reported.

6.5 The forecast position on total external borrowing is £522m by the end of the financial year. The council does not anticipate any further borrowing for the rest of the year.

## 7. Borrowing

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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.

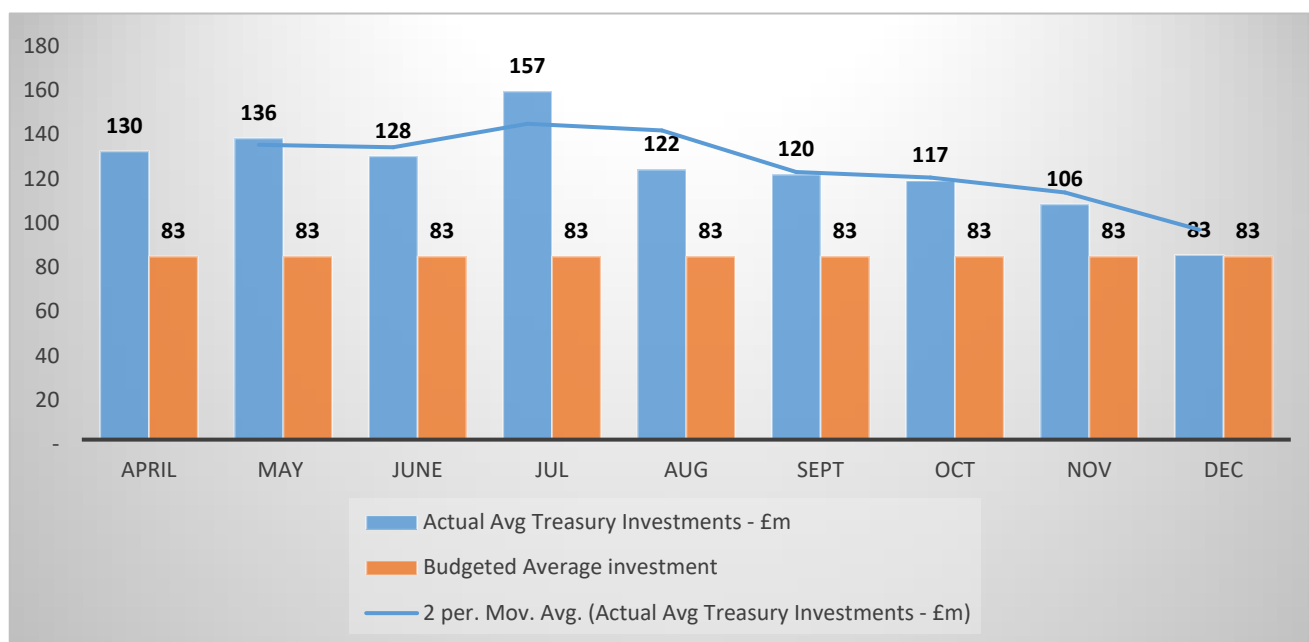
7.2 Table 2 below sets out the maturity profile of the Council's borrowing portfolio at the end of December 2023 of £527m

Table 2

Term Remaining	Borrowing		Limits
	£m	%	%
Under 12 months	17.1	4%	80%
1-2 years	15.8	3%	50%
2-5 years	34.1	6%	50%
5-10 years	5.1	1%	50%
10-20 years	19.7	4%	100%
20-30 years	70.7	13%	100%
30-40 years	217.9	41%	100%
40-50 years	127.0	24%	100%
Over 50 years	20.0	4%	100%
<b>TOTAL</b>	<b>527.4</b>	<b>100%</b>	



**Chart 1 – Average Treasury Investment Funds per month budget comparison**



## 10. Investment performance year to date as of 31<sup>st</sup> December 2023

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 31/7/2023 (SONIA - Backward Looking)						
	Bank Rate	SONIA	1 month	3 months	6 months	12 months
Bank Rate	5.25%	4.89%	4.84%	4.71%	4.43%	3.6%
Councils Performance			5.50%	5.43%	5.32%	n/a
(Under)/Outperforming SONIA			0.66%	0.72%	0.89%	

9.2 As illustrated above, the Council outperformed the benchmark by eighty-nine basis point for the last 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

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7.1 Outlined below is the Treasury budget performance for the period to Dec 2023. The net costs have varied significantly to budget as shown in the forecast out-turn with an improvement of £3.6m. Table 4.

Treasury revenue budget	Council Approved budget	Forecast -out-turn	Variance
	£'m	£'m	£'m
Net financing costs -	11.73	10.49	(1.24)
Interest receivable on investments	(4.80)	(7.20)	(2.40)
<b>Total</b>	<b>6.93</b>	<b>3.29</b>	<b>(3.64)</b>

7.2 The key explanation for variance to the budgets are:

- **Interest receivable on investments** – we are expecting a better yield performance of £2.4m 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. The recent change in forecast from the last reported income expectation is due to a reduction in liquid cash as shown in table 3 above.
- **Net Finance costs** – shows a net underspend of £1.24m. 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. The changes in the forecast is attributable to additional short term loan taken earlier in year and refinancing of a LOBO loan following a lender exercising the option to increase the rates and council electing repay the loan with PWLB loan at lower rate than the new proposed rate on the old loan.

## 12. Approved Limits

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

## 13. Compliance with Treasury & Prudential limits

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

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



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

## 8. Treasury Prudential Indicators

Prudential Indicator	2023-24 Indicator	2023-24 - Period 9
Authorised limit for external debt <i>[Excluding PFI and Finance Lease Liabilities]</i>	----- £850.0m -----	
Operational boundary for external debt <i>[Excluding PFI and Finance Lease Liabilities]</i>	----- £800.0m -----	
Capital Financing Requirement (CFR) <i>[Excluding PFI and Finance Lease Liabilities]</i>	£935m	TBC
Ratio of financing costs to net revenue streams	1.6%	TBC
Principal sums invested > 365 days <i>[Excluding third party loans]</i>	£20m	£nil
Maturity structure of borrowing limits: -		
Under 12 months	Max. 80% Min. 0%	4%
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%	86%

## 9. Approved countries for investments as of 31st Dec 2023

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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.