WEST NORTHAMPTONSHIRE COUNCIL
CABINET

20 December 2022

CABINET MEMBER WITH RESPONSIBILITY FOR FINANCE: COUNCILLOR MALCOLM LONGLEY

Report Title	**Treasury Management Update Quarter 2, 2022-23**
Report Author	**Martin Henry, Executive Finance Director**

Contributors/Checkers/Approvers

West MO	Catherine Whitehead	12/12/2022
West S151	Martin Henry	01/12/2022
Other Director/SME	Audra Statham	30/11/2022
Communications	Becky Hutson	9/12/2022

List of Appendices

Appendix A - Treasury and Prudential Indicators

1. Purpose of Report

1.1. The purpose of this report is to provide a second 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 second 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.

5.2 Treasury management

5.2.1 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.

5.2.2 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, essentially 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.

5.2.3 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 second 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 second quarter.
- A review of compliance with Treasury and Prudential Limits for 2022/23

7. Economics update

7.1 The second quarter of 2022/23 saw:

- GDP in Q1 2022/23 revised upwards to 0.2% q/q from -0.1%, which means the UK economy avoided recession in that period
- Signs of economic activity losing momentum as production fell due to rising energy prices.
- CPI inflation ease to 9.9% y/y in August but domestic price pressures showing little sign of abating in the near-term.
- The unemployment rate falls to a 48-year low of 3.6% due to a large shortfall in labour supply.
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% on the 24th of Sept and a further rise to 3% in November.
- Gilt yields surge and sterling fall following the "fiscal event" under former Prime Minster Liz Truss and then Chancellor on the 23rd September.
- The UK economy grew by 0.2% in July following an upward revision to Q1's GDP data (+0.2% q/q), though revisions to historic data left it below pre-pandemic levels.

7.2. Most recently:

- This turmoil led to former Prime minister Liz Truss resigning leading to a selection of the current Prime Minster Rishi Sunak to lead the conservative party and the current government.
- During this period the pound's value plummeted and the Bank of England had to bail out pension funds by buying government bonds to hold up prices and prevent a sell off.
- The Bank of England's MPC increased the Bank Rate for an eighth consecutive meeting in November, increasing the Bank Rate by 75bps to 3.00% – taking it to its highest level since November 2008 and moving it by its largest single step since 1992.

- On the inflation front (based on market rate expectations), it was predicted that the rate would peak at 11.4% (against a previous assumption of 13.3%) but then falling sharply to just 1.43% in 2yrs time and 0.02% in 3yrs time (0.76% previously expected).
- At the time of writing the report RPI stood at 14.2% and CPI stood at 11.1%.

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 forecast on the 27th of September 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 providing a package of fiscal loosening to try and protect households and businesses from ultra-high wholesale gas and electricity prices. The increase in PWLB rates reflects a broad sell-off in sovereign bonds internationally but more so the disaffection investors have with the position of the UK public finances after September's "fiscal event". To that end, 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, but its job is that much harder now.

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	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.

Our 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 September 2022 is the council is forecasting net borrowing position of £281m compared to the approved budget of £344m. The forecast for 2022/23 shows a £63m improvement mainly as a result of a reduction in new borrowing requirement that was forecasted and significant improvement on investment income due to the rising interest environment during this period.

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 Budget	Actual	Actual	Forecast out-turn	Forecast out-turn
		30-Sep-22	30-Sep-22	31-Mar-23	31-Mar-23
Treasury investments	**£000**	**£000**	**%**	**£000**	**%**
Total managed in house	201,359	149,566	94%	204,017	95%
Total managed externally	9,641	10,222	6%	10,222	5%
Total treasury investments	**211,000**	**159,788**	**100%**	**214,239**	**100%**
Third party loans	37,021	35,772		35,097	
Treasury external borrowing					
PWLB	513,831	462,794	86%	454,798	86%
Market, LOBO & other loans	78,790	75,743	14%	75,445	14%
Total external borrowing	**592,621**	**538,537**	**100%**	**530,243**	**100%**
Net treasury investments / (borrowing)	**(344,600)**	**(342,977)**		**(280,907)**	

9.3 During the first half of the year, the council has made £4.015m of loan repayments detailed below:

- Partial principal repayment of just over £1m on annuity PWLB loan.
- Full repayment of £3m on Growing Places Fund loan back in April 2022.

9.4 The forecast position on total external borrowing is £530m compared to the budget 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 Q2.

Table 2

Term Remaining	Borrowing		Limits
	£m	%	%
Under 12 months	9.6	2%	80%
1-2 years	8.5	2%	50%
2-5 years	29.6	6%	50%
5-10 years	24.9	5%	50%
10-20 years	19.9	4%	100%
20-30 years	25.4	5%	100%
30-40 years	243.5	45%	100%
40-50 years	157.0	29%	100%
Over 50 years	20.0	4%	100%
TOTAL	**538.5**	**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.

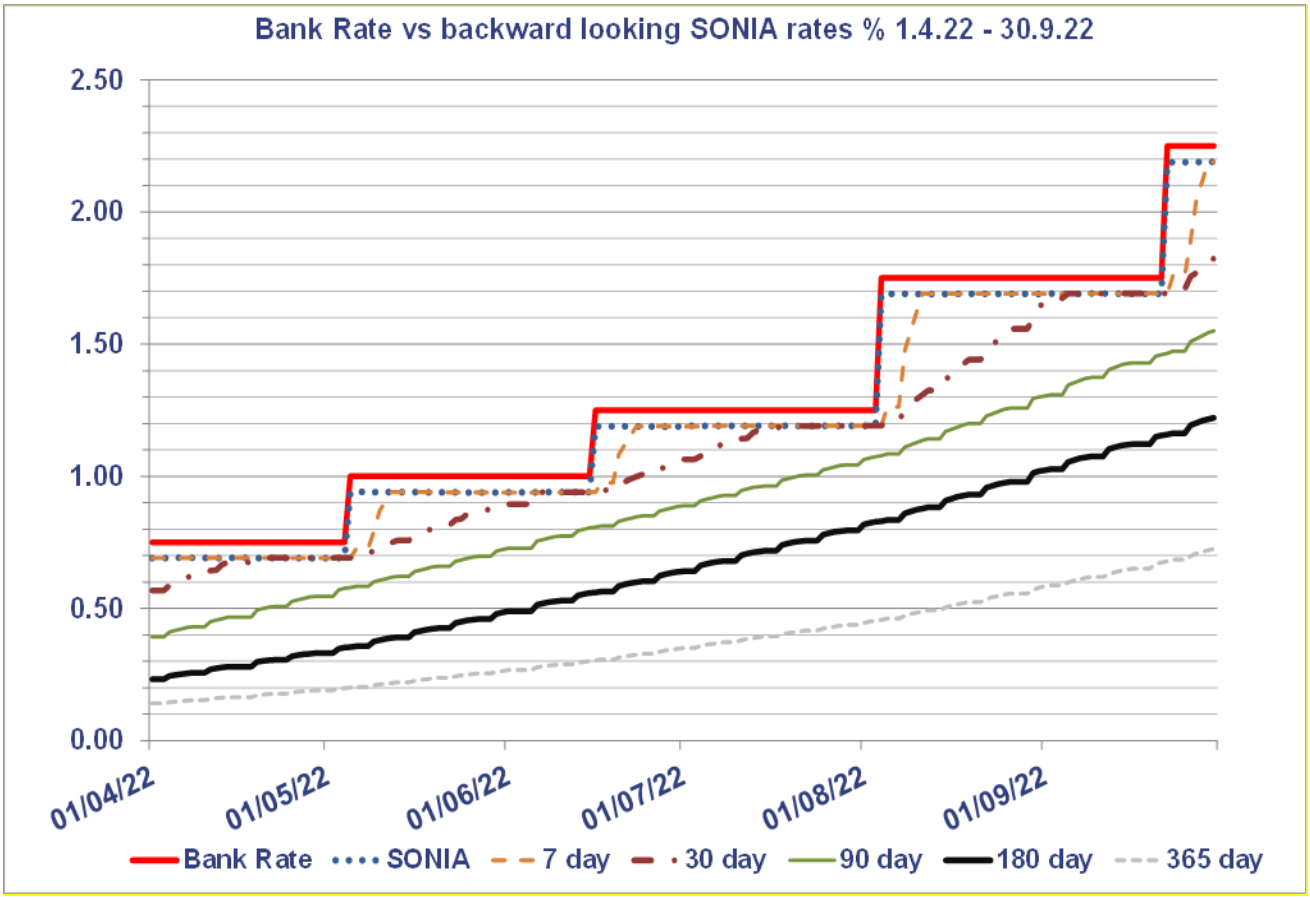
As shown by the interest rate forecasts in Section 6 above, rates have improved dramatically during Q1 and Q2 2022 and are expected to improve further as Bank Rate continues to increase over the next year or so.

12.3 The average level of funds available for investment purposes during the first half of the year was £155m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of payments, receipt of grants. At the end of the period the Council held £40m of liquid cash balances and £109m of short terms investments expected to mature during year.

13. Investment performance year to date as of 30 Sept 2022

13.1 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.

Graph 1



Period	SONIA (backward look) benchmark performance	Council performance
180 days	0.67%	1.55%

9.1 As illustrated above, the Council outperformed the benchmark by 88 basis point. 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.

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 £2m.

Table 5

Treasury revenue budget	TMSS Budget Approved	Forecast -out-turn	Variance - favourable/(adverse)
	£'m	£'m	£'m
Net financing costs -	14.32	13.92	0.40
Interest receivable on investments	(2.0)	(3.6)	1.64
Total	**12.36**	**10.32**	**2.04**

10.2 The key explanation for variance to the budgets are:

Within the net financing costs-

- **Finance charges & Insurance claims:** We are forecasting a budget underspend of £0.4m as a result of reduced borrowing costs.

- **Interest receivable on investments –** we are expecting a better yield performance and anticipate that this trend will continue for the rest of the year.

    - In addition, there has been recent media press regarding the council’s short-term fixed investments in the Qatar National Bank. This was in line with the Treasury Management Strategy as agreed by full council in February 2022. Following review any further investments in Qatar have been suspended.
    - There were further fixed term investments totalling £56m in the last quarter since the last report.

11. Approved Limits

11.1 Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30th September 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 second quarter ended 30th September 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 also been conducted in full compliance with the Council's Treasury Management Practices.

15. Implications

15.1 **Resources and financial**

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

15.2 **Legal**

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

15.3 **Risks**

15.3.1 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 Q2
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%	2%
2 years to 5 years	Max. 50% Min. 0%	6%
5 years to 10 years	Max. 50% Min. 0%	5%
10 years and above	Max. 100% Min. 0%	85%