

**REPORT TO:** Executive Board

**DATE:** 13 July 2023

**REPORTING OFFICER:** Operational Director – Finance

**PORTFOLIO:** Corporate Services

**TITLE:** Treasury Management Annual Report 2022-23

**WARDS:** Borough-wide

## **1.0 PURPOSE OF REPORT**

1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market as required by the Treasury Management Policy.

**2.0 RECOMMENDED: That the report be noted.**

## **3.0 SUPPORTING INFORMATION**

### **Economic Outlook**

- 3.1 The following analysis of the economic situation has been provided by Capita Asset Services, the Council's treasury management advisors. The analysis reflects the economic situation to 31 March 2023.
- 3.2 Against a backdrop of stubborn inflationary pressures, the easing of Covid restrictions in most developed economies, the Russian invasion of Ukraine, and a range of different UK Government policies, the UK interest rates have been volatile, from the Bank Rate through to 50-year gilt yields, for all of 2022/23.
- 3.3 Quarter 2 of 2022 saw UK GDP deliver growth of +0.1%, but this was quickly reversed in the third quarter, albeit some of the fall in GDP can be placed at the foot of the extra Bank Holiday in the wake of the Queen's passing. Q4 GDP was positive at 0.1%. Most recently, January saw a 0.3% increase in GDP as the number of strikes reduced compared to December.
- 3.4 Nevertheless, CPI inflation picked up to what should be a peak reading of 11.1% in October 2022. Although hopes for significant falls from this level will very much rest on the movements in the gas and electricity markets, as well as the supply-side factors impacting food prices. As of April 2023, CPI was 8.7%.

- 3.5 The UK unemployment rate fell through 2022 to a 48-year low of 3.6%, and this despite a net migration increase of around 500,000. The UK labour force shrunk by 500,000 in the year to June. Without an increase in the labour force participation rate, it is hard to see how the UK economy will be able to grow its way to prosperity.
- 3.6 The Bank Rate increased steadily throughout 2022/23, starting at 0.75% and finishing at 4.25%.
- 3.7 The economic analysts, Capital Economics, expect GDP to contract by around 0.2% in quarter 1 and forecast a recession this year involving a 1.0% fall in GDP.
- 3.8 The pound has remained resilient of late, recovering from a record low of \$1.035, on the Monday following the Truss government’s “fiscal event”, to \$1.23. Notwithstanding the pound’s better run of late, 2023 is likely to see a housing correction of some magnitude as fixed-rate mortgages have moved above 4.5% and affordability has been squeezed despite proposed Stamp Duty cuts remaining in place.

**Interest Rate Forecast**

3.9 The following forecast has been provided by Capita Asset Services.

Link Group Interest Rate View 27.03.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
<b>BANK RATE</b>	4.50	4.50	4.25	4.00	3.50	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.50	4.50	4.30	4.00	3.50	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.50	4.40	4.20	3.90	3.40	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.40	4.20	3.80	3.30	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.10	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.20	3.10
10 yr PWLB	4.20	4.20	4.00	3.90	3.80	3.70	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.50	4.40	4.20	4.10	4.00	3.80	3.70	3.60	3.50	3.50	3.40
50 yr PWLB	4.30	4.20	4.10	3.90	3.80	3.70	3.50	3.50	3.30	3.20	3.20	3.10

During the period of this report the bank base rate increased four times from 2.25%, to 4.25% in March 2023.

3.10 The borrowing rates from September 2022 to March 2023 are shown below:

### Short Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
Base Rate	2.25	2.25	3.00	3.50	4.00	4.00	4.25
Call Money (Market)	2.15	2.15	2.90	3.40	3.40	3.90	4.15
1 Month (Market)	2.45	2.90	3.15	3.55	3.85	4.05	4.25
3 Month (Market)	3.80	3.40	3.50	4.00	4.05	4.30	4.45

### Longer Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
1 Year (PWLB)	4.69	3.89	4.07	4.33	4.22	4.83	4.78
10 Year (PWLB)	4.95	4.42	4.06	4.61	4.26	4.66	4.35
25 Year (PWLB)	4.77	4.51	4.28	4.86	4.59	4.98	4.70

- 3.11 Market rates are based on rates provided by Reuters and PWLB rates are for new loans based on principal repayable at maturity. The rates are shown for the end of each month.

### Borrowing and Investments

#### Turnover During the Period

	No of deals	Turnover £m
Short Term Borrowing	4	20
Short Term Investments	7	60

#### Position at Month End

	Sep £m	Oct £m	Nov £m	Dec £m	Jan £m	Feb £m	Mar £m
Total Borrowing	172	172	182	187	182	182	187
Total Investments	(121)	(117)	(122)	(123)	(107)	(96)	(92)
Call Account Balance	(6)	(11)	(11)	(6)	(11)	(11)	(10)

## Investment Benchmarking October 2022 to March 2023

<b>Benchmark</b>	<b>Benchmark Return %</b>	<b>Performance Oct - Mar %</b>	<b>Investment Interest Earned £000</b>
1 day	3.15	1.65	62
1 month	3.46	-	-
3 month	3.50	-	-
6 month	4.22	3.63	782
9 month	4.62	-	-
12 month	4.74	1.56	373
Over 12 months	-	0.87	69
Property Fund	-	1.99	199
<b>Total</b>			<b>1,485</b>

- 3.12 The table above shows that the Council is under the benchmark on all investment returns received over the last six months. The reason for this is that the interest rates shown above are the average received over the period, and the Council's investments were agreed when rates were lower, this will particularly be the case for investments with a longer duration. If rates begin to drop in line with Capita estimates over the following year, the Council would be in a position to get closer to, or to over-achieve against the benchmarks in 2023/24.

### Budget Monitoring

- 3.13 Due to the increase in business rates generated above that budgeted, the Council raised £1.4m in interest over the budget target in 2022/23.

<b>Net Interest at 31st March 2023</b>			
	<b>Annual Budget £000</b>	<b>Actual £000</b>	<b>Variance £000</b>
Investments	(578)	(2,025)	1,447
Borrowings	1,099	1,138	(39)
<b>Total</b>	<b>521</b>	<b>(887)</b>	<b>1,408</b>

### New Long-Term Borrowing

- 3.14 The Council has not borrowed any long-term funds during this period.

### Policy Guidelines

- 3.15 The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 16 February 2022. It sets out the Council's investment priorities as being:

- Security of capital;
- Liquidity; and
- Yield

3.16 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in line with credit rating methodology.

### **Treasury Management Indicators**

3.17 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

### **Debt Rescheduling**

3.18 No debt rescheduling was undertaken during the quarter.

## **4.0 POLICY IMPLICATIONS**

4.1 None.

## **5.0 FINANCIAL IMPLICATIONS**

5.1 The financial implications are as set out in the report.

## **6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES**

6.1 There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

## **7.0 RISK ANALYSIS**

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Authority operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

## **8.0 EQUALITY AND DIVERSITY ISSUES**

8.1 None.

## **9.0 CLIMATE CHANGE IMPLICATIONS**

9.1 None

**10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972**

10.1 There are no background papers under the meaning of the Act.

## Treasury and Prudential Indicators – 2022/23

Prudential Indicators	2021/22	2022/23	
	Full Year Actual £000	Original Estimate £000	Full Year Actual £000
Capital Expenditure	21,901	30,496	27,549
Net Financing Need for the Year <i>(Borrowing Requirement)</i>	3,254	18,397	182
Increase / (Decrease) in CFR <i>(Capital Financing Requirement)</i>	(14,817)	(193)	(10,248)
Ratio of Financing Costs to Net Revenue Stream <i>(Proportion of cost of borrowing to Council's net revenue)</i>	6.0%	6.9%	6.4%
External Debt <i>(Borrowing plus PFI and lease liabilities)</i>	537,678	525,358	540,288
Operational Boundary <i>(Limit of which external debt is not expected to exceed)</i>	559,676	552,679	552,679
Authorised Limit <i>(Limit beyond which external debt is prohibited)</i>	630,824	627,133	627,133

Upper limit for principal sums invested for longer than 1 year	31/03/2022 £000	31/03/2023 £000
Upper limit of principal sums invested for longer than 1 year	40,000	40,000
Investments in excess of 1 years outstanding at year-end'	20,700	26,700