



## Treasury Management Interim Quarter 2 Update Report (30 September 2022)

This report ensures the council demonstrates best practice in accordance with CIPFA's recommendations in their Code of Practice for Treasury Management, by keeping members informed of treasury management activity.

### 1. The UK Economy

- The Bank of England's Monetary Policy Committee (MPC) increased Bank Rate for a seventh consecutive meeting at its meeting of 22 September 2022, taking it to 2.25%, their highest since the Great Financial Crisis, and the first run of over four consecutive rises since 1997. This was voted by 5-4 of the MPC members, with three wanting a 0.75% increase and one a 0.25% increase. It had decided to commence actively selling gilts from the beginning of October. However the reaction to the mini-budget of 23 September forced the Bank of England to step in to avoid the early stages of a financial crisis and it has now postponed that plan until the end of October and pledged to buy as many long-term gilts as needed.
- Global inflationary pressures continue to intensify as Russia's invasion of Ukraine continues. which has accelerated manufacturing costs such as energy and fertiliser. This has led to a material deterioration in the outlook for world economies and heightened concern of a recession risk particularly in America. The value of the pound fell to a record low against the dollar and the UK's overall inflation rate increased further reaching its highest level for 40 years in August as the costs of energy, fuel and food continued to climb.
- In terms of forecasts, the Bank has revised down its quarter three growth expectations from +0.4% to +0.1%, while continuing to see the peak of inflation from "above 11% in October" to "just under 11% in October", and a technical recession in quarter two to quarter three.

### 2. The Council's Investments

2.1 At 30 September 2022 the council held the following investments:

Investment	Term	Maturity Date	Interest Rate	Amount £m
<u>Instant access bank accounts:</u>				
NatWest	N/A	N/A	0.30%	0.25
<u>Instant Access Money Market Funds:</u>				
Federated	N/A	N/A	2.08%	10.00
Aberdeen Standard	N/A	N/A	2.13%	10.00
Insight	N/A	N/A	1.98%	6.06
Morgan Stanley	N/A	N/A	2.12%	9.68
Invesco	N/A	N/A	2.12%	9.00

CCLA	N/A	N/A	1.96%	2.12
<u>95 Day Notice Bank Accounts:</u>				
Santander	N/A	N/A	1.48%	5.00
Barclays*	N/A	N/A	2.30%	5.00
<u>Fixed Term Deposits:</u>				
Standard Chartered*	183 days	04/10/22	1.46%	5.00
Thurrock Council	183 days	14/10/22	0.98%	5.00
West Dunbartonshire Council	273 days	28/10/22	0.50%	5.00
Goldman Sachs	92 days	11/11/22	1.91%	5.00
Lloyds	183 days	10/02/23	2.61%	5.00
Coventry Building Society	181 days	14/03/23	2.84%	5.00
<b>Total</b>			<b>1.88%</b>	<b>87.11</b>
<b>* ESG 'green' deposits</b>				

2.2 The council continues to select counterparties suitable for investment based on the credit worthiness service provided by their treasury advisors, Link Asset Services. The service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies. The modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system to which Capita Asset Services allocate a series of colour coded bands with suggested maximum durations for investments. These limits are detailed in the Treasury Management Strategy for 2022/23 that was approved at budget setting by Council in February 2022. All treasury management transactions for the quarter to 30<sup>th</sup> September 2022 have complied with the limits and Prudential and Treasury Indicators as set out in the Treasury Management Strategy.

2.3 The council has earned interest on its investments as follows:

Month	Average amount invested		Average rate of interest earned		Amount of interest earned / Forecast £000	Budget £000	(Surplus) /Deficit £'000
	Actual / Forecast £m	Budget £m	Actual / Forecast %	Budget %			
Apr-22	86.6	40	0.63	0.01	45	-	(45)
May-22	89.6	40	0.81	0.01	62	-	(62)
Jun-22	90.3	40	0.96	0.01	72	-	(72)
Jul-22	101.6	40	1.11	0.01	97	-	(97)
Aug-22	99.3	40	1.46	0.01	123	-	(123)
Sep-22	92.7	40	1.68	0.01	129	-	(129)
Oct-22	40.0	40	0.01	0.01	-	-	-
Nov-22	40.0	40	0.01	0.01	-	-	-
Dec-22	40.0	40	0.01	0.01	-	-	-
Jan-23	40.0	40	0.01	0.01	-	-	-
Feb-23	40.0	40	0.01	0.01	-	-	-
Mar-23	40.0	40	0.01	0.01	-	-	-
<b>Total</b>					<b>528</b>	<b>-</b>	<b>(528)</b>

2.4 Interest income earned has been higher than anticipated due to the increase in interest rates

and higher cash balances than forecast.

- 2.5 In addition to investment income the council earns interest on the provision of loan finance to the waste disposal PFI provider, this is expected to generate loan interest payable to us of £2.0m in 2022/23 and will be credited to the Waste Reserve.

### 3. The Council's Borrowing

#### Short-term borrowing

- 3.1 The council is continuing its policy of using short-term borrowing (if required) from other local authorities for short-term liquidity needs. These short-term interest rates are significantly below levels available from other sources avoiding a large cost of carry when comparing fixed interest debt to current (variable) investment rates.
- 3.2 The council can only borrow up to its Authorised Borrowing Limit which represents the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Authority can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements. The Authorised Borrowing Limit for borrowing for 2022/23 is £350m which was approved in the Treasury Management Strategy.
- 3.3 At the end of September 2022 there were no short-term loans outstanding.

#### Long-term borrowing

- 3.4 At 30 September 2022 the council held long-term borrowing of £128.1m, no new long-term borrowing has been secured. Rates are monitored and discussed with our treasury advisors to determine the optimum timing of securing any new long-term borrowing. The Council's Capital Financing Requirement at 1<sup>st</sup> April 2022 is £315.2m, which demonstrates that the Council has significant internal borrowing when compared to the actual long-term borrowing of £128.1m.
- 3.5 The Chief Finance Officer in conjunction with our treasury advisors is currently reviewing our cash flow forecast, use of reserves and internal borrowing capacity. Following this review there may be a recommendation to undertaken new long-term borrowing. Given that the forecast is for interest rates to increase further this may allow the Council to lock into lower interest rates before any further increases.
- 3.6 The current capital financing budget position is summarised below:

<b>Summary of Borrowing Budget</b>	<b>Budget</b>	<b>Forecast</b>	<b>(Surplus) /Deficit</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Minimum revenue provision	9.7	9.7	-
Interest payable on all loans	5.2	5.1	(0.1)
<b>Total</b>	<b>14.9</b>	<b>14.8</b>	<b>(0.1)</b>

### 4. Summary of forecast outturn

- 4.1 The current net treasury forecast outturn is expected to be a surplus (underspend) of £0.3m, this is mainly due to the increase in interest earnings on short-term investments.