

Appendix C Treasury Management Interim Quarter 3 Update Report (31 December 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 ninth consecutive meeting at its meeting of 15 December 2022, the increase of 0.50% taking it to 3.50%, their highest since the Great Financial Crisis, and the first run of over four consecutive rises since 1997. This was voted by 6-3 of the MPC members, with two voting for no change and one a 0.75% increase. It was stated that the MPC sees inflation as being 'very high' in the near term, falling sharply from mid 2023 but that the UK economy is expected to be in recession for a prolonged period.
- Reflecting developments related to the war in Ukraine; sustained disruption to global supply chains and the shift in global demand towards durable goods and away from services have put significant upward pressure on tradeable goods prices since the pandemic. Global inflation remains elevated, and many central banks have continued to raise policy rates, indicators suggest that world GDP growth is likely to remain weak in Q4.
- In terms of forecasts, the Bank expects inflation to remain close to 11% throughout the remainder of Q4 before easing towards 10% in 2023 Q1 and then falling further in subsequent quarters.

2. The Council's Investments

2.1 At 31 December 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	0.80%	0.25
<u>Instant Access Money Market Funds:</u>				
Federated	N/A	N/A	3.26%	10.00
Aberdeen Standard	N/A	N/A	3.28%	9.30
Deutsche	N/A	N/A	3.11%	10.00
BlackRock	N/A	N/A	3.14%	3.93
Morgan Stanley	N/A	N/A	3.19%	7.39
Invesco	N/A	N/A	3.22%	6.96
CCLA	N/A	N/A	3.31%	3.70
<u>95 Day Notice Bank Accounts:</u>				

Santander	N/A	N/A	2.73%	5.00
Barclays*	N/A	N/A	3.55%	5.00
Fixed Term Deposits:				
DMADF	33 days	23/01/23	3.23%	5.00
Goldman Sachs	91 days	10/02/23	2.98%	5.00
Lloyds	183 days	10/02/23	2.61%	5.00
Coventry Building Society	181 days	14/03/23	2.84%	5.00
Standard Chartered*	182 days	04/04/23	4.23%	5.00
Total			3.19%	86.53
* ESG 'green' deposits				

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 31st December 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	96.7	40	2.13	0.01	177	-	(177)
Nov-22	98.3	40	2.77	0.01	224	-	(224)
Dec-22	88.1	40	3.04	0.01	217	-	(217)
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	-	-	-
Total					1,146	-	(1,146)

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 December 2022 there were no short-term loans outstanding.

Long-term borrowing

- 3.4 At 31 December 2022 the council held long-term borrowing of £124.7m, 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 1st April 2022 is £315.2m, which demonstrates that the Council has significant internal borrowing when compared to the actual long-term borrowing of £124.7m.
- 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:

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

4. Summary of forecast outturn

- 4.1 The current net treasury forecast outturn is expected to be a surplus (underspend) of £1.1m, this is mainly due to the increase in interest earnings on short-term investments.