

# Treasury Management Update

1

Quarterly report  
31<sup>st</sup> December 2023 (Q3 2023-24)

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# Treasury Management Update

## Quarter Ended 31<sup>st</sup> December 2023 (Q3 2023/24)

The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that members be updated on treasury management activities at least quarterly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

## 2. Interest rate forecasts

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. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 0.20%) which has been accessible to most authorities since 1<sup>st</sup> 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

- 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.
- The Link forecast 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.

### A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

- Our treasury advisor's central forecast for interest rates was previously updated on 7<sup>th</sup> 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 H2 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.
- Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.
- In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors.
- On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing a little better at this stage of the economic cycle than may have been expected. Nonetheless, with approximately 400,000 households per quarter facing a mortgage interest reset at higher levels than their current rate, the economy will face on-going headwinds from that source, in addition to lower income households having to spend disproportionately on essentials such as food, energy and rent payments.

## PWLB RATES

- Gilt yields have endured a volatile nine months with yields rising significantly on the back of inflation concerns before retracing much of those increases in November and December. With the market now anticipating rate cuts by H2 2024, the short and medium parts of the curve are now close to where they started 2023/24, but the longer part of the curve is still a little higher. At the time of writing there is c50 basis points difference between the 5 and 50 year parts of the curve.

### The balance of risks to the UK economy

There is currently a risk to UK economic growth due to a range of factors including a potential recession, potential labour shortages and uncertainty to whether the bank of England's interest rate strategy is working.

## 3. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on **13<sup>th</sup> February 2023**. 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

The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity, aligned with the Council's risk appetite. In the current economic climate, over and above keeping investments short-term to cover cash flow needs, there is a benefit 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. *(Amend if you use your own creditworthiness approach.)*

As shown by the charts below and the interest rate forecasts in section 2, investment rates have remained elevated during 2023/24 but are now expected to have peaked.

### Creditworthiness.

There have been few changes to credit ratings over the quarter under review. However, officers continue to closely monitor these, and other measures of creditworthiness to ensure that only appropriate counterparties are considered for investment purposes.

### Investment counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function OR *insert any changes to the criteria you wish to make, with supporting criteria.*

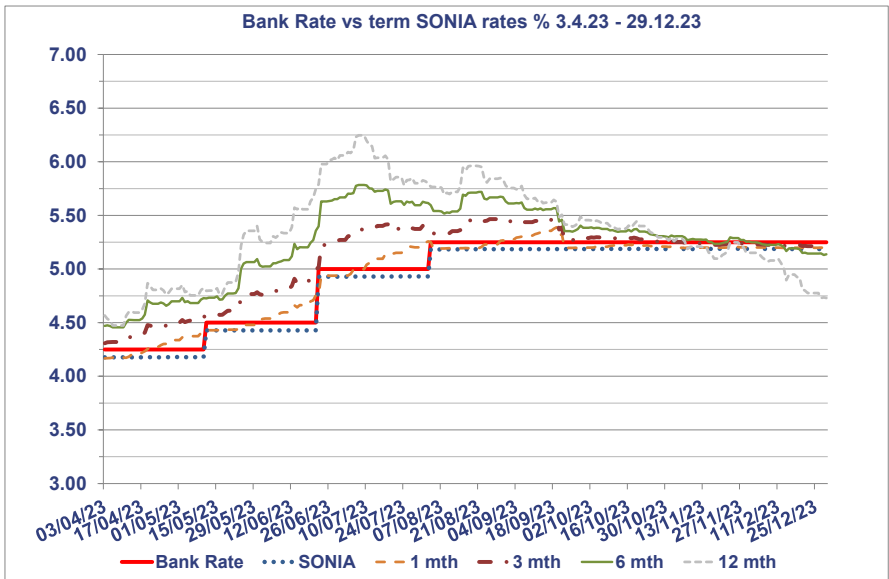
### CDS prices

For UK banks, there are no underlying negative themes. Prices are not misaligned with other creditworthiness indicators, such as credit ratings. Nevertheless, it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

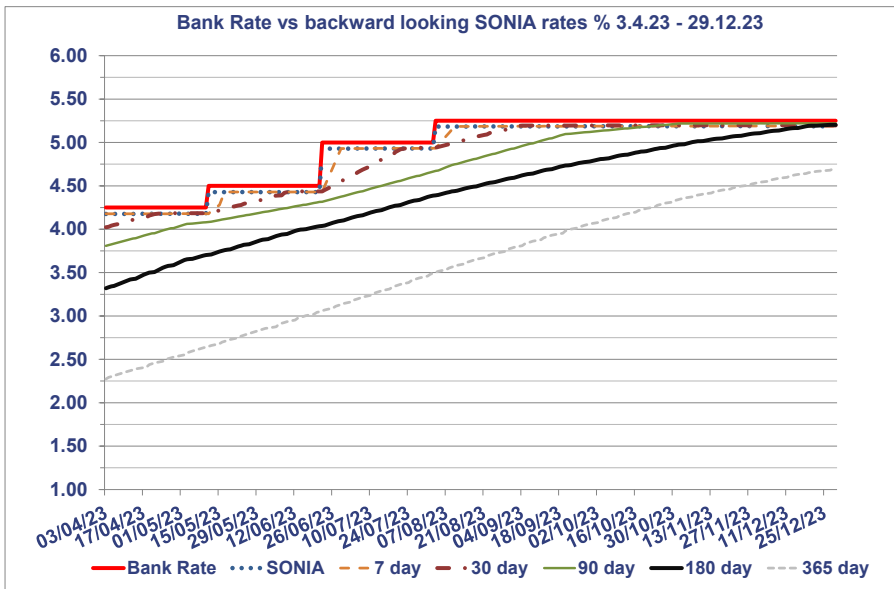
### Investment balances

The average level of funds available for investment purposes during the quarter was **£49.6m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

**Investment performance year to date 31<sup>st</sup> December 2023**

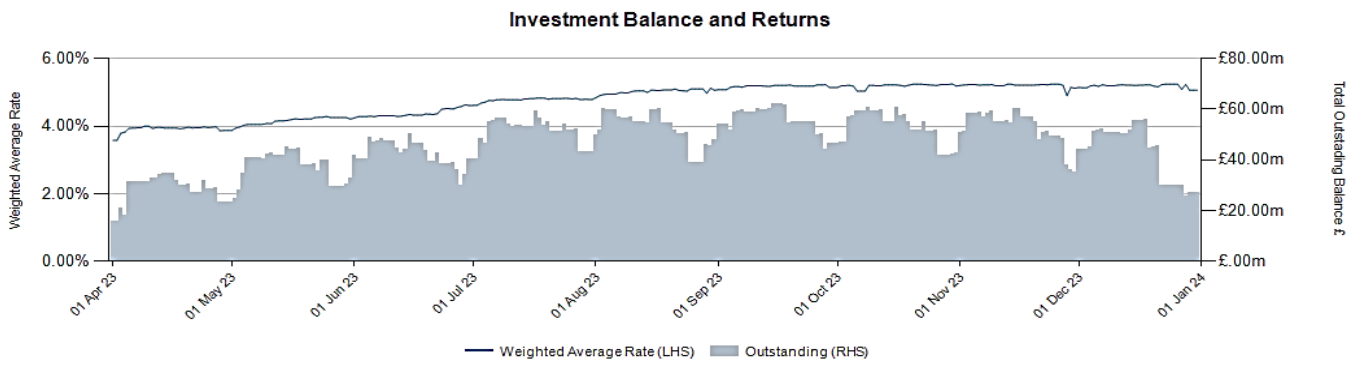


FINANCIAL YEAR TO QUARTER ENDED 29/12/2023						
	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
<b>High</b>	5.25	5.19	5.39	5.48	5.78	6.25
<b>High Date</b>	03/08/2023	24/11/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
<b>Low</b>	4.25	4.18	4.17	4.31	4.46	4.47
<b>Low Date</b>	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
<b>Average</b>	4.95	4.89	4.96	5.10	5.26	5.36
<b>Spread</b>	1.00	1.01	1.22	1.17	1.33	1.77

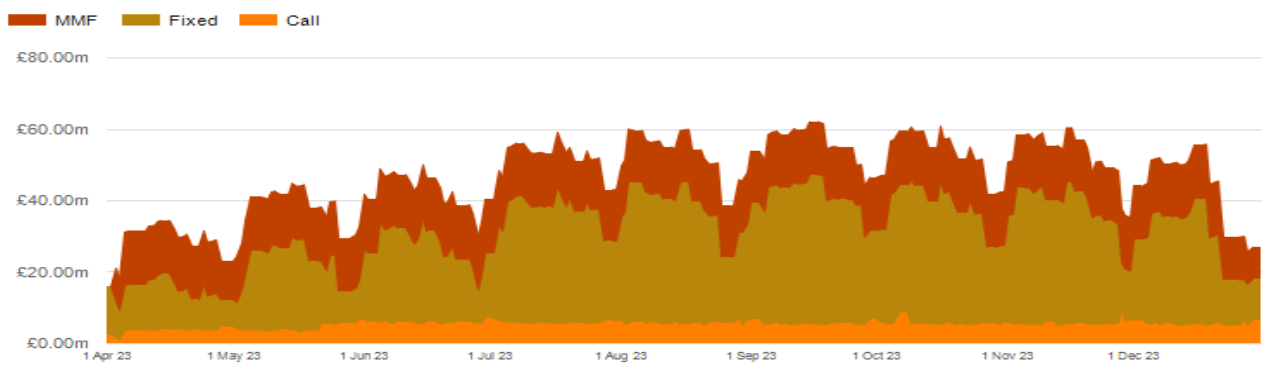


FINANCIAL YEAR TO QUARTER ENDED 29/12/2023							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
<b>High</b>	5.25	5.19	5.19	5.20	5.22	5.20	4.70
<b>High Date</b>	03/08/2023	24/11/2023	27/11/2023	12/12/2023	22/12/2023	29/12/2023	29/12/2023
<b>Low</b>	4.25	4.18	4.18	4.02	3.81	3.32	2.27
<b>Low Date</b>	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
<b>Average</b>	4.95	4.89	4.88	4.84	4.71	4.43	3.60
<b>Spread</b>	1.00	1.01	1.01	1.18	1.41	1.88	2.43

## Investment Balances and Returns 1<sup>st</sup> April until 31<sup>st</sup> December 2023



### Outstanding Balance By Type



Over the period from quarter 1 to 3 the average SONIA rate was 4.88%, Council investments achieved 4.81%.

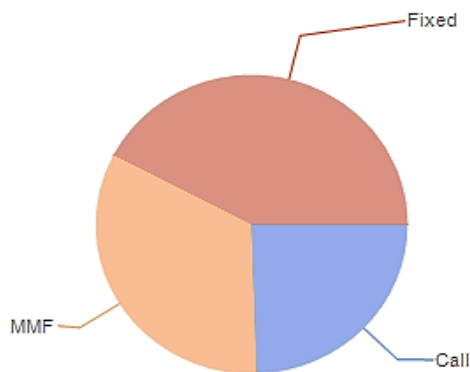
The Council's budgeted investment return for 2023/24 is **£0.525m**, the investment return to 31<sup>st</sup> December 2023 is **£1.650m** and the forecast for the year is **£1.960m**.

### Fund investments as at 31<sup>st</sup> December 2023

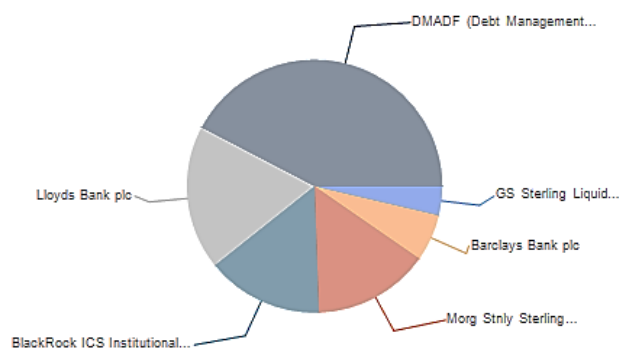
- Money Market Funds (MMFs) £15,000,000.00
- Call Account £5,000,000
- DMO £11,450,000

Investment composition as at 31<sup>st</sup> December 2023

### Current Deposit Allocation by Type



### Current Deposit Allocation by Counterparty



**Approved limits**

The approved limits within the Annual Investment Strategy were not breached during the quarter ended 31<sup>st</sup> December 2023.

A full list of investments held as of 31st December 2023 is in appendix 2.

## 4. Borrowing

No borrowing was undertaken during the quarter ended 31st December 2023. It is anticipated that further borrowing will be undertaken during this financial year.

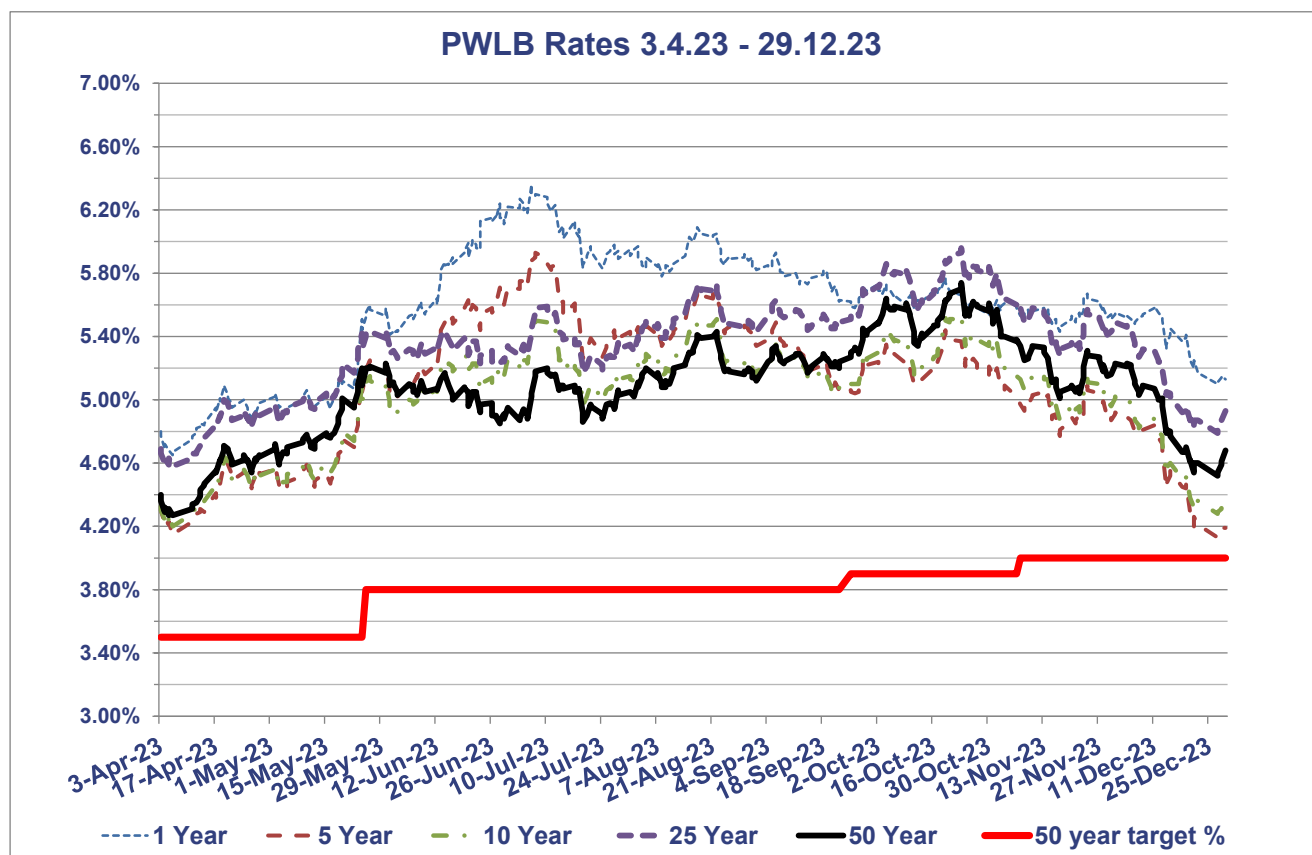
To minimise investment risk, the Council has reduced the overall debt liability by repaying £8.6m of external debt.

### PWLB maturity Certainty Rates 3<sup>rd</sup> April to 29<sup>th</sup> December 2023

Gilt yields and PWLB rates were on a rising trend from April through to October but dropped back significantly in November and December.

The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.50% (the lowest forecast rate within a two-year time horizon), increasing to a peak of 4.00% in November. With rates elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.

### PWLB RATES 3.4.23 - 29.12.23 (note: the 1<sup>st</sup>/2<sup>nd</sup> April was a weekend)





**HIGH/LOW/AVERAGE PWLB RATES FOR 3.4.23 – 29.12.23**

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.65%	4.13%	4.20%	4.58%	4.27%
<b>Date</b>	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
<b>High</b>	6.36%	5.93%	5.53%	5.96%	5.74%
<b>Date</b>	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
<b>Average</b>	5.60%	5.09%	5.03%	5.35%	5.08%
<b>Spread</b>	1.71%	1.80%	1.33%	1.38%	1.47%

## **5. Debt rescheduling**

Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt portfolio.

## **6. Compliance with Treasury and Prudential Limits**

The prudential and treasury Indicators are shown in Appendix 1.

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the *quarter ended* 31<sup>st</sup> 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. The Chief financial Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.

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

## APPENDIX 1: Prudential and Treasury Indicators for 2023-24 as of 31<sup>st</sup> December 2023

Treasury Indicators	2022/23 Actual £'000	2023/24 Forecast £'000
Authorised limit for external debt	172,671	188,876
Operational boundary for external debt	167,671	178,876
Gross external debt	144,571	144,300
Investments	15,938	10,000
Net borrowing	128,633	134,300

Maturity structure of fixed rate borrowing - upper and lower limits		
Under 12 months	10,267	10,398
12 months to 2 years	10,398	15,001
2 years to 5 years	27,473	20,644
5 years to 10 years	47,078	51,852
10 years to 20 years *1	25,482	13,240
20 years to 30 years *1	14,380	19,121
30 years to 40 years *1	9,492	4,048
40 years to 50 years *1	0	

<b>Prudential Indicators</b>	<b>2022/23 Actual £'000</b>	<b>2023/24 Forecast £'000</b>
<b>Capital expenditure *</b>	39,724	46,400
<b>Capital Financing Requirement (CFR) *</b>	247,671	258,600
<b>Annual change in CFR *</b>	3,255	10,900
<b>In year borrowing requirement</b>	0	10,000
<b>Ratio of financing costs to net revenue stream *</b>	7%	6.8%

