Rochford District Council

OVERVIEW & SCRUTINY COMMITTEE

3 OCTOBER 2023

REPORT TITLE:	TREASURY MANAGEMENT QUARTERLY REVIEW 2023/24
REPORT OF:	Tim Willis, Interim Resources Director

REPORT SUMMARY

This report is to provide an update of the Council's Treasury Management activity for the period April 2023 to 30 June 2023 in accordance with the Council's Treasury Management Policy and good practice in treasury management.

RECOMMENDATIONS

It is proposed that the Overview & Scrutiny Committee **RESOLVES**

To note the contents of this Treasury Management Quarter One Report.

SUPPORT ING INFORMATION

1 REASONS FOR RECOMMENDATIONS

1.1 The council is required by the CIPFA Code of Practice on Treasury Management and the Prudential Code for Capital Finance in Local Authorities to produce a quarterly review of its treasury management activities.

1.2 Overview & Scrutiny Committee is asked to consider the contents of this report and recommend it for approval by Full Council.

1.3 The council's income from treasury management activities for the period April to June 2023 was £261,492.25 against a total budget for the year of £275,000.

2.0 BACKGROUND INFORMATION

2.1 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 1 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.

As shown by the charts below and the interest rate forecasts in section 3.9, investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to remain high over the next few months.

2.2 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.

2.3 Investment counterparty criteria

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

2.5 Investment balances

The average level of funds available for investment purposes during the quarter was **£20.8m**. 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.

Benchmark	Benchmark Return %	Council Performance %	Investment Interest Earned £
7 day	4.90	4.34	34,136

1 month	4.95	4.32	164,529
3 month	5.40	4.93	62,827
6 month	5.90	n/a	n/a
12 month	6.40	n/a	n/a

As illustrated, the Council *underperformed* the benchmark by 1.66 **bps**. The Council's budgeted investment return for 2023/24 is **£275,000**, and performance for the year to date is **£261,492** which is above budget for the quarter. Our predicted performance for the year is £732,000, which is £457,000 above budget.

2.5.1 The breakdown of the investments held at 30 June 2023 are shown in the table below:

Investment held at 30th June 2023	Amount	Term	Interest
Handelsbanken	£6,000,000	3M Fixed	4.20%
Money Market – Deutsche	£5,000,000	Instant	4.80%
Money Market – Prime	£5,000,000	Instant	4.72%
Money Market – HSBC	£3,000,000	Instant	4.82%

2.6 Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the quarter ended 30th June 2023. All decisions on borrowing, investment or financing are delegated to the Section 151 Officer as the Chief Finance Officer and this delegation is documented in the Financial Regulations.

2.7 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members. Member training on treasury management issues was undertaken during the year on 5 September 2022 and 18 October 2022 in order to support members' scrutiny role.

2.8 The table below shows the forecast outturn for capital expenditure at 30 June 2023 compared to the original budget agreed on 21 February 2023.

Capital Expenditure	2023/24 Original Estimate £'000s	2023/24 End of Year Forecast £'000s
Total	**4,870**	**3,762**
Financed by:		
S106 income	70	80
Disabled Facilities Grant via Better Care Fund	540	540
Capital Finance Reserve	2,523	1,089
New Homes Bonus	97	279
Air Quality Grant Income	-	26
Investment Reserve	1,640	1,748
Total Financing	**4,870**	**3,762**

2.9 The Council has not undertaken any external borrowing during the period 1 April to 30 June 2023 and therefore no interest costs were incurred. Investment income remains a relatively small overall source of income to the Council; however, the Council continues to seek the best returns available within its agreed risk appetite.

2.9.1 Net external borrowing should not, except in the short term, exceed the total of Capital Financing Requirement (CFR) in the preceding year plus the estimates of any additional CFR for 2021/22 and next two financial years.

£000s	2022/23 Actual	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
CFR	777	777	777	777
Movement in CFR	-	-	-*	-*

** No movement is projected in the current estimates.*

2.9.2 The Council's current Treasury Management Advisors are Link Asset Services (LAS). The contract cost for 2023/24 was £8,750 which represents good value for money via the provision of specialist advice and training to the Council officers and members which enables sound investment decisions to be made.

3.0 ECONOMIC UPDATE

3.1 The first quarter of 2023/24 saw:

- A 0.2% m/m rise in real GDP in April, partly due to fewer strikes;
- CPI inflation falling from 10.1% to 8.7% in April, before remaining at 8.7% in May. This was the highest reading in the G7;
- Core CPI inflation rise in both April and May, reaching a new 31-year high of 7.1%;
- A tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%;
- Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00%;
- 10-year gilt yields nearing the "mini-Budget" peaks, as inflation surprised to the upside.

3.1.1 The economy has withstood the impact from higher inflation better than was widely expected. The 0.2% m/m rise in real GDP in April, following March's 0.3% m/m contraction will further raise hopes that the economy will escape a recession this year. Some of the strength in April was due to fewer strikes by train workers and teachers in that month. Moreover, some of the falls in activity in other areas in April were probably temporary too. Strikes by junior doctors and civil servants contributed to the fall in health output (0.9% m/m) and the meagre 0.1% m/m increase in public administration.

3.1.2 The recent resilience of the economy has been due to a confluence of factors including the continued rebound in activity after the pandemic, households spending some of their pandemic savings, and the tight labour market and government handouts both supporting household incomes. That said, as government support fades, real household incomes are unlikely to grow rapidly. Furthermore, higher interest rates will mean GDP is likely to contract later this year. Link's central assumption is that inflation will drop to the 2.0% target only if the Bank triggers a recession by raising rates from 5.00% now to at least 5.5% and keeps rates there until at least mid-2024. Capital Economics estimate that around 60% of the pull on real activity from the rise in rates has yet to take effect, and the pull on the quarterly rate of real GDP growth over the next year may be about 0.2ppts bigger than over the past year.

3.1.3 CPI inflation stayed at 8.7% in May (consensus 8.4%) and core CPI inflation rose again, from 6.8% to a new 31-year high of 7.1%. The rise in core inflation built on the leap from 6.2% in March to 6.8% and means it is accelerating in the UK while it is slowing in the US and the Euro-zone (both fell to 5.3%). A further decline in fuel inflation, from -8.9% to -13.1%, and the second fall in food inflation in as many months, from 19.3% to 18.7%, explained why overall CPI inflation didn't rise. And the scheduled fall in the average annual utility price from £2,500 to £2,074 on 1st July means overall CPI inflation will probably ease in the coming months. But the problem is that the recent surge in core inflation and the reacceleration in wage growth shows that domestic inflationary pressures are still strengthening.

3.1.4 The Bank has not committed to raising rates again or suggested that 50bps rises are now the norm. What it did say was that "the scale of the recent upside surprises in official estimates of wage growth and services CPI inflation suggested a 0.5 percentage point increase in interest rates was required at this particular meeting". It looks highly probable, given the on-going strength of inflation and employment data, that the Bank will need to raise rates to at least 5.5% and to keep rates at their peak until the mid-point of 2024. Link still think it is only a matter of time before the rise in rates weakens the economy sufficiently to push it into recession. That is why instead of rising to between 6.00%-6.25%, as is currently priced in by markets, they think rates are more likely to peak between 5.50-6.00%. Their forecast is also for rates to be cut in the second half of 2024, and expect rates to then fall further than markets are pricing in.

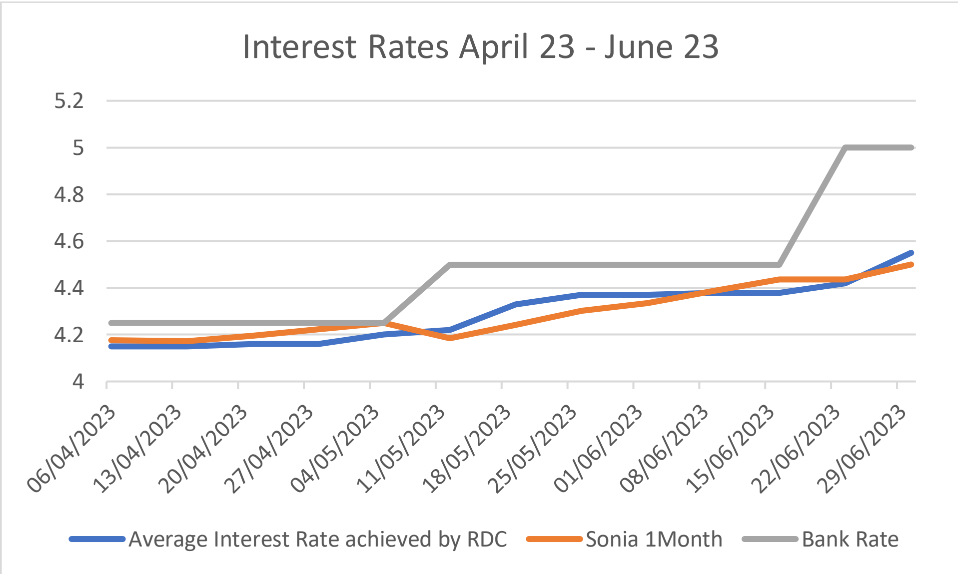
3.1.5 The latest forecast, made on 26th June, sets out a view that both short and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy, against a backdrop of a stubbornly robust economy and a tight labour market.

3.1.6 The latest Link Asset Service's forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

3.1.7 Link Asset Service's current PWLB rate forecasts below are based on the Certainty Rate:

Link Group Interest Rate View	26.06.23												
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

3.1.8 The following graph shows a comparison of average rate of interest earned, Bank base rate and the benchmark (7-day London Interbank Rate); this shows the correlation in the average interest rate the Council achieved compared to the Bank of England Base rate. Starting April at 4.25%, Bank Rate moved up in stepped increases of 0.25% and 0.5%, reaching 5.0% by the end of June, with the potential for further increases within 2023/24.



4.0 FINANCIAL IMPLICATIONS

4.1 The increase in interest payments from Bank of England Interest Payments, is set to continue in the latter half of 2023/24 before starting to decrease in 2024/25.

5.0 LEGAL IMPLICATIONS

5.1 None

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

6.1 None

7.0 RELEVANT RISKS

7.1 The Council's agreed Treasury Management Strategy sets out in detail the risks involved in making investments and in particular the risk that a counter party may fail during the duration of an investment. The Authority is responsible for managing the investment of public funds and must adopt a prudent approach.

8.0 ENGAGEMENT/CONSULTATION

8.1 None

9.0 EQUALITY IMPLICATIONS

9.1 None

10.0 ENVIRONMENT AND CLIMATE IMPLICATIONS

10.1 None

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BACKGROUND PAPERS

None

SUBJECT HISTORY (last 3 years)

Council Meeting	**Date**
An Annual Treasury Strategy in advance of the year - Council A Mid-Year Treasury Update Report - Council	01/02/2023 01/12/2022