
2022/23 MID YEAR TREASURY MANAGEMENT REVIEW

1 SUMMARY

- 1.1 The purpose of the report is to provide an update of the Council's treasury management activity for the period 1 April 2022 to 30 September 2022 in accordance with the Council's treasury management policy and good practice in treasury management.
- 1.2 It is recommended that the Overview & Scrutiny Committee notes the Council's treasury management activities for the period ending 30 September 2022 and provides comments on the information in this report before it is presented to Full Council on 13 December 2022.

2 INTRODUCTION

- 2.1 The Council has adopted CIPFA's Code of Practice on Treasury Management and a requirement of this is to produce a mid year review looking at the Authority's performance in line with the strategy approved by Full Council on 22 February 2022.
- 2.2 The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operation is to ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 2.3 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure the Council can meet its capital spending liabilities.
- 2.4 Accordingly, treasury management is defined as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
- 2.5 This mid year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:-
 - An economic update for the 2022/23 financial year to 30 September 2022 (provided by our treasury advisers, Link Asset Services Ltd);
 - A review of the Treasury Management and Capital Strategy Statement and Annual Investment Strategy including:-

- The Council's capital expenditure (and associated prudential indicators)
- A review of the Council's investment portfolio for 2022/23
- A review of the Council's borrowing strategy for 2022/23
- A review of compliance with Treasury and Prudential Limits for 2022/23.

3 ECONOMIC UPDATE

3.1 The second quarter of 2022/23 saw:-

- GDP revised upwards in Q1 2022/23 to +0.2% q/q from -0.1%, which means the UK economy has currently avoided recession, but is still below pre-pandemic levels;
- Signs of a reduction in economic activity as production fell due to rising energy prices;
- CPI inflation rise to 9.9% y/y in August, having been 9.0% in April, but domestic price pressures showing little sign of declining in the near term;
- The unemployment rate fall to a 48-year low of 3.6% due to a large shortfall in labour supply;
- Bank Rate rise by 100bps over the quarter, taking Bank Rate to 2.25% at the end of Q2 with further rises implemented in Q3;
- Gilt yields surge and sterling fall following the “fiscal event” of the new Prime Minister and Chancellor on 23 September.

3.2 There are signs of higher energy prices creating more persistent downward effects in economic activity. Manufacturing output fell in some sectors indicating higher energy prices impacting on production. GDP is at risk of contracting through the autumn and winter months following the impact from high inflation. Retail sales volumes fell in August, which was the ninth fall in 10 months. This left sales volumes in August 0.5% above their pre-Covid level and 3.3% below their level at the start of the year.

3.3 CPI inflation eased from 10.1% in July to 9.9% in August. The easing in August was mainly due to a decline in fuel prices reducing fuel inflation from 43.7% to 32.1%. CPI inflation is expected to peak close to 10.4% in November and, with the supply of workers set to remain unusually low, the tight labour market will keep underlying inflationary pressures strong until early next year.

3.4 During the first half of 2022 there was a change of both Prime Minister and Chancellor. The long list of tax measures announced at the “fiscal event” added up to a loosening in fiscal policy relative to the previous government's plans of £44.8bn (1.8% of GDP) by 2026/27. Whilst the pound fell to a record low of \$1.035 on the Monday following the government's “fiscal event”, it has

since recovered to around \$1.12. That is primarily due to the replacement of the Truss-Kwarteng team by the more orthodox and fiscally conservative Sunak-Hunt team on 24 October.

- 3.5 The MPC has increased interest rates at every meeting in 2022 and has raised rates to their highest level since the Global Financial Crisis. As shown in the table below, LINK Group now forecasts a further increase in Bank Rate from the current 3% to 3.5% in Quarter 3 of 2022/23, an increase to 4.25% in quarter 4 of 2022/23, and a further increase in Q1 2023/24 to 4.5% before interest rates are forecast to start reducing again from Quarter 4 2023/24.
- 3.6 The latest Link Asset Service's forecast of Bank of England Base Rate and PWLB rates are shown in the table below:-

Link Group Interest Rate View 08.11.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20

4 KEY MOVEMENT / CHANGES TO THE CAPITAL AND TREASURY STRATEGIES

- 4.1 The Treasury Management and Capital Strategy Statement (TMCSS) for 2022/23 was approved by Full Council on 22 February 2022 as part of the Medium Term Financial Strategy.
- 4.2 There are no policy changes to the TMCSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

5 PRUDENTIAL INDICATOR FOR CAPITAL INVESTMENT

- 5.1 The table below shows the forecast outturn for capital expenditure at 30 September 2022 compared to the original budget agreed on 22 February 2022.

Capital Expenditure	2022/23 Original Estimate £'000s	2022/23 End of Year Forecast £'000s
Total	5,659	4,295
Financed by:		
S106 income	70	71
Disabled Facilities Grant via Better Care Fund	540	540
Capital Finance Reserve	957	1,077
New Homes Bonus	300	300
Air Quality Grant Income		26
Transformation Reserve	50	59
Investment Reserve	2,251	2,152
Hard/Soft Infrastructure Reserve	1,492	0
Match Funding		70
Total Financing	5,659	4,295

Changes to the Prudential Indicators for the Capital Financing Requirement and the Operational Boundary

- 5.2 The Council currently has no external borrowing.
- 5.3 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	2021/22 Actual	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
CFR	777	777	777	777
Movement in CFR	-	-	-*	-*

* No movement is projected in the current estimates.

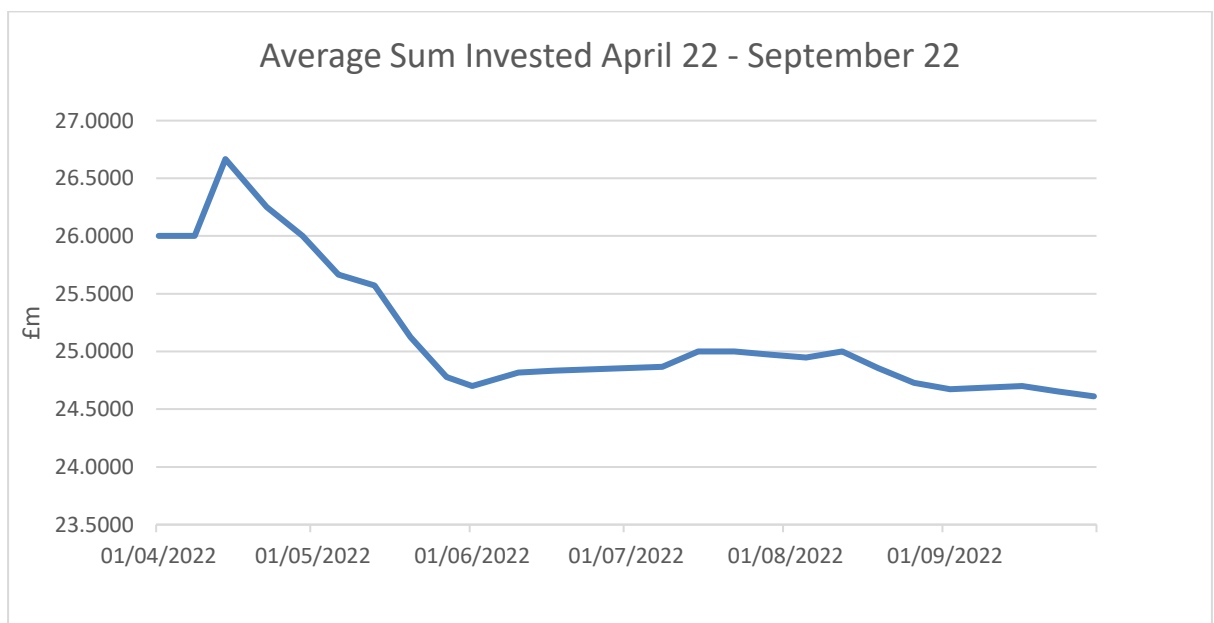
- 5.4 The 2008 Capital Finance and Accounting Regulations include a requirement to make prudent annual provision for repayment of debt arising from capital expenditure (known as a Minimum Revenue Provision or MRP). This is to ensure that debt is repaid over a period commensurate with that over which the capital expenditure provides benefits. If the Council does decide to borrow externally in future an MRP policy will need to be agreed and implemented. This would be set out in the relevant treasury management strategy statement for the year.
- 5.5 There are no changes to the Authorised and Operational limits (upper limit beyond which external debt is prohibited) which is outlined in the treasury management strategy and can only be revised by Full Council. As there has been no borrowing, there has not been any breach of these limits.

6 INVESTMENT PORTFOLIO 2022/23

- 6.1 In accordance with the Prudential Code, it is the Council's priority to ensure security of capital, then liquidity, then obtaining an appropriate level of return which is consistent with the Council's risk appetite. Given the Council's current low risk appetite, investment returns are also likely to remain low.
- 6.2 The Council started the year with £22m of investments and £4.3m in its main current account. The balance of investments held on 30 September 2022 was £23.5m, plus £0.706m in the main current account. The table below summarises the investment transactions that have taken place.

	Investments £000's	Current Account £000's	No. of Investments
Balance on Investments 1 April 2022	22,000	4,362	9
Investments placed 01/04/22 – 30/09/22	43,500		
Investments realised 01/04/22 – 30/09/22	42,000		
Balance on Investments 30 Sept 2022	23,500	706	10

- 6.3 The graph below shows the average investments held by the authority over the first six months of the year.



- 6.4 The balance of £23.5m held at the end of September was comprised of the following investments.

Counterparty	Investments £000	Interest rate (as at 30/09/2022)	% of total Investments held
Santander 95 day account	6,000	1.60%	26
Money Market Deutsche (Instant)	1,500	1.86%	6
Money Market Prime (Instant)	5,000	2.04%	21
Money Market HSBC (Instant)	5,000	2.08%	21
Handelsbanken (Instant)	6,000	1.61%	26

- 6.5 Interest earned to the end of September totalled £153,095. Forecast investment return for 2022/23 is £225,000. No interest was originally budgeted due to the historically low rates; however, investments have yielded a much higher return than anticipated due to the Bank of England interest rate increases. The table below shows the returns the Council is receiving compared to financial benchmarks.

Investment performance at 30 September 2022

Benchmark	Benchmark Return %	Council Performance %	Investment Interest Earned £
7 day	0.69	1.30	15,457
1 month	0.69	1.13	108,319
3 month	0.92	0.97	29,319
6 month	1.20	n/a	n/a
12 month	1.62	n/a	n/a

- 6.6 On 4 May 2022, the Council exceeded the £5m limit on its current account due to a processing error. It should be noted that the £5m is an internal limit set within the Council's treasury management strategy, rather than an external limit set by the bank and therefore no additional costs/fees were incurred as a result.
- 6.7 A review of the Council's investment strategy will be undertaken and reported in the 2023/24 Treasury Management and Capital Strategy.

Investment Counterparty Criteria

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

- 6.9 The financial institutions with which the Authority is investing are monitored on a regular basis in line with the risk document issued by Link, the treasury advisers.

7 RISK IMPLICATIONS

- 7.1 There are no new risk management implications arising from the contents of this report. However, Members will be aware of the uncertainty in the financial markets and the economy as a whole and the potential risks that this may have in general. The Council's TMS outlines the risks involved in the investments made by the Council and there have been no changes to the assessment of risk.

8 LEGAL IMPLICATIONS

- 8.1 There are none arising out of this report.

9 ENVIRONMENTAL IMPLICATIONS

- 9.1 None directly arising from this report.

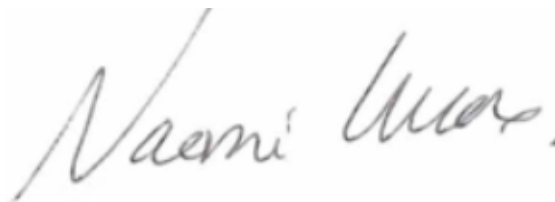
10 EQUALITY & DIVERSITY

- 10.1 None.

11 RECOMMENDATION

It is proposed that the Review Committee **RESOLVES**

That the contents of this Treasury Management Mid Year Report be recommended to Full Council.



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Background Papers:-

None.

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If you would like this report in large print, Braille or another language please contact 01702 318111.