Rochford District Council

REPORT OF THE OVERVIEW & SCRUTINY COMMITTEE

1 TREASURY MANAGEMENT MID-YEAR REVIEW

1.1 This item of business was referred to the Overview & Scrutiny Committee on 5 December 2023 recommending to Council the contents of the Treasury Management Mid-Year Review Report.

1.2 An extract of the key elements of the report to the Overview & Scrutiny Committee is attached at Appendix 1.

2 RECOMMENDATION

2.1 It is proposed that Council **RESOLVES**

That the contents of the Treasury Management Mid-Year report be noted.

Rochford District Council

REPORT TITLE:	TREASURY MANAGEMENT MID YEAR 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 September 2023 in accordance with the Council's Treasury Management Policy and good practice in treasury management.

RECOMMENDATIONS

It is recommended that Overview & Scrutiny Committee notes the Council's treasury activities for the period ending 30 September 2023 and provides comments on the information in this report, before it is presented to Full Council on 14 December 2023.

SUPPORT ING INFORMATION

1 REASONS FOR RECOMMENDATIONS

1.1 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 21 February 2023.

1.2 Overview & Scrutiny Committee is asked to consider the contents of this report and recommend it for approval by Full Council on 14 December 2023.

1.3 The council's income from treasury management activities for the period April to September 2023 was £489,389 against a total budget for the year of £275,000.

2 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 21 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 returns have improved dramatically during the first half of the year of 2023/24 and are expected to be maintained as the Bank Rate continues to remain high over the next few months.

2.2 **Creditworthiness**

There have been few changes to credit ratings over the half year 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.

2.4 **Investment balances**

The average level of funds available for investment purposes during the first half year 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	4.71	4.34	70,125
1 month	4.64	4.67	323,318
3 month	4.44	4.51	95,946
6 month	4.10	n/a	n/a
12 month	3.16	n/a	n/a

As shown above, the Council *overperformed* the benchmark return in a number of its investments. The Council's budgeted investment return for 2023/24 is **£275,000**, and performance for the year to date is **£489,389** which is above budget for the half year. Our predicted performance for the year is £704,904, which is £429,904 above budget.

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

Investment held at 30th Sept 2023	Amount	Term	Interest
Handelsbanken	£6,000,000	3M Fixed	4.93%
Santander	£3,000,000	95 Day	4.48%
Money Market – Prime	£5,000,000	Instant	5.33%
Money Market – HSBC	£5,000,000	Instant	5.28%
Money Market – Aberdeen	£2,000,000	Instant	5.22%

2.6 Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the first half year ended 30th September 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 19 September 2023 as part of a wider session on overview of local government finance; in order to support members' scrutiny role.

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

Capital Expenditure	2023/24 Original Estimate £'000s	2024/25 Revised Estimate £'000s	2023/24 End of Year Forecast £'000s
Total	**4,870**	**5,940**	**3,809**
Financed by:			

S106 income	70	155	155
Disabled Facilities Grant via Better Care Fund	540	540	566
Capital Finance Reserve	2,523	3,218	1,061
New Homes Bonus	97	279	279
Investment Reserve	1,640	1,748	1,748
Total Financing	**4,870**	**5,940**	**3,809**

2.9 The Council has not undertaken any external borrowing during the period 1 April to 30 September 2023 and therefore no interest costs were incurred. Raising interest rates has meant that Investment income is now a more significant source of income to the Council; 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 half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July, mainly due to more strikes.

- CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

3.2 The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.

3.3 As the growing drag from higher interest rates intensifies over the next six months, it is believed the economy will continue to lose momentum and fall into a mild recession. Strong labour demand, fast wage growth and government discretionary payments have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of- living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.

3.4 CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. Core CPI inflation declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4%, and in the Euro-zone it is 5.3%).

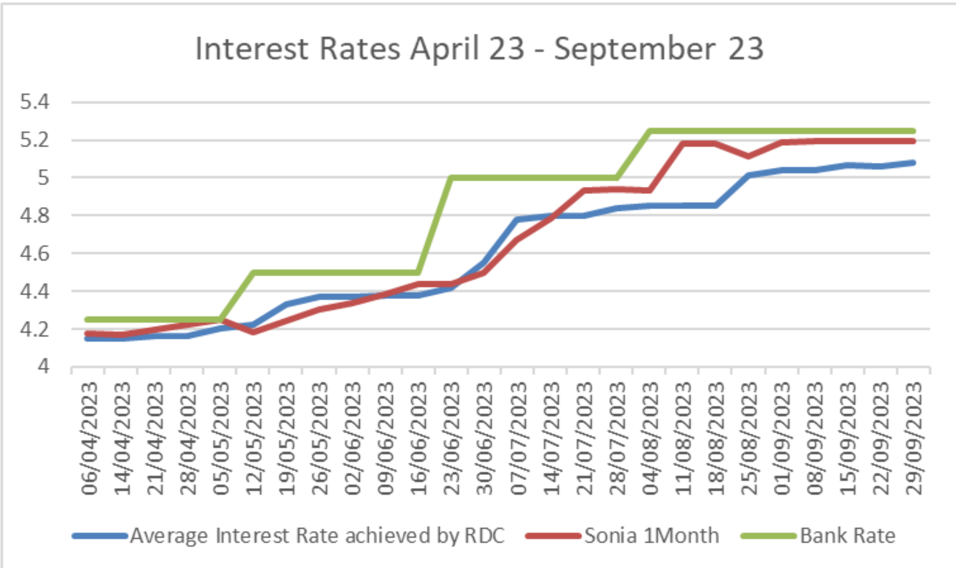
3.5 Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. The fall in services inflation was from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.

3.6 The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

3.7 Link Asset Service's current PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	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
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

3.8 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 5.25% by the end of September, with the potential for further increases within 2023/24.



4 FINANCIAL IMPLICATIONS

4.1 The increase in interest payments from Bank of England Interest Payments is now considered to have peaked and is estimated to start decreasing in the latter half of 2023/24.

5.0 LEGAL IMPLICATIONS

5.1 None.

6.0 RELEVANT RISKS

6.1 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.