

## 2022/23 Quarter 2 Treasury Management Update

This appendix reviews treasury performance for the period 01/07/2022 – 30/09/2022 against the Council's Treasury Management Strategy, which was approved by Council on 22nd February 2022.

The Council's Treasury Management operation ensures cash flows are adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially, before considering optimising investment return.

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, this is the element of the capital programme that is not financed from external grants, capital receipts or other contributions. Which when added to the Council's Capital Financing Requirement (CFR) shows the underlying borrowing need of the Council. This underlying borrowing need is managed by the treasury team through short and long term borrowing arrangements and the use of longer term cash flow surpluses.

### Borrowing

No new borrowing has been undertaken in the year to date, therefore the Council has maintained external borrowing at £12.8 million. As a result, gross and net borrowing are below the capital financing requirement (CFR). This is a key indicator as it shows that the Council is not borrowing to fund revenue activities or borrowing to lend-on.

**Table 1: Borrowing Limits**

	£m
Actual borrowing	12.800
Authorised limit	32.316
Operational boundary	25.300
Capital Financing Requirement (CFR)	24.676

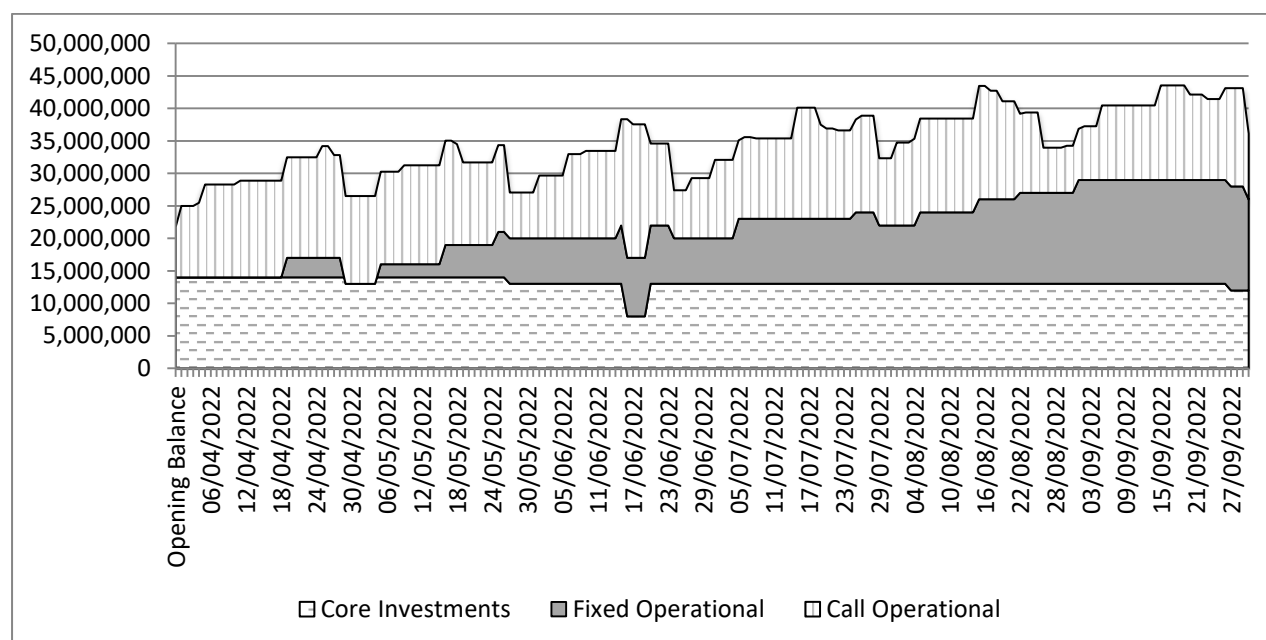
Table 1 also shows that the Council hasn't breached its operational boundary and authorised limit (which must not be breached) on external debt.

The current premium on the Council's borrowing is circa 3.37% (i.e. £0.34m per £1m repaid), which would take just over a year to repay. The Council is currently running with internal borrowing of £11.876 million when compared to our Capital Financing Requirement. This internal borrowing represents 29.96% of the Council's useable reserves as at 31/03/2022 and 48% of the total borrowing requirement of the Council.

Given that our internal borrowing is almost 50% of our Capital Financing requirement and given that we are in a rising interest rate environment, repayment at this time is not recommended, due to the risk of this Council and the new Westmorland and Furness Council needing to increase external borrowing within the next year or two. Any decision to repay will have to be agreed by the Westmorland and Furness Shadow Council who are bound to review this under the Section 24 direction and would need to consider this against the likely CFR and Debt portfolio of the entire new Council not just this Council's position.

## Investments

**Graph 1** below shows the movement on the Councils investment portfolio between 01/04/22 and 30/09/2022



The Council held £40.145m of investments as at 30 September 2022. Table 2 shows the outstanding investments by type.

**Table 2 Investment Summary**

Counterparty	Value (£m)
<b>Call Operational</b>	
Federated	9.250
Blackrock	0.900
<b>Fixed Operational</b>	
Coventry Building Society	2.000
Goldman Sachs	2.000
National Bank of Canada	2.000
Principality Building Society	2.000
Suffolk County Council	2.000
Sumitomo Mitsui Banking Corporation	1.000
Standard Chartered	3.000
UK Treasury Bills	0.995
Yorkshire Building Society	3.000
<b>Fixed Core</b>	
Darlington Borough Council	2.000
Newcastle Building Society	2.000
Stockport MBC	5.000
Uttlesford District Council	3.000
	<b>40.145</b>

**Graph 2** below shows the maturity profile of the Councils investment portfolio split between operational and core investment types

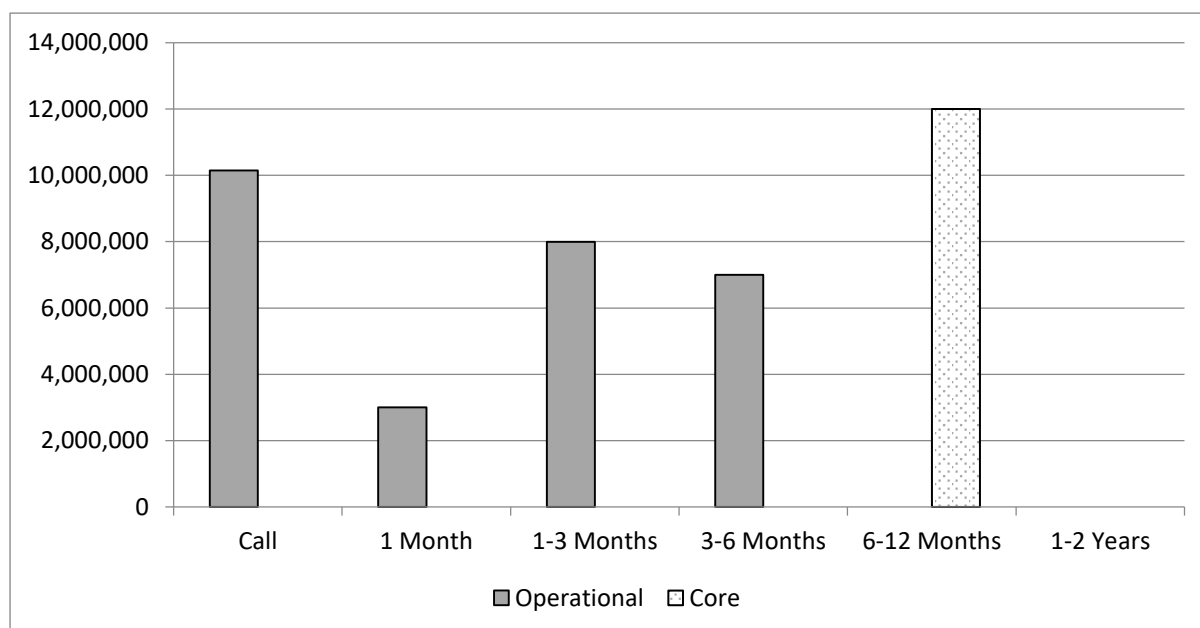


Table 3 below summarised the performance to date, benchmarked against the London Interbank Bid Rate (LIBID) that best matches the duration of the investments. For example, Call investments can be called back the same day and so the overnight LIBID rate is the benchmark.

**Table 3 Performance**

	Average Return	Benchmark Rate	Variance
Call Operational	1.17%	0.06%	1.11%
Fixed Operational	1.47%	0.26%	1.21%
Fixed Core (Long Term)	1.02%	0.47%	0.55%
<b>Overall Average</b>	<b>1.09%</b>		

All of the council's investments are performed in excess of their benchmarks. In line with this we are reporting a budget surplus on interest receivable of circa £400k.

### Economic Forecast

The Monetary Policy Committee (MPC) increased the bank rate by 0.75% from 2.25% to 3% at its November meeting. This is the eighth rise in as many meetings and market expectation are for further increases over the short term, peaking at between 4.50% - 4.75% by September 2023. As a result Gilt yields and hence PWLB borrowing rates are expected to continue to rise.

GDP fell by 0.2% in quarter 3 (July – September) 2022. And the latest forecasts from the Bank of England is for the economy to contract by 0.75% before the end of 2022 and officially enter a recession that will continue into the first half of 2024.

As at October 2022 the Consumer Prices Index (CPI) rose 11.1% year on year as a result of increases in energy, fuel and food costs. Expectation is that inflation will peak this year before slowly reducing in 2023 and 2024, falling back to the target level by 2027.

**Conclusion**

The Council's external borrowing remains at £12.8m and despite favourable repayment rates it is recommended that we don't make a repayment at this time due to the rising interest rate environment making any new borrowing required by this Council or the new Westmoreland and Furness Council in the short term more expensive than current borrowing.

Council Investments continue to perform well against benchmarks and returns have picked up as interest rates continue to rise with an estimated budget surplus of over £400k being reported.