Treasury Management Performance

April to December 2023

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Treasury Management Performance 2023/24 – April to December 2023

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.

Background

Up until 31 March 2013, the Authority's cash balances were managed by Buckinghamshire Council under a Service Level Agreement (SLA). From 2013/14 the Authority began investing in its own name. Since the treasury management function has been managed in-house, the Authority has achieved investment returns of £1.639m between 2013/14 and 2022/23.

This report highlights the performance to date of the in-house treasury management function for period April to September 2023, financial year 2023/24.

UK Economic Update

The Authority's treasury advisors Link Treasury Services Limited (Link) have provided officers with an Economic update reflecting quarter three 2023/24. A summary of this can be seen below

- Consumer Prices Index (CPI) inflation fell from 6.7% in September to 4.6% in October, and then again to 3.9% in November. These falls were bigger than expected and there are clear signs of easing in domestic inflationary pressures. The inflation rate as of 23 January 2024 was 4.0%.

- The Bank of England's Monetary Policy Committee (MPC) sets monetary policy to meet the 2% inflation target, and in a way that helps to sustain growth and employment. At its meeting ending on 13 December 2023, the MPC sprung no surprises by voted by a majority of 6–3 to maintain Bank Rate at 5.25%. Three members preferred to increase Bank Rate by 0.25 percentage points, to 5.5%. This is pushing back against the prospect of near-term interest rate cuts.

- Since the Bank of England's MPC's two unprecedented emergency interest rate cuts in March 2020 to a base rate record low of 0.10%. MPC has voted to increase the interest base rate at 14 out of the last 18 MPC meetings, with no increase at the last four MPC meetings.
- Nonetheless, with UK CPI inflation at 3.9% in November, and core inflation beginning to moderate (5.1%), markets are voicing a view that rate cuts should begin in Q1 2024/25, some way ahead of the indications from MPC members. This will be dependent on the data and therefore upcoming publications of employment, wages and inflation numbers will be of particular importance, and on-going volatility in Bank Rate expectations and the gilt yield curve can be expected.

- Looking ahead, colleagues at Capital Economics forecast that the recent downward trends in CPI and core inflation will stall over the next few months before starting to decline more decisively again in February. That explains why Link think the Bank of England won't feel comfortable cutting interest rates until late 2024.

Security of Investments

The primary investment priority as set out in the Treasury Management Policy Statement is the security of capital. The Authority applies the creditworthiness service provided by Link. This determines whether or not a counterparty is suitable to invest with and if so, the maximum duration an investment could be placed with them.

In the Annual Investment Strategy (AIS), the Authority resolved that the balances invested with any single counterparty at any point in time would be 30% of the total investment portfolio to a maximum of £5m (with the exception of Lloyds Bank, who as our banking provider that have a limit of £7.5m, of which at least £2.5m must be instant access).

During April to December 2023, Link made no relevant changes to the counterparty listing. The amount invested with each counterparty on the approved lending list as at 31 December 2023 is detailed below:

Counterparty	Credit Ratings						Amount (£000)
	Fitch		Moody's		S&P		
	Long Term	Short Term	Long Term	Short Term	Long Term	Short Term	
Close Brothers Group Plc	A	F2	Aaa	P-1	-	-	3,000
Goldman Sachs International	A	F1	A	P-1	A	A-1	3,000
Lloyds Bank Corporate Markets Plc	A	F1	A	P-1	A	A-1	3,000
Standard Chartered Bank (SD)	A	F1	A	P-1	A	A-1	3,000
Newcastle BS	-	-	-	-	-	-	2,000
Leeds BS	A	F1	A	P-2	-	-	1,000
CCLA Fund Managers Ltd (MMF)	-	-	-	-	AAA	A-1	1,623
Aberdeen Asset Management PLC (MMF)	AAA	F1	Aaa	P-1	AAA	A-1	1,552
Lloyds Bank plc (CA)	A	F1	A	P-1	A	A-1	1,747
Total							**19,922**

BS = Building Society, MMF = Money Market Fund, CA = Current Account, SD Sustainable Deposit. Rating as at 31 December 2023.

During this period, no counterparty limits were breached.

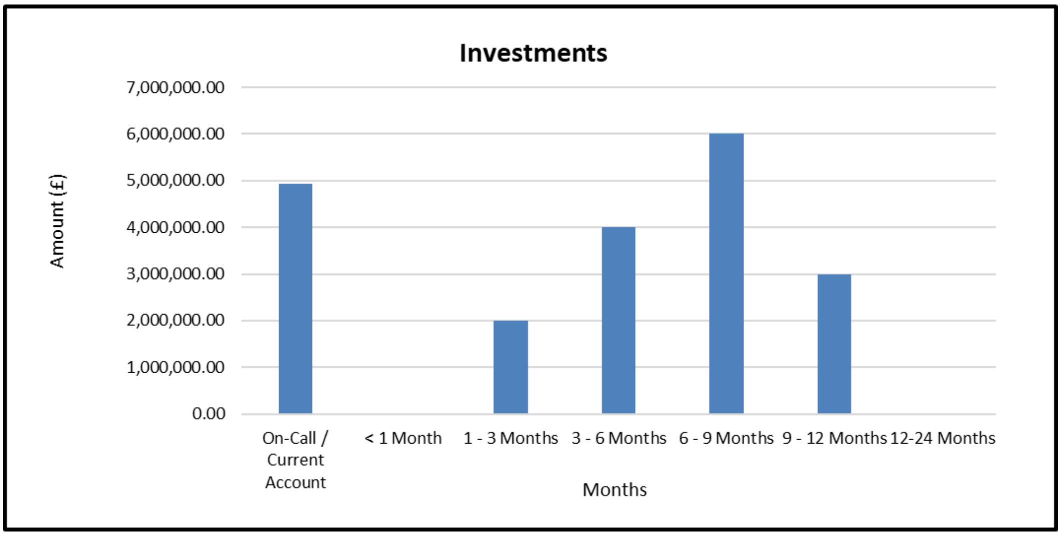
Credit Rating

Link monitor and supply the Authority with a weekly credit rating list for all counterparties listed in the Treasury Management Strategy (TMS). In addition, Link supply the Authority with any changes to the counterparties credit ratings as and when they occur. The credit ratings are not set by Link, these are obtained through rating agencies (Fitch, Moody's and Standard & Poor's (S&P)). The Authority will not place sole reliance on the credit ratings supplied by Link. The Authority use market data and market information, information on government support for banks and the credit ratings of that supporting government.

There are some counterparties that are not rated by the rating agencies. These are mainly Building Societies. The Authority will review the counterparties market data, market information (asset portfolio) before committing to an investment deal with the counterparty. The credit rating definitions for each rating agency can be found in the TMS.

Liquidity of Investments

The second objective set out within the Treasury Management Policy Statement is the liquidity of investments (i.e., keeping the money readily available for expenditure when needed). Investments have been placed at a range of maturities, including having money on-call in order to maintain adequate liquidity. The current investment allocation by remaining duration can be seen on the chart below:



To cover expenditure such as salaries, pensions, creditor payments, and potential liabilities for which the Authority have made provisions within the Statement of Accounts, the balances are invested as short fixed-term deposits.

There are six investments currently falling in the <1 Month, 1-3 Months and 3-6 Month periods. At least one deal matures each month for the next three months and were all originally invested for different terms and will be re-invested for varying terms upon maturity to maintain liquidity and meet future commitments. The Authority continues to hold Money Market Funds to help improve the liquidity of the Authority's balances. This balance is larger than normal due to the sale of an asset. By investing collectively, the Authority benefits from liquidity contributed by others and from the knowledge they are all unlikely to need to call on that money at the same time.

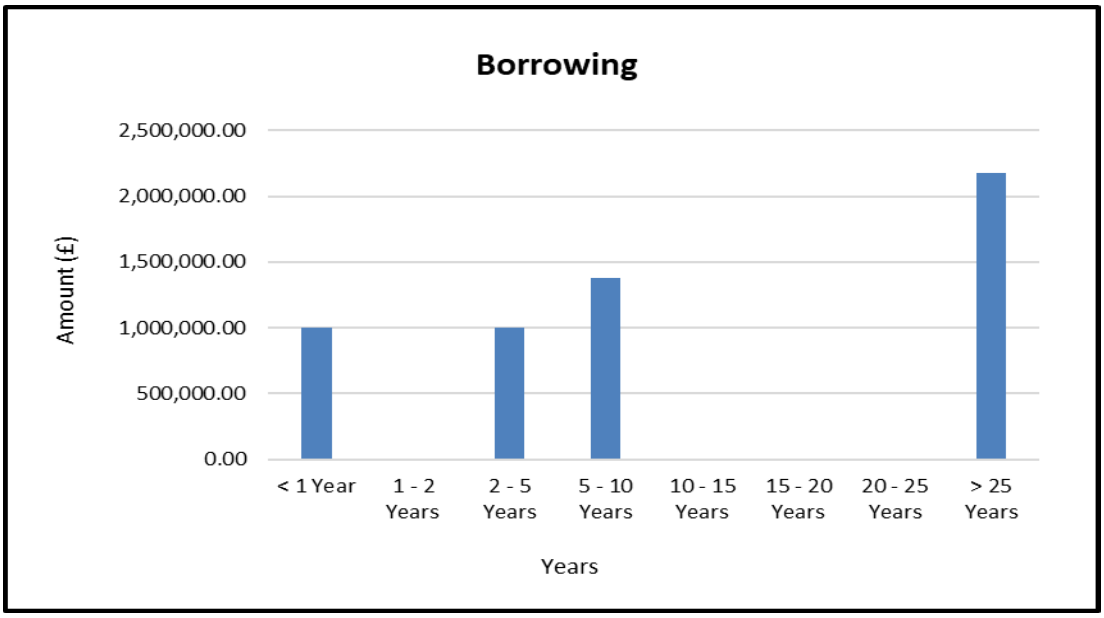
Borrowing

As part of managing the liquidity of investments, it is important to have regard to the maturity structure of outstanding borrowing. No borrowing was required during April to December 2023, and this is in line with the TMS.

The total borrowing outstanding as at 31 December 2023 is £5.550m. During May 2023, Officers took the decision to make an early repayment of an external borrowing for £0.627m that was due to be repaid in 2056. This was at a discount of £0.045m. The next loan matures in March 2024 for £1.000m and funds have been set aside to repay this. These repayments do not directly affect the revenue budget, as they simply reflect the use of cash accumulated by setting aside the appropriate minimum revenue provision (MRP) to settle the outstanding liability.

Historically with low levels of interest rates, the level of penalties on the early repayment of borrowing has made it difficult to restructure debt effectively. However, with the significant rise in interest rates, this makes it more viable to look at restructuring debt.

The following chart shows the structure of the Authority's external borrowing:



Investment Yield

Having determined proper levels of security and liquidity, it is reasonable to consider the level of yield that could be obtained that is consistent with those priorities.

Performance Against Budget

The interest receivables budget was reviewed as part of the Medium-Term Financial Plan (MTFP) 2023/24 process, the outcome was to increase the budget to £0.350m. This was approved by at the Fire Authority in February 2023. The reason for the increasing the level of investment income is due to the continuous increase to the interest base rate. The budget increase was still set on a prudent approach, with any additional investment income above the set budget being greatly received.

The interest base rate currently stands at 5.25%. The Authority has seen the benefits in the interest base rate increase both in short term investment deals and Money Market Funds interest returns.

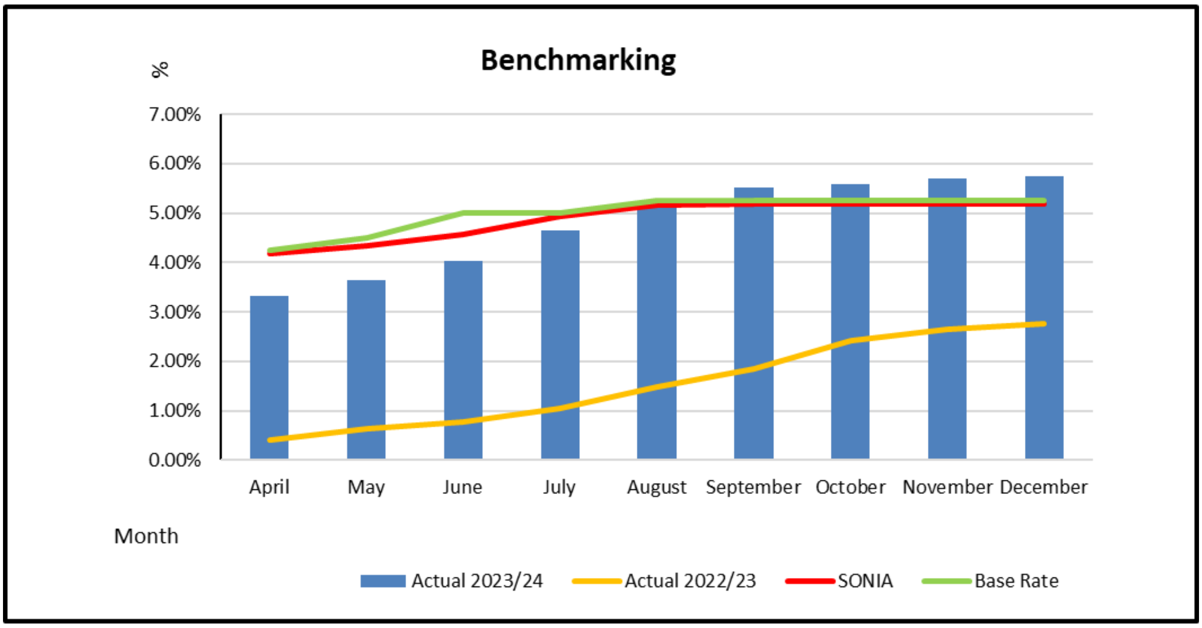
The accrued interest earned for period April to December 2023 is £0.707m, against the planned budget of £0.263m for the same period. This is an over achievement of £0.444m. By 31 March 2024, Officers are projecting to achieve investment income of over £0.900m, which is £0.550m above the budget set for the year.

Based on the prospects of Interest Rates (page 7), as part of the MTFP 2024/25 process, the investment income budget will significantly increase to £0.700m to reflect the interest rates projections. This considers the funds available to invest and ensuring the Authority can maintain sufficient liquidity to cover the day-to-day expenditure.

Performance Against the Benchmark

The relative performance of the investments is measured against two benchmark figures:

- SONIA (Sterling Overnight Index Averages) – SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
- Base Rate – This is the interest base rate set by the Bank of England's MPC.
- The weighted average rate (%) (Actual) is compared to the two benchmark figures in the following chart for each month.



The Authority between April and August 2023 underperformed against the interest base rate and SONIA rates. However, with no movement in the interest base rate since August 2023, the Authority has been able to overperform against the interest base rate and SONIA rates for September to December 2023.

This was due to several investment deals being placed prior to or early into the MPC increasing the interest base rate on 14 consecutive occasions between December 2021 and August 2023. With those investment deals maturing, the Authority has been able to re-invest these funds achieving a higher interest rate return.

As you can also see from the chart, the Authority has been able to achieve a higher average rate of interest compared to the same period in 2022/23.

It must also be noted that the level of funds available for investment have reduced because of the reduction in reserves in the last five years. The Authority will continue to re-invest any surplus funds with varying maturity dates to ensure the Authority makes a return on investments and has sufficient liquidity to cover the day-to-day expenditure.

Prospects for Interest Rates

Link's view of the prospects for bank and PWLB interest rates can be seen below:

Interest Rate Forecasts								
Bank Rate	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
Link	5.25%	5.25%	5.25%	5.00%	4.50%	4.00%	3.50%	3.25%
Cap Econ	5.25%	5.25%	5.25%	5.25%	4.75%	4.25%	3.75%	3.25%
5Y PWLB RATE								
Link	5.00%	4.90%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%
Cap Econ	4.60%	4.50%	4.40%	4.30%	4.20%	4.10%	3.90%	3.80%
10Y PWLB RATE								
Link	5.10%	5.00%	4.80%	4.70%	4.40%	4.20%	4.00%	3.80%
Cap Econ	4.60%	4.60%	4.50%	4.40%	4.30%	4.30%	4.20%	4.10%
25Y PWLB RATE								
Link	5.50%	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.20%
Cap Econ	5.10%	4.90%	4.80%	4.60%	4.40%	4.40%	4.50%	4.50%
50Y PWLB RATE								
Link	5.30%	5.10%	4.90%	4.70%	4.50%	4.30%	4.10%	4.00%
Cap Econ	4.70%	4.60%	4.50%	4.50%	4.40%	4.40%	4.40%	4.40%

Please note the following commentary has been provided by Link's in relation to the movement in bank interest rate:

- Link's central forecast for interest rates was previously updated on 7th 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 Q2 2024. Link 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, 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 such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

- 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.