ARGYLL AND BUTE COUNCIL | **POLICY AND RESOURCES COMMITTEE**

FINANCIAL SERVICES | **12 OCTOBER 2023**

TREASURY MANAGEMENT MONITORING REPORT 31 AUGUST 2023

1. EXECUTIVE SUMMARY

1.1. This report sets out the Council's treasury management position for the period 1 July 2023 to 31 August 2023 and includes information on:

- Overall borrowing position
- Borrowing activity
- Investment activity
- Economic background
- Interest rate forecast
- Prudential Indicators

1.2. Estimated borrowing is below the Capital Financing Requirement for the period to 31 August 2023

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Investment Activity

3.7 The average rate of return achieved in the Council’s investments to 31 August 2023 was 4.991% compared to the SONIA (Sterling Overnight Index Average) rate for the same period of 5.168%. The Council’s rate of return is marginally less than SONIA due to the rapid rise in interest rates which increased SONIA faster than the Council was able to redeem its existing lower rated investments. At 31 August 2023 the Council had £96,750m of short term investments at an average rate of 4.991%. The table below details the counterparties that the investments were placed with, the maturity date, the interest rate and the credit rating applicable for each counterparty.

3.8 All investments and deposits are in accordance with the Council’s approved list of counterparties and within the limits and parameters defined in the Treasury Management Practices. The counterparty list is constructed based on assessments by leading credit reference agencies adjusted for additional market information available in respect

Economic and Interest Rate Forecasts

3.10 The latest economic background is shown in Appendix 1 with the interest

staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.

CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which 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%). 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. But the really positive development was the fall in services inflation 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.

In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that

Appendix 2 Interest Rate Forecast

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

The latest forecast on 25th September sets out a view that short, medium 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.

Our current and previous PWLB rate forecasts below are based on the Certainty Rate.

LIBOR and LIBID rates ceased at the end of 2021. In a continuation of previous views, money market yield forecasts are based on expected average earnings by local authorities for 3 to 12 months.

The Link forecast for average earnings are averages i.e., rates offered by individual banks may differ significantly from these averages, reflecting their different needs for borrowing short-term cash at any one point in time.

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

Our central forecast for interest rates was previously updated on 26 June and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. Since then, rates have indeed increased to 5.25% but with data suggesting inflation is dipping, albeit slowly, and that the economy is heading for a shallow recession, further monetary policy tightening above 5.25% is not required, at least for now.

On the positive side, consumers are still estimated 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 somewhat better at this stage of the economic cycle than may have been expected. However, most of those excess savings are held by more affluent people whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.On

Appendix 3 Prudential Indicators

(1). EXTRACT FROM BUDGET				
	Forecast Outturn	**Original Estimate**	**Forecast Outturn**	**Forecast Outturn**
Capital Expenditure	**£'000**	**£'000**	**£'000**	**£'000**
Non - HRA	23,281	43,110	28,461	51,388
TOTAL	23,281	43,110	28,461	51,388
Ratio of financing costs to net revenue stream				
Non - HRA	4.25%	4.37%	4.40%	4.43%
Net borrowing requirement				
brought forward 1 April *	291,782	304,498	372,359	319,602
carried forward 31 March *	303,333	372,359	319,602	358,182
in year borrowing requirement	11,551	67,861	(52,757)	38,580
In year Capital Financing Requirement				
Non - HRA	11,551	67,861	(52,757)	38,580
TOTAL	11,551	67,861	(52,757)	38,580
Capital Financing Requirement as at 31 March				
Non - HRA	303,333	372,359	319,602	358,182
TOTAL	303,333	372,359	319,602	358,182

PRUDENTIAL INDICATOR (2). TREASURY MANAGEMENT PRUDENTIAL INDICATORS	2023-24 £'M	2024-25 £'M	2025-26 £'M
Authorised limit for external debt -			
borrowing	268	283	305
other long term liabilities	112	113	108
TOTAL	380	396	413
Operational boundary for external debt -			
borrowing	263	278	300
other long term liabilities	109	110	105
TOTAL	372	388	405

Upper limit for fixed interest rate exposure

Maturity structure of new fixed rate borrowing during 2023/24	upper limit	lower limit
under 12 months	30%	0%
12 months and within 24 months	30%	0%
24 months and within 5 years	30%	0%
5 years and within 10 years	40%	0%
10 years and above	100%	0%