



## Audit and Governance Committee

**Meeting: Monday, 11th September 2023 at 6.30 pm in Civic Suite, North Warehouse, The Docks, Gloucester, GL1 2EP**

|                    |   |
|--------------------|---|
| <b>Membership:</b> | Cllrs. Wilson (Chair), Gravells MBE (Vice-Chair), Bowkett, Brooker, Durdey, Morgan, Patel and Pullen  |
| <b>Contact:</b>    | Democratic and Electoral Services<br>01452 396126<br><a href="mailto:democratic.services@gloucester.gov.uk">democratic.services@gloucester.gov.uk</a> |

## AGENDA

|            |   |
|------------|---|
| <b>11.</b> | <b>TREASURY MANAGEMENT - QUARTERLY UPDATE</b> (Pages 5 - 14)<br><br>To receive the quarterly update of the Head of Finance and Resources. |
|------------|---|

**Jon McGinty**  
Managing Director

**Date of Publication: Friday, 1 September 2023**

## NOTES

### Disclosable Pecuniary Interests

The duties to register, disclose and not to participate in respect of any matter in which a member has a Disclosable Pecuniary Interest are set out in Chapter 7 of the Localism Act 2011.

Disclosable pecuniary interests are defined in the Relevant Authorities (Disclosable Pecuniary Interests) Regulations 2012 as follows –

| <u>Interest</u>                                   | <u>Prescribed description</u>   |
|---|---|
| Employment, office, trade, profession or vocation | Any employment, office, trade, profession or vocation carried on for profit or gain.  |
| Sponsorship                                       | Any payment or provision of any other financial benefit (other than from the Council) made or provided within the previous 12 months (up to and including the date of notification of the interest) in respect of any expenses incurred by you carrying out duties as a member, or towards your election expenses. This includes any payment or financial benefit from a trade union within the meaning of the Trade Union and Labour Relations (Consolidation) Act 1992.                       |
| Contracts   | Any contract which is made between you, your spouse or civil partner or person with whom you are living as a spouse or civil partner (or a body in which you or they have a beneficial interest) and the Council<br>(a) under which goods or services are to be provided or works are to be executed; and<br>(b) which has not been fully discharged  |
| Land  | Any beneficial interest in land which is within the Council's area.<br><br>For this purpose "land" includes an easement, servitude, interest or right in or over land which does not carry with it a right for you, your spouse, civil partner or person with whom you are living as a spouse or civil partner (alone or jointly with another) to occupy the land or to receive income.   |
| Licences  | Any licence (alone or jointly with others) to occupy land in the Council's area for a month or longer.  |
| Corporate tenancies                               | Any tenancy where (to your knowledge) –<br>(a) the landlord is the Council; and<br>(b) the tenant is a body in which you, your spouse or civil partner or a person you are living with as a spouse or civil partner has a beneficial interest   |
| Securities  | Any beneficial interest in securities of a body where –<br>(a) that body (to your knowledge) has a place of business or land in the Council's area and<br>(b) either –<br>i. The total nominal value of the securities exceeds £25,000 or one hundredth of the total issued share capital of that body; or<br>ii. If the share capital of that body is of more than one class, the total nominal value of the shares of any one class in which you, your spouse or civil partner or person with |

whom you are living as a spouse or civil partner has a beneficial interest exceeds one hundredth of the total issued share capital of that class.

For this purpose, "securities" means shares, debentures, debenture stock, loan stock, bonds, units of a collective investment scheme within the meaning of the Financial Services and Markets Act 2000 and other securities of any description, other than money deposited with a building society.

NOTE: the requirements in respect of the registration and disclosure of Disclosable Pecuniary Interests and withdrawing from participating in respect of any matter where you have a Disclosable Pecuniary Interest apply to your interests and those of your spouse or civil partner or person with whom you are living as a spouse or civil partner where you are aware of their interest.

### **Access to Information**

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For enquiries about Gloucester City Council's meetings please contact Democratic Services, 01452 396126, [democratic.services@gloucester.gov.uk](mailto:democratic.services@gloucester.gov.uk).

If you, or someone you know cannot understand English and need help with this information, or if you would like a large print, Braille, or audio version of this information please call 01452 396396.

### **Recording of meetings**

Please be aware that meetings may be recorded. There is no requirement for those wishing to record proceedings to notify the Council in advance; however, as a courtesy, anyone wishing to do so is advised to make the Chair aware before the meeting starts.

Any recording must take place in such a way as to ensure that the view of Councillors, Officers, the Public and Press is not obstructed. The use of flash photography and/or additional lighting will not be allowed unless this has been discussed and agreed in advance of the meeting.

### **FIRE / EMERGENCY EVACUATION PROCEDURE**

If the fire alarm sounds continuously, or if you are instructed to do so, you must leave the building by the nearest available exit. You will be directed to the nearest exit by council staff. It is vital that you follow their instructions:

- You should proceed calmly; do not run and do not use the lifts;
- Do not stop to collect personal belongings;
- Once you are outside, please do not wait immediately next to the building; gather at the assembly point in the car park and await further instructions;
- Do not re-enter the building until told by a member of staff or the fire brigade that it is safe to do so.

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|-------------------------|---|------------------------------------|
| <b>Meeting:</b>         | <b>Audit and Governance Committee</b>   | <b>10<sup>th</sup> Sept 2023</b>   |
| <b>Subject:</b>         | <b>Treasury Management Update – Q1 Report 2023/24</b>                             |                                    |
| <b>Report Of:</b>       | <b>Cabinet Member for Performance and Resources</b>                               |                                    |
| <b>Wards Affected:</b>  | <b>All</b>  |                                    |
| <b>Key Decision:</b>    | <b>No</b>   | <b>Budget/Policy Framework: No</b> |
| <b>Contact Officer:</b> | <b>Greg Maw, Head of Finance and Resources</b>                                    |                                    |
|                         | <b>Email: greg.maw@gloucester.gov.uk</b>  | <b>Tel: 396422</b>                 |
| <b>Appendices:</b>      | <b>1. Prudential and Treasury Indicators</b><br><b>2. Interest rate forecasts</b> |                                    |

**FOR GENERAL RELEASE**

**1.0 Purpose of Report**

- 1.1 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.
- 1.2 This report will highlight issues specific to the Council and also highlight interest rate forecasts as provided by the Council’s treasury advisors Link Asset Services.
- 1.3 The body of the report provides an overview of the Councils performance for the first quarter 2023/24;
  - **Appendix 1** highlights the key performance indicators in line with the Councils Treasury Management Strategy.
  - **Appendix 2** Interest Rate Forecast.

**2.0 Recommendations**

- 2.1 Audit and Governance Committee is asked to **RESOLVE** that the contents of the report be noted.

**3.0 Annual Investment Strategy**

The Treasury Management Strategy Statement (TMSS) for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 23<sup>rd</sup> March 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; and
- Yield

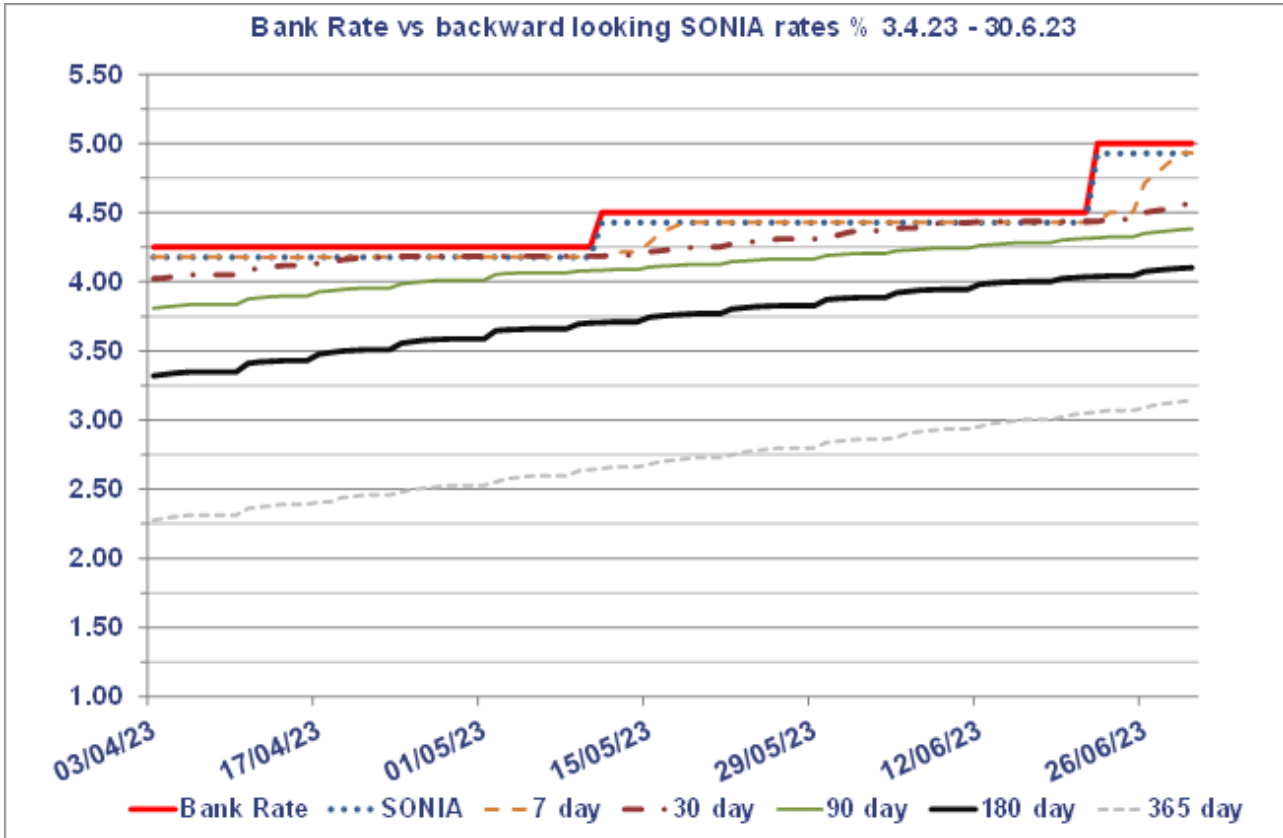
- 3.1 The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months, with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.
- 3.2 As shown by the interest rate forecasts in appendix 2, investment rates have improved dramatically during the first quarter of 2023/24 and are expected to improve further as Bank Rate continues to increase over the next few months.
- 3.3 The average level of funds available for investment purposes during the year to date was £3.9m. 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.
- 3.4 The Council holds £16.5m core cash balances for investment purposes (i.e. funds available for more than one year), the majority of these funds are held with the CCLA and have delivered £101k in dividends for the first three months of the year.

**Investment performance for the financial year to date as at 30th June 2023**

| Benchmark | Benchmark Return | Council Performance | Investment Interest Earned |
|-----------|------------------|---------------------|----------------------------|
| 7 day     | 4.37%            | 4.01%               | £96,113                    |
| 1 month   | 4.46%            | N/A                 | N/A                        |
| 3 month   | 4.66%            | N/A                 | N/A                        |
| 6 month   | 4.90%            | N/A                 | N/A                        |
| 12 month  | 5.08%            | N/A                 | N/A                        |

As illustrated, the Council underperformed the benchmark by 0.36 bps on 7 day investment returns.

**Interest Rate Profile – Financial year to quarter ended 30 June 2023**



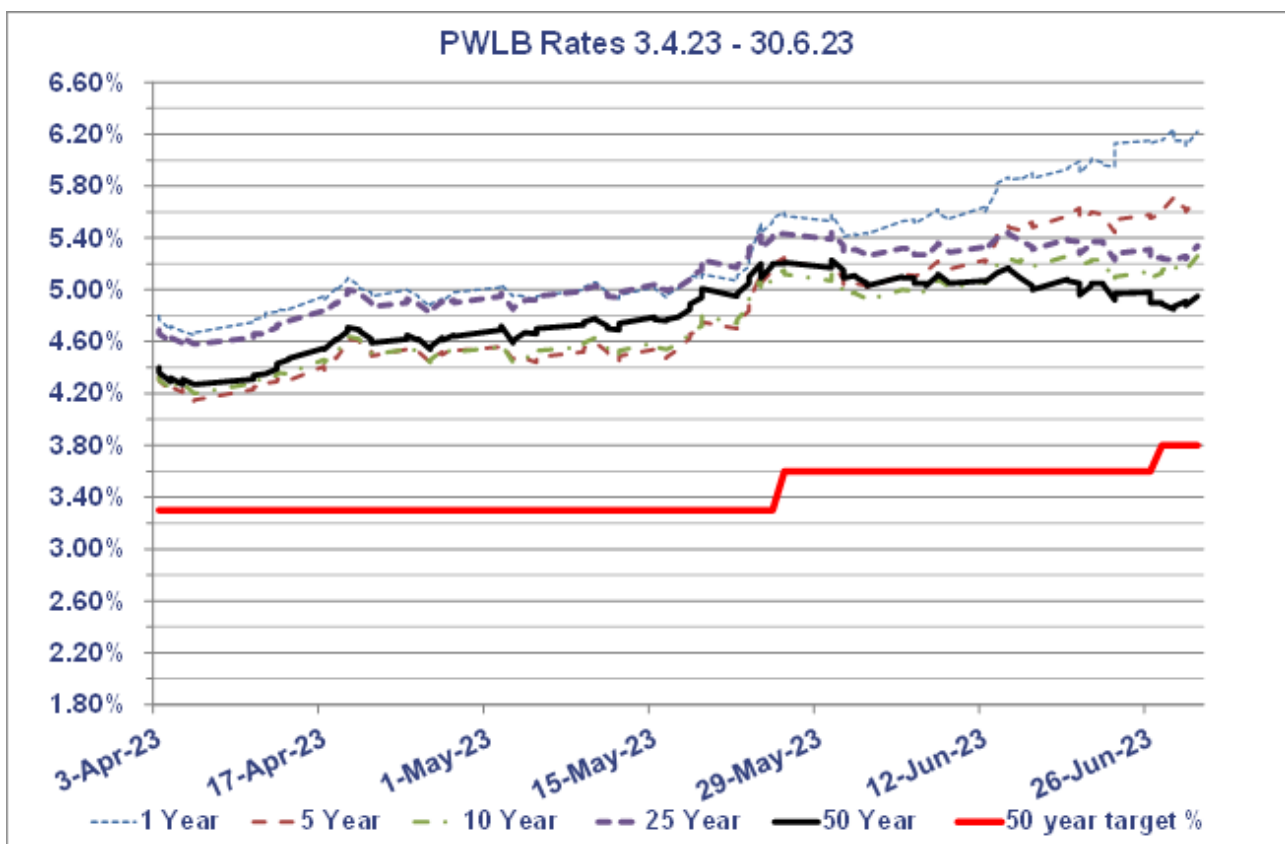
| FINANCIAL YEAR TO QUARTER ENDED 30/06/2023 |            |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|------------|
|  | Bank Rate  | SONIA      | 7 day      | 30 day     | 90 day     | 180 day    | 365 day    |
| <b>High</b>                                | 5.00       | 4.93       | 4.93       | 4.57       | 4.38       | 4.10       | 3.14       |
| <b>High Date</b>                           | 22/06/2023 | 30/06/2023 | 30/06/2023 | 30/06/2023 | 30/06/2023 | 30/06/2023 | 30/06/2023 |
| <b>Low</b>                                 | 4.25       | 4.18       | 4.18       | 4.02       | 3.81       | 3.32       | 2.27       |
| <b>Low Date</b>                            | 03/04/2023 | 04/04/2023 | 11/04/2023 | 03/04/2023 | 03/04/2023 | 03/04/2023 | 03/04/2023 |
| <b>Average</b>                             | 4.44       | 4.37       | 4.34       | 4.27       | 4.11       | 3.74       | 2.70       |
| <b>Spread</b>                              | 0.75       | 0.75       | 0.75       | 0.55       | 0.57       | 0.78       | 0.87       |

## 4.0 New Borrowing

4.1 No new long-term borrowing was undertaken during the first quarter of 2023/24.

4.2 The graph and table below show the movement in PWLB certainty rates for the first three months of the year to date. Gilt yields and PWLB rates were on a rising trend between 1st April and 30th June.

The 50-year PWLB Certainty Rate target for new long-term borrowing started 2023/24 at 3.30% before increasing to a peak of 3.80% in June. As can be seen, with rates elevated across the whole of the curve, it is advised to not borrow long-term unless the Authority wants certainty of rate and judges the cost to be affordable.



|                | 1 Year     | 5 Year     | 10 Year    | 25 Year    | 50 Year    |
|----------------|------------|------------|------------|------------|------------|
| <b>Low</b>     | 4.65%      | 4.14%      | 4.20%      | 4.58%      | 4.27%      |
| <b>Date</b>    | 06/04/2023 | 06/04/2023 | 06/04/2023 | 06/04/2023 | 05/04/2023 |
| <b>High</b>    | 6.24%      | 5.71%      | 5.28%      | 5.44%      | 5.23%      |
| <b>Date</b>    | 28/06/2023 | 28/06/2023 | 20/06/2023 | 30/05/2023 | 30/05/2023 |
| <b>Average</b> | 5.32%      | 4.87%      | 4.78%      | 5.09%      | 4.82%      |
| <b>Spread</b>  | 1.59%      | 1.57%      | 1.08%      | 0.86%      | 0.96%      |



## **5.0 Debt Rescheduling**

- 5.1 Debt rescheduling opportunities have increased significantly in the current quarter where gilt yields, which underpin PWLB rates and market loans, have risen materially. Members will be advised if there is value to be had by rescheduling or repaying a part of the debt.

## **6.0 Compliance with Treasury and Prudential Limits**

- 6.1 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved TMSS.
- 6.2 During the financial year the Council has operated within the treasury limits set out in the Council's Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices.

## **7.0 Other**

- 7.1 The 2021 CIPFA Codes and guidance notes have placed enhanced importance on risk management. Where an authority changes its risk appetite e.g., for moving surplus cash into or out of certain types of investment funds or other types of investment instruments, this change in risk appetite and policy should be brought to members' attention in treasury management update.

## **8.0 Social Value Considerations**

- 8.1 This report notes the treasury management performance of the Council. There are no anticipated Social Value considerations from this report as it is reporting performance and not making investment decisions.

## **9.0 Environmental Implications**

- 9.1 This report notes the treasury management performance of the Council. There are no anticipated environmental implications from this report.

## **10.0 Financial Implications**

- 10.1 Contained in the report

(Financial Services have been consulted in the preparation this report.)

## **11.0 Legal Implications**

- 11.1

(Legal Services have been consulted in the preparation this report.)

## **12.0 Risk & Opportunity Management Implications**

12.1 There are no specific risks or opportunities as a result of this report

**13.0 People Impact Assessment (PIA):**

13.1 Not applicable as this report is for information only.

**14.0 Other Corporate Implications**

Community Safety

14.1 None

Sustainability

14.2 None

Staffing & Trade Union

14.3 None

Prudential and Treasury Indicators as at 30<sup>th</sup> June 2023

| Prudential Indicators 2022/23          | 2023/24 Budget<br>£m | Three Months<br>(Apr – June)<br>Actual<br>£m |
|--|----------------------|--|
| Authorised limit for external debt     | £260                 | £260   |
| Operational Boundary for external debt | £240                 | £240   |
| Gross external debt                    | £225                 | £166   |
| Investments                            | N/A                  | £26  |
| Net borrowing                          | £225                 | £140   |

| Maturity structure of fixed and variable rate borrowing – upper and lower limits |           |        |
|--|-----------|--------|
| Under 12 months  | 0%-100%   | 39.06% |
| 12 months to 2 years   | 0% - 100% | 0.06%  |
| 2 years to 5 years   | 0% - 100% | 22.34% |
| 5 years to 10 years  | 0% - 100% | 4.18%  |
| 10 years to 20 years   | 0% - 100% | 13.62% |
| 20 years to 30 years   | 0% - 100% | 11.86% |
| 30 years to 40 years   | 0% - 100% | 8.88%  |
| 40 years to 50 years   | 0% - 100% | 0%     |
|  |           |        |
| Upper limit of fixed interest based on net debt                                  | 100%      | 97%    |
| Upper limit of variable interest rates based on net debt                         | 100%      | 3%     |

## INTEREST RATES FORECASTS

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, made on 26th June, sets out a view that both short 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, against a backdrop of a stubbornly robust economy and a tight labour market.

You will note that our forecasts have steadily increased during the quarter as the data continued to spring upside surprises, and the Bank of England continued to under-estimate how prevalent inflation is, and how tight the labour market is. The Government has also noted that despite immigration increasing markedly, high levels of ill-health amongst the workforce has led to wage demands remaining strong until such time as there is a loosening in demand for business services.

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

| Link Group Interest Rate View | 26.06.23 |        |        |        |        |        |        |        |        |        |        |        |        |
|-------------------------------|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
|                               | Jun-23   | Sep-23 | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 |
| <b>BANK RATE</b>              | 5.00     | 5.50   | 5.50   | 5.50   | 5.25   | 4.75   | 4.25   | 3.75   | 3.25   | 2.75   | 2.75   | 2.50   | 2.50   |
| 3 month ave earnings          | 5.30     | 5.60   | 5.50   | 5.30   | 5.00   | 4.50   | 4.00   | 3.50   | 3.00   | 2.70   | 2.60   | 2.50   | 2.50   |
| 6 month ave earnings          | 5.80     | 5.90   | 5.70   | 5.50   | 5.10   | 4.60   | 4.00   | 3.50   | 3.00   | 2.70   | 2.60   | 2.60   | 2.60   |
| 12 month ave earnings         | 6.30     | 6.20   | 6.00   | 5.70   | 5.30   | 4.80   | 4.10   | 3.60   | 3.10   | 2.80   | 2.70   | 2.70   | 2.70   |
| 5 yr PWLB                     | 5.50     | 5.60   | 5.30   | 5.10   | 4.80   | 4.50   | 4.20   | 3.90   | 3.60   | 3.40   | 3.30   | 3.30   | 3.20   |
| 10 yr PWLB                    | 5.10     | 5.20   | 5.00   | 4.90   | 4.70   | 4.40   | 4.20   | 3.90   | 3.70   | 3.50   | 3.50   | 3.50   | 3.40   |
| 25 yr PWLB                    | 5.30     | 5.40   | 5.20   | 5.10   | 4.90   | 4.70   | 4.50   | 4.20   | 4.00   | 3.90   | 3.80   | 3.80   | 3.70   |
| 50 yr PWLB                    | 5.00     | 5.10   | 5.00   | 4.90   | 4.70   | 4.50   | 4.30   | 4.00   | 3.80   | 3.60   | 3.60   | 3.50   | 3.50   |

*Additional notes by Link on this forecast table: -*

- *LIBOR and LIBID rates ceased at the end of 2021. In a continuation of our previous forecasts, our 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 25th May and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by delivering a succession of rate increases. This has happened to a degree, especially as it moved to a more aggressive 0.5% hike in June but, with inflation remaining elevated, we anticipate that Bank Rate will need to increase to at least 5.5%, if not higher, to sufficiently slow the UK economy and loosen the labour market.

- Moreover, we also still anticipate the Bank of England will be keen to loosen monetary policy when the worst of the inflationary pressures are behind us – but timing on this 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. Our current judgment is that rates will have to increase and stay at their peak until the second quarter of 2024 as a minimum.
- In the upcoming months, our 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 whether there are any further implications for Russia itself following the recent aborted mutiny by the Wagner group.
- On the positive side, consumers are still estimated to be sitting on 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.

## **PWLB RATES**

- Gilt yield curve movements have shifted upwards, especially at the shorter end of the yield curve since our previous forecast but remain relatively volatile. PWLB 5 to 50 years Certainty Rates are, generally, in the range of 4.90% to 5.60%.
- We view the markets as having built in, already, nearly all the effects on gilt yields of the likely increases in Bank Rate and the elevated inflation outlook.

## **The balance of risks to the UK economy: -**

- The overall balance of risks to economic growth in the UK is to the downside.

## **Downside risks to current forecasts for UK gilt yields and PWLB rates include: -**

- Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, rising gilt yields).
- The Bank of England acts too quickly, or too far, over the next two years to raise Bank Rate and causes UK economic growth, and increases in inflation, to be weaker than we currently anticipate.
- UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.
- Geopolitical risks, for example in Ukraine/Russia, China/Taiwan/US, Iran, North Korea and Middle Eastern countries, which could lead to increasing safe-haven flows.
- A broadening of banking sector fragilities, which have been successfully addressed in the near-term by central banks and the market generally, but which may require further intervention if short-term interest rates stay elevated for longer than is anticipated.

### **Upside risks to current forecasts for UK gilt yields and PWLB rates: -**

- Despite the recent tightening by 0.5%, the **Bank of England proves too timid** in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.
- The pound weakens because of a lack of confidence in the UK Government's fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
- Longer-term US treasury yields rise strongly if inflation remains more stubborn than the market currently anticipates, pulling gilt yields up higher consequently.
- Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.