

# Quarter 3 Treasury Management Update 2022/23

Period ending 31<sup>st</sup> December 2022



# Introduction

- The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). This report, therefore, ensures this Council is implementing best practice in accordance with the Code.



# Economic Update

## Commentary by Link Group

A detailed economic outlook has been provided by our external treasury advisors. The key points are as follows:

- A 0.5% m/m rise in Gross Domestic Product (GDP) in October, mostly driven by the reversal of bank holiday effects.
- Signs of economic activity losing momentum as households increased their savings.
- Consumer Price Index (CPI) inflation fall to 10.7% in November after peaking at 11.1% in October;
- Interest rates rise by 125 basis points (bps) over Q4 2022, taking Bank Rate to 3.50% (now 4%);
- Reduced volatility in UK financial markets but a waning in global risk appetite.



# Interest Rate Forecast

Link Group Interest Rate View 19.12.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25
<b>BANK RATE</b>	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70
5 yr PWLB	4.20	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10
10 yr PWLB	4.30	4.40	4.40	4.30	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.30
25 yr PWLB	4.60	4.60	4.60	4.50	4.40	4.20	4.10	4.00	3.90	3.70	3.60	3.50	3.50
50 yr PWLB	4.30	4.30	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.30	3.20	3.20



# Annual Investment Strategy

- The Treasury Management Strategy Statement for 2022/23, which includes the Annual Investment Strategy, was approved by the Council on 2 March 2022. It sets out the Council's investment priorities as being:
  - Security of capital;
  - Liquidity;
  - Yield
- Rates have improved dramatically during the first three quarters of 2022/23 and are expected to improve further as Bank Rate continues to increase over the next few months.



# Investment Performance to 31/12/22

- The Council's 2022/23 budget for investment income is £1.3m. At the end of December 2022 investment income earned was estimated to be approximately £1.72m, which was £750k above the profiled budget on a straight line basis. This figure is still an estimate as the actual returns on all property funds to December 2022 are not likely to be known until late March 2023.
- The average level of funds available for investment purposes during the first three quarters of the financial year was £68.3m excluding property fund investments.
- Treasury investments achieved an average rate of 1.98% compared to the benchmark average 3-month Sterling Overnight Index Average (SONIA) rate of 2.284%.
- Property fund investments are estimated to have achieved an average net rate of 3.393%.



# Investment Performance to 31/12/22

- The combined rate achieved on all investments is estimated to be approximately 2.44%.
- The outturn for investment income for 2022/23 is forecast to be £2.6m.
- During the financial year the Council has made investments in line with the agreed Treasury Management Strategy.
- The following table provides details of the cash investments held by the Council at 31 December 2022.



# Cash Investments as at 31/12/22

	Country	Amount	Fixed/ Variable	Start Date	Maturity Date	Yield
Financial Institution		(£)				
Barclays Bank Current Account	UK	107,694	N/A	Call	N/A	0.00%
Barclays Bank	UK	3,410,419	Variable	Call	N/A	3.25%
Handelsbanken Plc	Sweden	6,352	Variable	Call	N/A	3.30%
CCLA Money Market Fund	N/A	7,500,000	Variable	Call	N/A	3.31%
UK Debt Management Office	UK	7,300,000	Fixed	28/12/22	03/01/23	3.14%
Credit Industriel et Commercial	France	5,000,000	Fixed	01/09/22	01/03/23	3.20%
Goldman Sachs	UK	5,000,000	Fixed	10/10/22	11/04/23	4.30%
Lloyds Bank	UK	5,000,000	Fixed	17/10/22	17/04/23	4.50%
Helaba Bank	Germany	5,000,000	Fixed	16/08/22	16/05/23	2.95%
Australia & New Zealand Bank	Australia	5,000,000	Fixed	16/08/22	16/05/23	2.98%
Close Brothers	UK	5,000,000	Fixed	24/11/22	24/05/23	4.00%
Rabobank	Netherlands	5,000,000	Fixed	31/08/22	31/05/23	3.53%
First Abu Dhabi Bank	United Arab Emirates	2,500,000	Fixed	28/07/22	28/07/23	2.93%
DNB Bank ASA	Norway	5,000,000	Fixed	31/08/22	31/08/23	3.90%
National Westminster Bank	UK	5,000,000	Fixed	09/11/22	09/11/23	4.40%
Toronto Dominion Bank	Canada	5,000,000	Fixed	22/12/22	21/12/23	4.85%
<b>TOTAL</b>		<b>70,824,465</b>				





# Property Fund Investments as at 31/12/22

## Pooled Investment Fund (Revenue Expenditure)

Financial Institution	Purchase Cost (£)	Estimated Revenue Received 2022/23 (£)	Projected Annualised Distribution Yield 2022/23	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	2022/23 Gain/ (Loss) (£)	2022/23 Annualised Fund Capital Gain/(Loss) Since 1/4/22	2022/23 Estimated Combined Return	VRP
Federated Hermes Property Unit Trust	3,999,951	99,207	3.28% Estimate	4,038,717	38,766	(744,026)	(20.65%)	(17.37%)	N/A

## Property Funds (Capital Expenditure)

Financial Institution	Purchase Cost Less Repaid Capital (£)	Estimated Revenue Received 2022/23 (£)	Projected Annualised Distribution Yield 2022/23	Net Asset Value (£)	Total Gain/ (Loss) Since Purchase (£)	Quarterly Gain/ (Loss) (£)	2022/23 Annualised Fund Capital Gain/(Loss) Since 1/4/22	2022/23 Estimated Combined Return	VRP
Schroder UK Real Estate Fund	4,800,037	145,548	3.94% Estimate	4,881,368	81,331	(1,007,231)	(22.70%)	(18.76%)	0
Threadneedle Property Unit Trust	4,798,987	147,296	4.08% Estimate	4,218,174	(580,813)	(814,811)	(21.49%)	(17.41%)	0
BlackRock UK Property Fund	4,800,032	102,014	2.84% Estimate	4,508,638	(291,394)	(941,923)	(22.94%)	(20.10%)	0
M&G Investments UK Property Fund (after distribution payments)	1,135,507	27,705	3.12% Estimate	1,265,722	130,215	(56,632)	N/A	N/A	(360,649)
AEW UK Core Property Fund	4,800,000	109,221	3.02% Estimate	4,191,991	(608,009)	(676,853)	(18.41%)	(15.39%)	0
<b>TOTAL</b>	<b>20,334,563</b>	<b>531,784</b>		<b>19,065,893</b>	<b>(1,268,670)</b>	<b>(750,220)</b>			



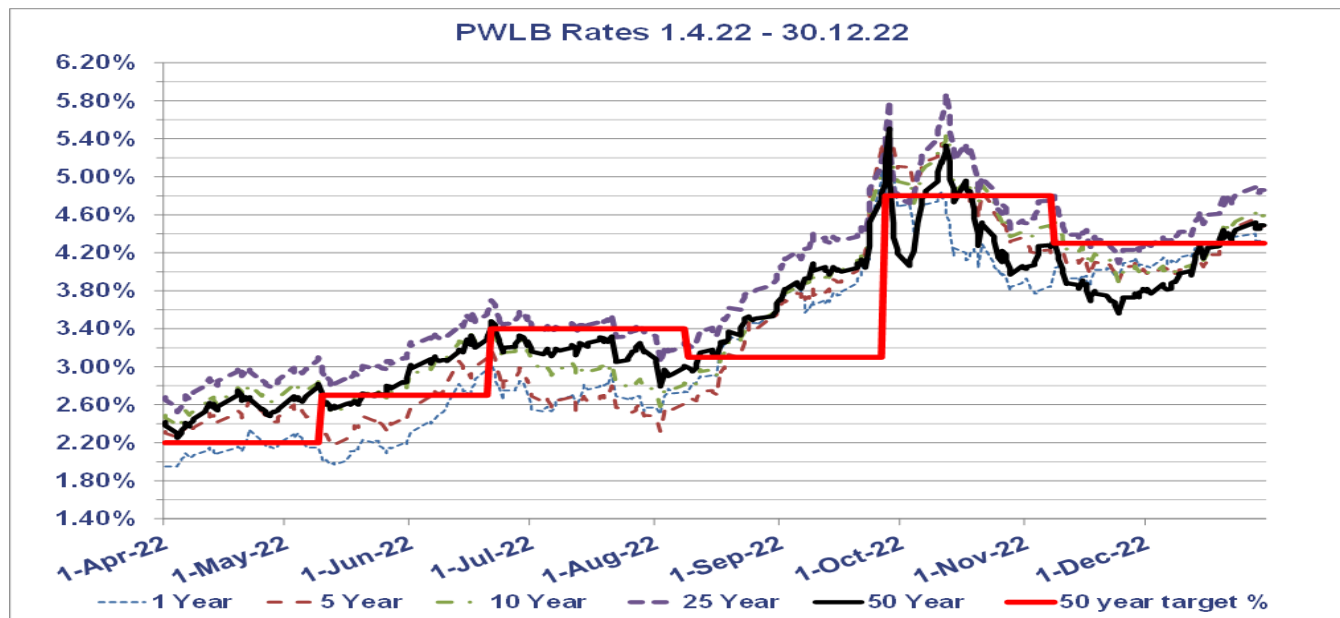
# Property Fund Distribution Analysis

Financial Institution	Actual Dividend Distributions Received Pre 2022/23	Original Budgeted Distribution for 2022/23	Estimated Dividend Distributions Received 2022/23	Total Distributions Received Since Purchase
<b>Federated Hermes Property Unit Trust</b>	727,525	97,040	99,207	826,732
<b>Schroder UK Real Estate Fund</b>	779,317	116,450	145,548	924,865
<b>Threadneedle Property Unit Trust</b>	703,245	161,982	147,296	850,541
<b>BlackRock UK Property Fund</b>	531,654	119,343	102,014	633,668
<b>M&amp;G Investments UK Property Fund</b>	581,963	134,532	27,705	609,668
<b>AEW UK Core Property Fund</b>	742,212	162,378	109,221	851,433
<b>Total Revenue</b>	4,065,916	791,725	630,991	4,696,907



# Borrowing as at 31/12/22

- 2 PWLB fixed rate loans totalling £20m at an average rate of 2.465% maturing in 2068.
- Total interest costs for 2022/23 on this fixed rate borrowing is £493,000.



# Recommendation

“It is recommended that Members of the Audit and Governance Committee receive and review the contents of the report.”



# Questions ?

