

**AUTHORITY REPORT: TREASURY MANAGEMENT MID-YEAR STRATEGY
REVIEW 2022/23****1. Confidential Report**

1.1 No.

Executive Summary

Purpose of Report – In accordance with the CIPFA Code of Practice on Treasury Management in the Public Services, this report provides a mid-year review of the Authority’s treasury activities during the first six months of 2022/23.

Position – The mid-year strategy review confirms that all treasury activities have been carried out in accordance with the Treasury Management Strategy and Prudential Code Indicators approved by the Authority on 4 February 2022, and that no additional borrowing has been taken out in the year to 30 September 2022.

Recommendation – It is recommended that Members approve the report.

2. Introduction

- 2.1 The Treasury Management Strategy, including borrowing and investment strategies, is approved by Members on an annual basis. The current Strategy was initially agreed in February 2022 and a number of revisions were subsequently approved at the Authority meeting on 30 September 2022. These changes were necessary to provide the Authority with greater flexibility to finance capital expenditure through external borrowing over the appropriate time period and to meet its liquidity needs. This report details the progress against the strategy in the first six months of this financial year.
- 2.2 Under ELWA’s Constitution, the Finance Director is responsible for all of the Authority’s banking, borrowing and investment activities. The Treasury Management function is carried out by the London Borough of Redbridge on behalf of ELWA.
- 2.3 The Authority’s activities are regulated by statutory requirements, ELWA’s Constitution and professional codes of practice, the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management in the Public Services (the Treasury Code) and the Prudential Code for Capital Finance in Local Authorities. The Authority has adopted these codes and subsequent revisions as part of its Financial Rules.
- 2.4 The Treasury Code recommends that authorities produce a mid-year report detailing Treasury Management operational activity for the first half of the year; this includes Capital and Treasury Management indicators, and variations from agreed policies.
- 2.5 This report provides Members with a summary review of activity in the first half of 2022/23 and covers all borrowing and investment activities undertaken during this period.

3. Investment Strategy

- 3.1 The Authority is required to produce an Annual Investment Strategy that sets out the Authority's policies for managing its investments. This was approved by Members as part of the Treasury Management Strategy at the Authority meeting in February 2022, with an amendment approved at the September Authority meeting to increase the percentage of the portfolio that may be invested in Money Market Funds from 40% to 45%, in order to meet the Authority's liquidity needs.
- 3.2 The main objectives of the Investment Strategy are to ensure the security of the investments the Authority makes and to maintain the liquidity of its investments to meet known liabilities. To meet this requirement the Authority has approved creditworthiness criteria (Appendix A) which must be strictly adhered to when making investment decisions.

4. Current Portfolio Position

Economic Background and Interest Rate Forecasts

- 4.1 The Authority's treasury adviser, Link Asset Services, has provided the following interest rate forecast and economic update as at 27 September 2022. The PWLB forecasts below are based on the Certainty Rate (the standard rate minus 20 basis points), at which the Authority is eligible to borrow.

Link Group Interest Rate View	27.09.22											
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25
BANK RATE	4.00	5.00	5.00	5.00	4.50	4.00	3.75	3.25	3.00	2.75	2.75	2.50
3 month ave earnings	4.50	5.00	5.00	5.00	4.50	4.00	3.80	3.30	3.00	2.80	2.80	2.50
6 month ave earnings	4.70	5.20	5.10	5.00	4.60	4.10	3.90	3.40	3.10	3.00	2.90	2.60
12 month ave earnings	5.30	5.30	5.20	5.00	4.70	4.20	4.00	3.50	3.20	3.10	3.00	2.70
5 yr PWLB	5.00	4.90	4.70	4.50	4.20	3.90	3.70	3.50	3.40	3.30	3.20	3.20
10 yr PWLB	4.90	4.70	4.60	4.30	4.10	3.80	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	5.10	4.90	4.80	4.50	4.30	4.10	3.90	3.70	3.60	3.60	3.50	3.40
50 yr PWLB	4.80	4.60	4.50	4.20	4.00	3.80	3.60	3.40	3.30	3.30	3.20	3.10

- 4.2 Throughout 2022/23, gilt yields have been on an upward trend. The rises in two-year gilt yields and 10-year yields took them to their highest level since 2008 and 2014, respectively, with an exceptionally sharp upward trend at the end of September as investors demanded a higher risk premium and expected faster and higher interest rate rises to offset the government's fiscal stimulus plans. Consequently, PWLB rates rose across all loan periods.
- 4.3 Interest rates - The Monetary Policy Committee (MPC) has increased interest rates seven times in 2022, to their highest level since the Global Financial Crisis in 2008. Since the mini budget on 23 September, the Authority's treasury advisers expected the MPC to increase interest rates further and faster and this was borne out by the further 0.75% increase on 3 November to 3.00%. They also expect the MPC to further raise interest rates in the coming months to a peak of 5.00%.
- 4.4 Inflation - CPI eased from 10.1% in July to 9.9% in August but subsequently rose back to 10.1% in September. The easing in August was mainly due to a decline in fuel prices, however utility price inflation is expected to add 0.7% to CPI inflation in October and CPI inflation is expected to peak at close to 10.4% in November.

- 4.5 **Update from ELWA's treasury advisers 17 October 2022** - Although some stability has returned to the financial markets following the recent change of Chancellor, economic uncertainty remains, particularly around the medium term support to households and businesses for utility costs. It is possible that inflation will be higher than otherwise thought and for longer, that households' real incomes will fall by more and that the recession will be deeper. The Chancellor has also said that more difficult decisions on both tax and spending will have to be made, which indicates a complete change in the way the government is running fiscal policy. The Authority's treasury advisers believe that the existing forecasts that interest rates will rise to 5.00% and that GDP will fall by 2% during a recession remain valid. However, with high levels of uncertainty on several different fronts, it is likely that these forecasts may need to be revised again.

Investments

- 4.6 The Authority will continue with its prudent approach to investments, prioritising security of the Authority's money over yield but seeking to maximise return as markets improve.
- 4.7 As the Authority by commercial standards has modest funds to lend out (between £16m and £19m over the period April to September 2022), gross returns will be limited.
- 4.8 The Authority maintains liquidity using overnight deposits with high credit quality Money Market Funds. To maintain flexibility in an environment where investment opportunities are limited, the lending list is reviewed regularly. The Bank of England Bank Rate has increased steadily over the course of the year to date and currently stands at 3.00%.
- 4.9 The summary position for the Authority in terms of investments as at 30 September 2022 is as follows:

Type of Investment	30/09/22 £m	31/03/22 £m
Short Term	18.350	9.500
Deposit Account	0.004	0.608
Total	18.354	10.108

- 4.10 The Authority's investments as at 30 September 2022 are placed with the following types of counterparties:

Counterparty	30/09/22 £m	31/03/22 £m
Money Market Funds	7.000	2.000
UK Banks and Building Societies	7.354	4.608
Overseas Banks	4.000	3.500
Total	18.354	10.108

The investments with local authorities, banks and building societies as at 30 September 2022 are term deposits or notice accounts which mature between 3 October 2022 and 17 July 2023. Funds may be withdrawn from Money Market Funds without notice.

Current External Borrowing

- 4.11 The summary position for the Authority in terms of external borrowing as at 30 September 2022 is as follows:

	30/09/22 £m	Average Rate	31/03/22 £m	Average Rate
Public Works Loans Board	0.800	10.5%	0.800	10.5%

- 4.12 These loans were taken out many years ago when interest rates were much higher than they are today. Early repayment/rescheduling has been and continues to be considered but would incur a large premium and has been confirmed not to be cost effective at this point in time.
- 4.13 A detailed analysis is provided in Appendix B.

5. External Borrowing Requirements

- 5.1 In February 2022, the Authority was advised that the estimated new borrowing requirement for 2022/23 was £6.400m in respect of fire improvement works and any possible capital works identified as a result of the ongoing review of landfill sites. Capital expenditure incurred since 2020/21 to date on fire improvement works at Jenkins Lane and Frog Island totals £4.416m (excluding a final retention payment of 2.5% payable in 2023/24) which has been financed temporarily from internal cash balances. It is likely that the Authority will need to borrow externally from the PWLB and capital markets in 2022/23 and 2023/24 to repay these internal balances and to finance further expenditure on fire improvement works at both sites.
- 5.2 As part of the revised Treasury Management Strategy in September, the Authority approved amendments to the maturity structure of fixed rate borrowing to enable the Authority to structure any new borrowing over the optimum period according to changing circumstances and external factors. No additional borrowing has been required to date.
- 5.3 PWLB lending is offered at a fixed margin above the Government's cost of borrowing, as measured by gilt yields. Currently, the PWLB Standard Rate is gilts plus 100 basis points and the PWLB Certainty Rate, at which ELWA is eligible to borrow, is gilts plus 80 basis points.

6. Reserves Available to Fund Capital Expenditure

- 6.1 There is currently a balance of £0.100m on the Revenue Contribution to Capital Outlay (RCCO) Reserve.

7. Capital Expenditure in First Half of 2022/23

- 7.1 For the period 1 April to 30 September 2022 there has been £0.439m of capital expenditure in respect of fire improvement works at Jenkins Lane and Frog Island.

8. Minimum Revenue Provision

- 8.1 The Authority has a statutory requirement to repay an element of accumulated capital expenditure each year through a revenue charge known as the Minimum Revenue Provision (MRP). Each year the Authority is required to prepare and approve a Minimum Revenue Provision Policy Statement setting out its repayment basis. The revenue provision to repay capital expenditure debt in 2022/23 is £0.045m and has been calculated in accordance with the policy statement.
- 8.2 MRP related to assets financed under the Private Finance Initiative (PFI) is contained within the existing revenue charge. Mitigating regulations allow this for those PFI assets brought on balance sheet due to accounting changes resulting from the requirement to report in accordance with International Financial Reporting Standards.
- 8.3 MRP is not payable until an asset is brought into use. MRP will be payable in 2023/24 in respect of the fire improvement works at Jenkins Lane which were completed and became operational in 2022/23.

9. Prudential Indicators for Capital and Treasury Management

- 9.1 The Authority is obliged by regulation to give due regard to the requirements of the CIPFA Prudential Code for Capital Finance in Local Authorities, and to set Prudential Indicators for Treasury Management prior to the start of the financial year. Prudential Indicators cover borrowing, lending and capital expenditure levels and these are monitored monthly.
- 9.2 The Prudential Indicators for 2022/23 were initially agreed by the Authority at the meeting on 4 February 2022 and certain revisions were agreed at the meeting on 30 September 2022. All treasury activity has been undertaken in accordance with the agreed Prudential Limits set.

10. Capital Prudential Indicators

- 10.1 These are presented at Appendix C to the report.

11. Treasury Management Indicators

- 11.1 These are presented at Appendix D to the report.

12. Conclusion

- 12.1 The Authority's Treasury Management Strategy continues to provide a sound basis for undertaking treasury activities. Borrowing requirements will be monitored closely and financing arranged in accordance with the borrowing strategy. Investments will be managed having regard to the Authority's investment strategy and creditworthiness criteria. Opportunities to lengthen the period of investments with high quality counterparties will be considered to lock in additional value. The Authority's treasury activities remain within the limits of all Treasury Prudential Indicators as set by the Authority.

13. Relevant officer:

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14. Appendices attached:

- 14.1 Appendix A - Creditworthiness.
- 14.2 Appendix B - External Borrowing.
- 14.3 Appendix C - Capital Prudential Indicators – 2022/23 half yearly position.
- 14.4 Appendix D - Treasury Management Prudential Indicators – 2022/23 half yearly position.

15. Background Papers:

- 15.1 04/02/22 - Treasury Management Strategy 2022/23 and Prudential Code Indicators 2022/23 to 2024/25
- 15.2 30/09/22 – Revisions to the Approved Treasury Management Strategy 2022/23 and Prudential Code Indicators 2022/23 to 2024/25

16. Legal Considerations:

- 16.1 The legal and constitutional requirements in relation to the Authority's Treasury Management Strategy are set out in the body of this report and as this is an information report the Legal Advisor has no further legal comment to add.

17. Financial Considerations:

- 17.1 As outlined in this report.

18. Performance Management Considerations:

- 18.1 Treasury management operational activity is monitored and reported to Members twice yearly.

19. Risk Management Considerations:

- 19.1 The main objective of the investment strategy is the security of investments.

20. Equalities considerations:

- 20.1 There are no specific equality implications arising from this report

21. Follow-up Reports:

- 21.1 10/2/23 - Treasury Management Strategy 2023/24.
- 21.2 June 2023 – Treasury Management Annual Report 2022/23.

22. Websites and e-mail links for further information:

- 22.1 <https://eastlondonwaste.gov.uk/meetings/>

23. Glossary:

CIPFA = Chartered Institute of Public Finance and Accountancy

ELWA/the Authority= East London Waste Authority

GDP = Gross Domestic Product,

MRP = Minimum Revenue Provision

PWLB = Public Works Loan Board

CPI = The Consumer Price Index

MPC = Monetary Policy Committee

24. Reviewed by Management Board:

24.1 14 November 2022.

25. Confidentiality:

25.1 Not applicable.