

Treasury Management Mid-Year Review 2023/24

Final Decision-Maker	Audit, Governance & Standards Committee
Lead Head of Service	Adrian Lovegrove- Head of Finance
Lead Officer and Report Author	John Owen – Finance Manager
Classification	Public
Wards affected	All

Executive Summary

This report sets out the activities of the Treasury Management Function for the first 6 months of the 2023/24 financial year in accordance with CIPFA's Code of Practice on Treasury Management in Local Authorities.

Purpose of Report

This report requires a decision from the Committee.

This report makes the following recommendations to this Committee:

- That the position of the Treasury Management Strategy as at 30 September 2023 be noted;
- That no amendments to the current procedures are necessary as a result of the review of activities in 2023/24.

Timetable

Meeting	Date
Audit, Governance & Standards Committee	13 November 2023

Treasury Management Mid-Year Review 2023/24

- CROSS-CUTTING ISSUES AND IMPLICATIONS**

Issue	Implications	Sign-off
Impact on Corporate Priorities	The Treasury Management Function ensures the safeguarding of Council finances and the liquidity of funds when liabilities become due to support the strategic plan objectives.	Head of Finance
Cross Cutting Objectives	The report recommendations support the achievements of all the cross-cutting objectives in the way stated above.	Head of Finance
Risk Management	Covered in the risk section of this report.	Head of Finance
Financial	This report relates to the financial activities of the council in respect of treasury management and specific financial implications are therefore detailed within the body of the report.	Section 151 Officer & Finance Team
Staffing	None	Head of Finance
Legal	<p>Under Section 151 of the Local Government Act 1972 (LGA 1972) the Section 151 Officer has statutory duties in relation to the financial administration and stewardship of the authority, including securing effective arrangements for treasury management.</p> <p>The legal implications are detailed within the body of the report which is compliant with statutory and legal regulations such as the CIPFA Code of Practice on Treasury Management in Local Authorities.</p> <p>Appropriate remedial action should be taken if at any time it appears likely that expenditure will exceed available resources. The S151 Officer has a personal duty under Section 114(3) of the Local Government Finance Act 1988 to report to the Council if it appears that the set budget will be exceeded. Having received a S114 report, members are obliged to take all reasonable practical measures to bring the budget back into balance.</p>	Team Leader (Contentious and Corporate Governance)

Privacy and Data Protection	None	Policy and Information Team
Equalities	The recommendations do not propose a change in service therefore will not require an equalities impact assessment.	Equalities & Communities Officer
Public Health	None	Public Health Officer
Crime and Disorder	None	Head of Finance
Procurement	None	Head of Finance and Section 151 Officer
Biodiversity and Climate Change	There are no direct implications on biodiversity and climate change.	Biodiversity and Climate Change Manager

2. INTRODUCTION AND BACKGROUND

The Council has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve treasury management semi-annual and annual reports.

The Authority's Treasury Management Strategy for 2023/24 was approved at Council on 22nd February 2023. The Authority has invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk is therefore central to the Authority's treasury management strategy.

This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report and an Annual Report, (stewardship report), covering activities during the previous year. (Quarterly reports are also required for the periods ending April to June and October to December but may be assigned to a designated committee or panel as deemed appropriate to meet the Treasury Management governance and scrutiny aspects of the Council.)
4. Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is the Audit, Governance & Standards Committee.

An economic update for the first half of the 2023/24 financial year;

- A review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- A review of the Council's investment portfolio for 2023/24;
- A review of the Council's borrowing strategy for 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24.

Economics Update

The first half of 2023/24 saw:

- Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
- Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
- A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
- CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
- Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
- A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).

Interest Rates

- The Council's treasury advisor, Link Group, provided the following forecasts on 25th September 2023 (PWLB rates are certainty rates, gilt yields plus 80bps):

Link Group Interest Rate View	25.09.23												
	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

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.

The PWLB rate forecasts are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by this Council on 22nd February 2023. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Investment Portfolio

The council held investments totalling £8.54m at the start of the year which have increased to £15.17m on 30th September 2023. Average level of funds available for investment during the quarter was £13.89m. All investments have been held in either short term notice accounts or money market funds, to be readily available to fund the Council's liabilities, including the capital programme. A full list of investments held at this time is shown in **Appendix A**.

Investment income to 30th September 2023 totals £150k against a budget of £50k with an average rate of 3.37%.

Increase in interest rates by the Bank of England has increased the returns received on the Council's short term investments. At the last MPC meeting, interest rates stayed the same which, depending on the next inflation results, may have peaked (as per interest rate forecast table in earlier in this report).

Debt Portfolio

The Council's capital financing requirement (CFR) for 2023/24 is £102.373m. The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). In practice, owing to slippage in the capital programme, it is unlikely that borrowing on this scale will be required in practice.

The Council has long term borrowing currently external borrowing of £9m (£4m short term from other local authorities and £5m long term with the PWLB). It has also committed to £80m future borrowing with Aviva Life & Pensions UK Limited which will be spread as follows;

£40m -	February 2024
£20m -	February 2025
£20m -	February 2026

The above funding will be used to repay any short term debt the Council has, which is currently quite expensive, with the remainder to be used to fund the current capital programme. A list of the Council's current debt portfolio can also be found in **Appendix A**.

Prudential and Treasury Indicators

It is a statutory duty for the Council to determine and keep under review 'Affordable Borrowing Limits.' During the first six months of financial year 2023/24, the Council has operated within the prudential and treasury indicators set out in the Treasury Management Strategy Statement and in compliance with the Council's Treasury Management Practices. The prudential and treasury indicators can be found in **Appendix B**.

Liability Benchmark

A new prudential indicator for 2023/24 is the Liability Benchmark (LB). The Authority is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum however, CIPFA strongly recommends that the LB is produced for at least 10 years and should ideally cover the full debt maturity profile of a local authority.

There are four components to the LB: -

1. Existing loan debt outstanding: the Authority's existing loans that are still outstanding in future years. At the end of 2021/22, the Council had £9m of external borrowing (£4m short term LA borrowing and £5m 50 year PWLB). This also includes the committed borrowing of market loans with Aviva of £80m).

2. Loans CFR: this is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned MRP.
3. Net loans requirement: this will show the Authority's gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecast.
4. Liability benchmark (or gross loans requirement): this equals net loans requirement plus short-term liquidity allowance.

The graph in **Appendix C** shows with the Council's current borrowing is sufficient to cover its borrowing requirement until 2026/27, however additional borrowing will be sought after this time.

The Director of Finance, Resources & Business Improvement confirms no indicator has been breached in the first half of 2023/24.

3. AVAILABLE OPTIONS

- 3.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2023/24.
 - 3.2 The Audit, Governance and Standard Committee proposes changes to the current procedures as the result of a review of activities with the first 6 months of 2023/24.
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4. PREFERRED OPTION AND REASONS FOR RECOMMENDATIONS

- 4.1 The Audit, Governance and Standard Committee agrees that no amendments to the current procedures are necessary as a result of a review of activities of the first 6 months of 2023/24 as there are no justifications to make any changes.
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5. RISK

- 5.1 Risks are highlighted for the treasury management function within the Treasury Management Strategy Statement 2023/24 report. This report is purely for information purposes and has no risk management implications.

6. CONSULTATION RESULTS AND PREVIOUS COMMITTEE FEEDBACK

- 6.1 None
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7. NEXT STEPS: COMMUNICATION AND IMPLEMENTATION OF THE DECISION

7.1 If Audit, Governance and Standards Committee agrees that no change in current procedures with Treasury management will be made, then there will be no further action.

8. REPORT APPENDICES

8.1 The following documents are to be published with this report and form part of the report:

1. Appendix A - Investments-Borrowing 30th September 2023
 2. Appendix B - Prudential and Treasury Indicators
 3. Appendix C – Liability Benchmark
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9.BACKGROUND PAPERS

9.1 None