AUDIT COMMITTEE	AGENDA ITEM No. 6
27 NOVEMBER 2023	PUBLIC REPORT

Report of:	Cecilie Booth, Executive Director of Corporate Services /S151 Officer	
Cabinet Member(s) responsible:	Councillor John Howard, Deputy Leader and Cabinet Member for Corporate Governance and Finance	
Contact Officer(s):	Cecilie Booth, Executive Director of Corporate Services and S151 Officer	

TREASURY MANAGEMENT MID YEAR UPDATE

RECOMMENDATIONS	
FROM: Cecilie Booth, Executive Director of Corporate Services and S151 Officer	**Deadline date:** N/A

It is recommended that Audit Committee:

1. Review and consider the Treasury Management Strategy Statement (TMSS) Mid-year position and performance against the Prudential Indicators.

2. Notes the current forecast for the interest receivable and payable for the financial year 2023/23 as at 30 September 2023.

1. ORIGIN OF REPORT

1.1 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), which recommends that Members receive reports on its treasury management policies, practices, and activities, including an annual strategy and plan in advance of the year, a mid-year review and an annual report after its close.

Treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

1.2 This mid-year report covers the following:

- An update on interest rate forecasts;
- A review of compliance with Treasury and Prudential Limits for 2023/24;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- A review of the Council's borrowing strategy for 2023/24; and
- A review of the Council's investment portfolio for 2023/24.

1.3 **Interest rate 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.

Link Group's latest forecast on 25th September 2023 has a forecast peak in Bank Rate of 5.25%, which runs through to September 2024, when it starts to reduce. By December 2025 they see Bank Rate falling to 2.75%. Public Works loan Board (PWLB) rates are expected to trend in line with bank rate or higher across the curve, from Q4 2023 through to Q4 2026.

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 PWLB rate forecasts above are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

1.4 The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by this Council on 13 February 2023.

2. PURPOSE AND REASON FOR REPORT

2.1 The purpose of this report is to present current performance and the forecast outturn position against the Prudential Indicators in the Treasury Management Strategy.

2.2 To give an update on interest receivable and payable for the financial year 2023/24 and the actuals as at 30 September 2023. – **Please see appendix D**

2.3 This report is for Audit Committee to consider under its Terms of Reference No. 2.2.2.18 to consider the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice.

3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	**NO**	If yes, date for Cabinet meeting	N/A

4. TREASURY MANAGEMENT STRATEGY PRUDENTIAL INDICATORS

4.2 The 2023/24 Prudential Indicators are shown in Appendix A. During the half year ended 30th September 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement for 2023/24.

5. CONSULTATION

5.1 The Council's Prudential Indicators and Treasury Management Strategy 2023/24 - 2025/26 forms part of the Annual MTFS and so has undertaken a public consultation, and been through the scrutiny process, as part of that.

5.2 The Council continues to liaise with its treasury advisors, Link Group.

6. ANTICIPATED OUTCOMES OR IMPACT

6.1 As set out in the report.

7. REASON FOR THE RECOMMENDATION

7.1 This report is given to the Committee to review performance against the Prudential Indicators in the TMSS set in the MTFS.

8. ALTERNATIVE OPTIONS CONSIDERED

8.1 The Treasury Management Strategy 2023/24 – 2025/26 is required to be prepared in accordance with the Treasury Management in the Public Services: Code of Practice 2021. This report sets out the performance against the associated prudential indicators. The options are therefore limited.

9. IMPLICATIONS

Financial Implications

9.1 To provide the Committee the opportunity to review current performance against the Prudential Indicators.

Legal Implications

9.2 This report is presenting an update on the Treasury Management Statement which is required to have regard to the CIPFA Prudential Code, the CIPFA Treasury Management Code of Practice.

10. BACKGROUND DOCUMENTS

Used to prepare this report, in accordance with the Local Government (Access to Information) Act 1985

10.1 The Prudential Code for Capital Finance in Local Authorities – 2021 Edition, CIPFA; and Treasury Management in the Public Services, Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition, CIPFA.

11. APPENDICES

11.1 Appendix A - Treasury Management Strategy – Prudential Indicators – Forecast Outturn as at 30 September 2023
Appendix B – Borrowing strategy as at 30 September 2023
Appendix C - Investment Portfolio as at 30 September 2023
Appendix D – An update on Interest receivable and payable as at 30 September 2023
Appendix E - CFR, Debt Liability Benchmark and Borrowing

Treasury Management Strategy – Prudential Indicators – Forecast Outturn as at September 2023

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. The Capital Plans identify the borrowing need of the Council and the longer-term cash flow planning to ensure the Council can meet its capital spending requirements. Cashflow management may involve long or short-term loans and investments, using longer term cash flow surpluses for investment purposes, and / or restructuring of the Council's debt portfolio.

The Prudential Code for Capital Finance in Local Authorities provides a framework for local authority capital finance to ensure that:

(a) capital expenditure plans are affordable,
(b) all external borrowing and other long-term liabilities are within prudent and sustainable levels;
(c) treasury management decisions are taken in accordance with professional good practice.

In taking decisions in relation to (a) and (c) above, the local authority is accountable by providing a clear and transparent framework.

The Code requires the Council to set a range of Prudential Indicators for the forthcoming financial year and at least the following two financial years.

The actual and forecast outturn, compared to those contained in the MTFS for the Prudential Indicators for this financial year are detailed below. The indicators include the Invest to Save schemes however the costs of borrowing associated with these schemes will be offset by the income generated by these projects.

The Councils Capital Position

This part of the report is structured to update:

a) The Council's capital expenditure plans;
b) How these plans are being financed;
c) The impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
d) Compliance with the limits in place for borrowing activity.

1. Indicator 1: Capital Expenditure

This indicator is the estimated capital expenditure for the year based on the Capital Programme for that period.

Capital Expenditure	2023/24 Indicator £m	2023/24 Actual at 3 £m	2023/24 Forecast Outturn £m
New Capital Bids and Slippage	76.9	65.7	125.9
Transformation/Invest to Save	5.6	0.0	5.6
Total	**82.5**	**65.7**	**131.5**

The actual and outturn now includes £51.8m of additional approved capital funding in the capital programme. This includes the purchase of Sand Martin House for £50m and funding of phase 3 of the University for £1.3m. The table includes £14m of slippage from 22/23.

Financed By	2023/24 Indicator £m	2023/24 Forecast Outturn £m
Capital receipts (used to fund capital Programme)	13.4	13.4
Capital Grants & Third Party Contributions	63.5	76.5
Transformation/Invest to Save	5.6	5.6
Net Financing Requirement	0	36
Total	**82.5**	**131.5**

The table above draws together the main strategy elements of the capital expenditure plans, highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

The Council's Capital Strategy 2023-2025 sets out that borrowing is only allowed for projects that have a sound business case and/or failure to do so would result in a breach of our Health & Safety/Statutory duties.

2. Indicator 2: Capital Financing Requirement (CFR)

The CFR measures the Council's underlying need to borrow money in the long term for capital purposes. Any capital expenditure which has not immediately been paid for will increase the CFR.

Capital Financing Requirement	2023/24 Indicator £m	2023/24 Forecast Outturn £m
CFR brought forward	586.8	608.7
Borrowing / Repayment	(13.0)	17
Invest to Save	0	0
CFR carried forward	573.8	625.7
Movement in CFR	**(13.0)**	**17**
Net financing requirement	6.0	36
Less MRP & other financing	(19.0)	(19.0)
Movement in CFR	**(13.0)**	**17**

3. Indicator 3: Actuals and Estimates of the Ratio of Financing Costs to Net Revenue Budget

The Council must estimate the proportion of the revenue budget, which is taken up in financing capital expenditure i.e. the net interest cost and to make provision to repay debt.

Ratio of Gross Financing Costs to Net Revenue Budget	2023/24 Indicator	2023/24 Actuals at 30.09.223	2023/24 Forecast Outturn
Total Ratio	17%	15%	14%

4. **Indicator 4: Liability benchmark –** Please see appendix E

5. **Indicator 5: The council's treasury position**

The Council's treasury position as at 30 September 2023 is summarised below. The table below shows the actual external borrowing (Gross debt) against the CFR.

Gross debt & capital financing requirement	2023/24 Indicator £m	2023/24 Actual at 30.09.2023 £m
External Borrowing		
Market Borrowing	420.5	457.5
Repayment of borrowing	(50.1)	(72.0)
Expected change in borrowing	35.9	66.0
Other long-term liabilities	46.3	46.3
Gross Debt on 30 September 2023	**452.6**	**497.7**
CFR	**573.8**	**-**
% Of Gross Debt to CFR	**78.9%**	**-**

6. **Indicator 6: The Operational Boundary**

The Operational Boundary is a measure of the day to day likely borrowing for the Council. The code recognises that circumstances might arise when the boundary might be exceeded temporarily, but if this continues for a lengthy period then it ought to be investigated.

This indicator takes into consideration the capital programme over the life of the MTFS and the ability to phase the borrowing over this period. The indicator provides flexibility for the Council to take advantage of favourable interest rates in advance of the timing of the actual capital expenditure.

Operational Boundary	2023/24 Indicator £m	2023/24 Actual at 30.09.2023 £m	2023/24 Forecast Outturn £m
Borrowing	586.8	451.5	517.3
Other long-term liabilities	46.3	46.3	46.3
Total	**633.1**	**497.7**	**563.8**

7. **Indicator 7: The Authorised Limit for external borrowing**

The Authorised Limit represents the maximum amount the Council may borrow at any point in time in the year. It is set at a level the Council considers is "prudent".

The indicator takes account of the capital financing requirement estimated at the start of each year, plus the expected net borrowing requirement for the year. This makes allowance for the possibility that the optimum time to do all borrowing may be early in the year. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term.

Authorised Limit	2023/24 Indicator £m	2023/24 Actual at 30.09.2023 £m	2023/24 Forecast Outturn £m
Borrowing*	606.8	451.5	517.3
Other Liabilities	46.3	46.3	46.3
Total Authorised Limit	**653.06**	**497.76**	**563.8**

*This limit also incorporates a margin to allow for exceptional short-term movements in the Council's cash flow, bids from service departments to finance efficiencies, changes to the timing of capital payments and fluctuations in the realisation of capital receipts.

It is ultra vires to exceed the Authorised Limit so this should be set to avoid circumstances in which the Council would need to borrow more money than this limit. However, the Council can revise the limit during the course of the year and has done so in 2023/24 to enable it to buy Sand Martin House without risking breaching the limit. The forecast outturn is lower than the indicator as the Council does not currently anticipate any exceptional cashflow movements or borrowing in advance of need.

8. Indicator 8: Fixed Interest rate exposure

This indicator places an upper limit on the total amount of net borrowing which is at fixed rates secured against future interest rate movements. The upper limit for fixed interest rate exposure was set to allow for flexibility in applying a proportion of the investment portfolio to finance new capital expenditure. It also reflected a position where the majority of borrowing was at fixed rates to provide budget certainty.

Upper limit for fixed rate exposure	2023/24 Est	2023/24 Actual at 30.09.2023	2023/24 Forecast Outturn
	£m	£m	£m
Limits on fixed interest rate net debt	624.4	451.5	517.3
% Of fixed interest rate exposure	100%	100%	100%

9. Indicator 9: Variable interest rate exposure

The indicator for actual and forecast outturn is zero due to the current borrowing strategy of borrowing only at a fixed interest rate in the current economic climate of volatile interest rates. Borrowing at fixed interest rates provides budget certainty for the Council.

Upper limit for variable rate exposure	2023/24 Indicator £m	2023/24 Actual at 30.09.2023 £m	2023/24 Forecast Outturn £m
Limits on variable interest rate on net debt	156.1	0	0
% Of variable interest rate exposure	25%	0%	0%

10. Indicator 10: Maturity structure of borrowing

The prudential limits have been set with regard to the maturity structure of the Council's borrowing and reflected the relatively beneficial long-term rates that were expected to be available over the next few years. The borrowing that the Council has taken up to the end of September 2023 is £451.5m shown in the indicator below.

Period	Upper Limit	As at 30th September 2023	As at 30th September 2023
		£m	%
Under 12 months	40%	78.5	17.4%
12 months to 2 years	40%	14.0	3.1%
2 years to 5 years	80%	28.5	6.3%
5 years to 10 years	80%	15.8	3.5%
10 years and above	100%	314.6	69.7%
Total Borrowing		**451.5**	

** The borrowing for under 12 months includes £12.5m of Lenders Option Borrowers Option (LOBO) loans. Although the loans are due to mature in 2054 years' time, they are classed as loans repayable within the financial year due to LOBO's having a call-in date every 6 months.*

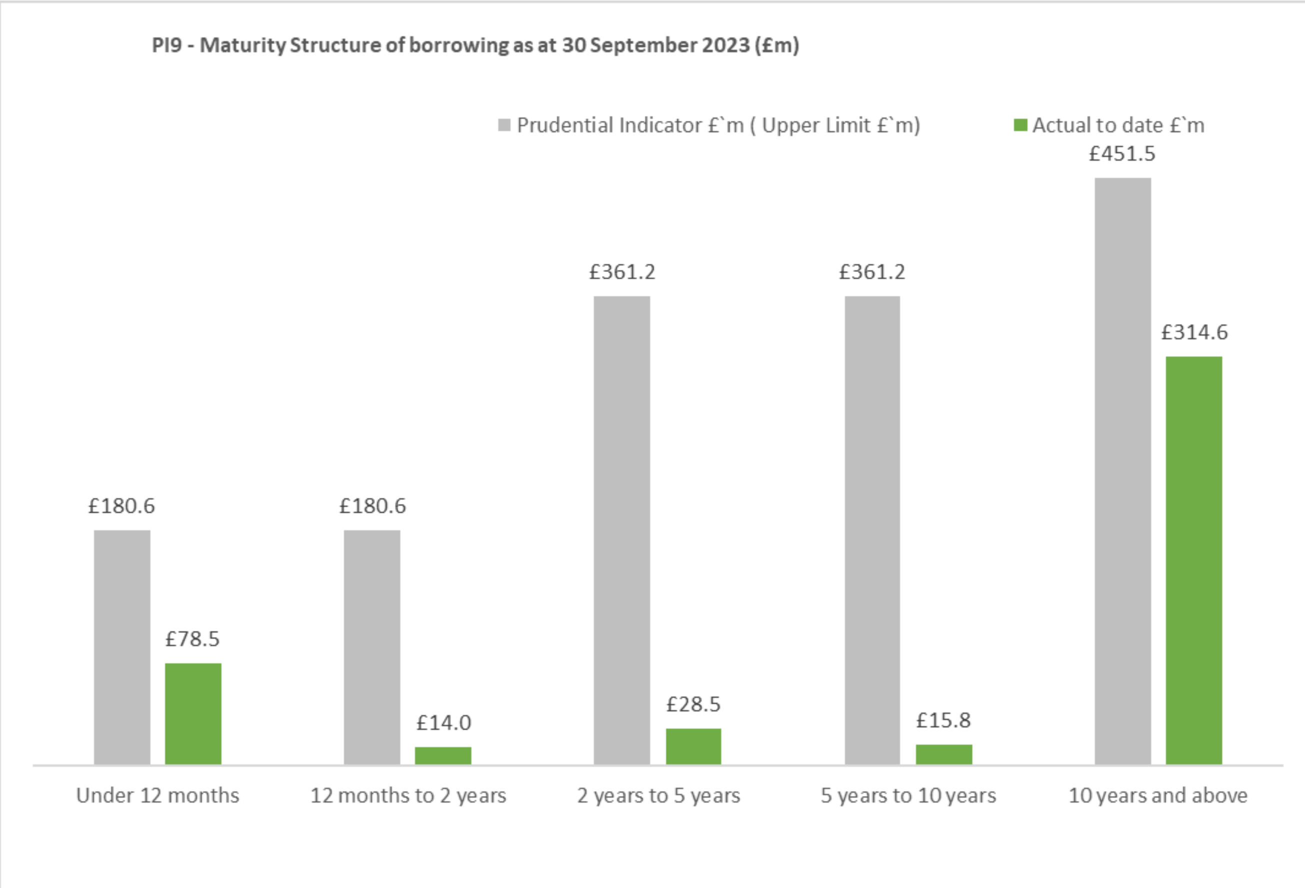
A LOBO loan valued at £7.5m was repaid on 9 October 2023.

11.Indicator 11: Total Investments for periods longer than 365 days

Authorities are able to invest for longer than 365 days excluding loans. It would be unwise to lend a disproportionate amount of cash for too long a period particularly as the Council must maintain sufficient working capital for its operational needs, however if higher rates are available, it would be advantageous to consider other types of financial instruments to invest in.

	2023/24 Indicator £m	2023/24 Actual at 30.09.2023 £m	2023/24 Forecast Outturn £m
Principal sums invested >365 days	10.0	**0.0**	**0.0**

This indicator reflects the Council's current lending policy of keeping investments short term for liquidity purposes. Also, the Council has minimised its available cash balances as an alternative to new borrowing and has internally borrowed. This is in line with the current strategy for revenue savings and avoids the 'cost of carry' associated with taking borrowing in advance of need.



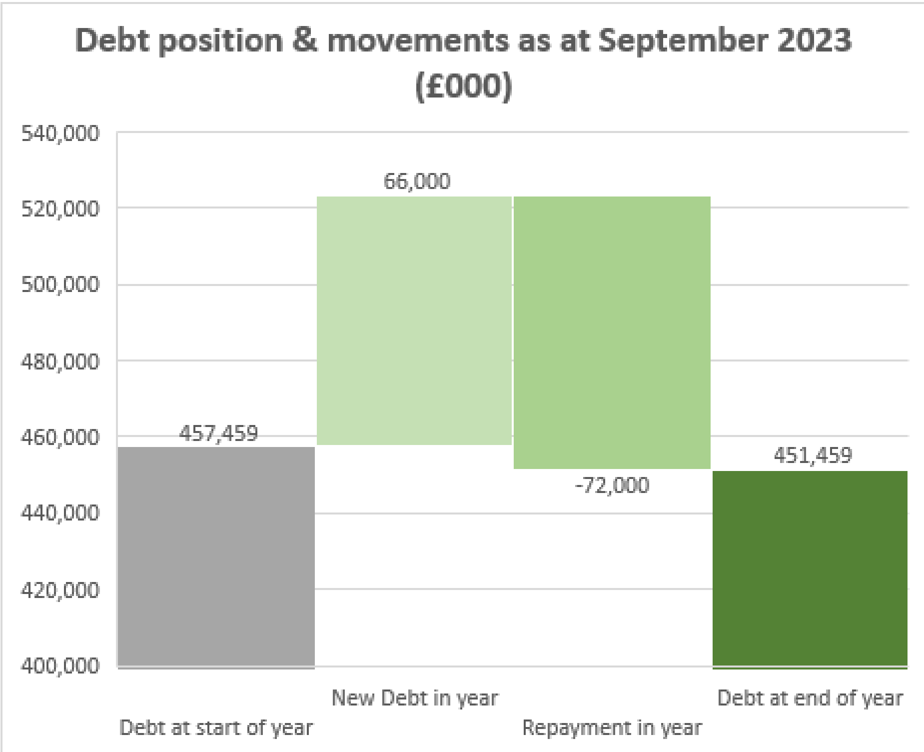
12. IFRS16

A new International Financial Reporting Standard (IFRS) on leases is due to be adopted by the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) with effect from 1st April 2024. All leases that do not meet the exceptions will be treated as capital expenditure from 2024/25 and form part of the Capital Financing Requirement. Due to the number of leases held by the Council the full detailed impact has not been quantified in the mid-year report.

Borrowing Position

The Council's forecast capital financing requirement (CFR) for 2023/24 is £625.7m. 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). The balance of external and internal borrowing is generally driven by market conditions.

The Council's external borrowing has reduced by a net £6.0m in year to date:



Due to the overall financial position and the underlying need to borrow for capital purposes (the CFR), new external borrowing of £66m was undertaken to refinance maturing debt and to facilitate the purchase Sand Martin House (£30m). The total purchase price for Sand Martin House was £50m, and the remainder was internally borrowed. The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, in order to achieve optimum value and risk exposure in the long-term.

PWLB maturity certainty rates (gilts plus 80bps) year to date to 30th September 2023
Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%. The Council continues to liaise with Link Group on actions to mitigate any potential increased costs, with the current strategy being to borrow from the inter-authority market which typically provides access to short term funding at rates lower than equivalent PWLB rates.

July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

Appendix C

Investment Portfolio

The Treasury Management Strategy Statement (TMSS) for 2023/24 to 2025/26, which includes the Annual Investment Strategy, was approved by the Council on 13 February 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
- Yield

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 the majority of investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions, using the Link suggested creditworthiness approach.
In addition, the Council is also seeking approval to explore the options to invest longer term in non-specified investments.

Investment Counterparty
The Council has begun to invest in a wider range of institutions to take advantage of rising interest rates. Surplus cash is invested for short periods with Barclays, the Churches, Charities and Local Authorities (CCLA) money market fund, and Federated Hermes, AVIVA Investors, Aberdeen GBP Liquidity, JP Morgan and LGIM Short Term Sterling Prime money market fund. The Council also currently has short term deposits with Standard Chartered, SMBC Bank International, Lloyds and Goldman Sachs banks and with other local authorities.

Investment balances
The Council held £9.8m of investments as at 30th September 2023. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of grants, and progress on the capital programme.

Estimated interest earned on investments as at 30th September 2023 is £573k.
In comparison to Sterling Overnight Index Average (SONIA) average rate of 4.44% for 90 days the Council achieved a higher rate at 5.39%.

Investment performance as at 30th September 2023

Investment Portfolio '000	30-Sep-23		
	Principal	Average Rate (%)	Average Life (days)
MMFs	350	5.22%	1
Banks	9,450	5.39%	90
Local Authorities	-	0.00%	0
Total Investments	9,800	5.38%	90
* MMFs have no set maturity date and can be accessed at short notice.			

	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.19	5.19	5.20	5.12	4.78	4.06
High Date	03/08/2023	29/09/2023	04/09/2023	27/09/2023	29/09/2023	29/09/2023	29/09/2023
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	4.81	4.74	4.71	4.64	4.44	4.10	3.16
Spread	1.00	1.01	1.01	1.17	1.31	1.46	1.79

Update on Interest Receivable and Payable

The below table shows the interest receivable and payable for the financial year 2023/24 and the actuals as at 30 September 2023.

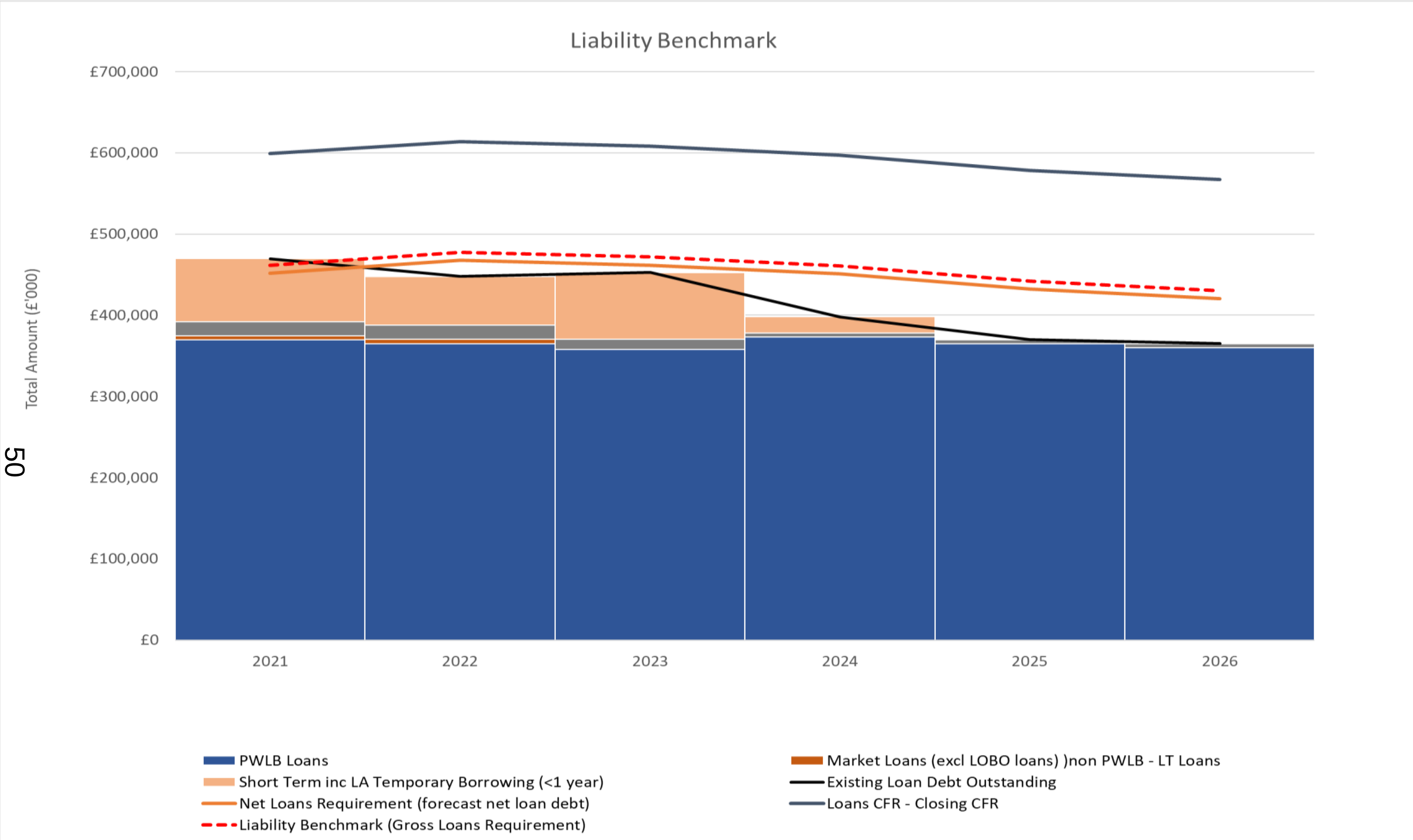
Interest	2023/24 FY Indicator £'000	2023/24 Actual at 30.09.2023 £'000	2023/24 Forecast Outturn £'000
Interest Receivable	955	573	1,300
Interest Payable	16,088	8,082	16,088

The Indicator for Interest Payable is higher than previously shown due to the fact that the Council bought Sand Martin House in May 2023 and so a higher indicator is appropriate.

Appendix E

CFR, Debt Liability Benchmark and borrowing.

Comparison of borrowing parameters to actual external borrowing:



The liability benchmark is effectively the net borrowing requirement plus a liquidity allowance. It is calculated by deducting the amount of investable resources available on the balance sheet (reserves, cash flow balances) from the amount of outstanding external debt and then adding the minimum level of investments required to manage day-to-day cash flow.

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