



<b>Policy, Finance and Development Committee</b>	<b>Tuesday, 05 December 2023</b>	<b>Matter for Information</b>
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**Report Title:** **Treasury Management Mid-Year Report 2023/24**

**Report Author(s):** **Simon Ball (Senior Finance Business Partner)  
Bev Bull (Head of Finance /Acting Chief Finance Officer and S151)**

<b>Purpose of Report:</b>	This report details the performance and activities of the authority's treasury management function for the financial year 2023/24 to 30 <sup>th</sup> September 2023.
<b>Report Summary:</b>	This mid-year report has been written to comply with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice and covers the following: <ul style="list-style-type: none"> <li>• An economic update for the 2023/24 financial year as at 30 September 2023;</li> <li>• The Council's borrowing position for 2023/24;</li> <li>• The Council's investment portfolio for 2023/24;</li> <li>• The Council's capital position (including prudential indicators)</li> </ul>
<b>Recommendation(s):</b>	<b>That the content of the report and appendices be noted.</b>
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<b>Strategic Objectives:</b>	Our Council (SO1)
<b>Vision and Values:</b>	"Our Borough - The Place To Be" (Vision) Resourceful & Resilient (V4)
<b>Report Implications:-</b>	
Legal:	There are no implications arising from this report.
Financial:	The implications are as set out in this report.
Corporate Risk Management:	Decreasing Financial Resources / Increasing Financial Pressures (CR1) Reputation Damage (CR4) Regulatory Governance (CR6)
Equalities and Equalities Assessment (EA):	There are no implications arising from this report. EA not applicable

Human Rights:	There are no implications arising from this report.
Health and Safety:	There are no implications arising from this report.
<b>Statutory Officers' Comments:-</b>	
Head of Paid Service:	The report is satisfactory.
Chief Finance Officer:	The report is satisfactory.
Monitoring Officer:	The report is satisfactory.
<b>Consultees:</b>	None.
<b>Background Papers:</b>	<ul style="list-style-type: none"> <li>• Treasury Policy 2023/24</li> <li>• Treasury Strategy 2023/24</li> <li>• Investment Strategy 2023/24</li> </ul>
<b>Appendices:</b>	<ol style="list-style-type: none"> <li>1. List of Investments (1 April 2023 to 30 September 2023)</li> <li>2. Schedule of PWLB Loans (2023/24)</li> </ol>

## 1. Introduction

- 1.1 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.
- 1.2 The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending commitments. This management of longer-term cash may involve arranging long or short-term loans, or the use of longer-term cash flow surpluses, and on occasion, any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 1.3 Accordingly, 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."
- 1.4 Three reports are produced annually on treasury management in accordance with the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) and the Council's own Treasury Management Policy Statement. These are the Treasury Management Strategy and Statement strategy, the Treasury Management Mid-Year Report (this report) and the Treasury Management Annual Report.
- 1.5 The Code requires the Section 151 Officer to ensure that the treasury management function operates in accordance with treasury management strategy and practices adopted by Council. During 2023/24 to date there are no issues of non-compliance with these practices that need be brought to Member's attention.

- 1.6 Under the Prudential Code for Capital Finance, the Council is required to prepare a number of prudential indicators against which treasury management performance is to be measured.
- 1.7 The details of all borrowing and investment transactions for the year 2023/24 to 30 September 2023, together with the performance of the treasury management function against prudential indicators are given below.

## 2. Economic Conditions

- 2.1 The current global and national economic climate remains unstable. In October 2022 inflation peaked at 11.1% and as at October 2023 it was 6.7%. Whilst inflation has fallen during 2023/24, the high inflation levels during 2022/23 are embedded into the current and ongoing costs and the existing rates of inflation remain higher than the Bank of England inflation target of 2%.
- 2.2 The Bank of England have increased the bank rate from 4.25% at April 2023, the beginning of the year, to the current rate of 5.25%. At the last two Monetary Policy Committee meeting it was agreed to maintain the rate at 5.25%, previously for the past 14 meetings the rate had been increased, indicating the increases may have peaked. The bank rate impacts on the interest rate earned on investments and influences the interest rate on borrowing.

## 3. Borrowing

- 3.1 **Long Term** - The Authority is able to borrow on a long-term basis from the Public Works Loans Board (PWLB). At the beginning of the year the value of the outstanding loans was £18.062m, comprising £13.082m relating to the HRA, and £4.980m relating to the general fund. £44k of principal has been repaid in year to date, and no additional long-term borrowing was undertaken, leaving the balance at £18.018m. No additional long-term borrowing is expected this financial year.
- 3.2 **Short Term** (Less than 365 days in duration) - There was £15m of short-term borrowing outstanding at the start of the year, taken out in lieu of long-term borrowing, plus £1.006m of long-term borrowing reclassified to short-term, as the time until maturity fell under 365 days. £2m of borrowing has been repaid. An additional £5m of borrowing is forecast before year end, in order to finance the capital programme, resulting in a total outstanding balance at year end of £18m.
- 3.3 A summary of currently outstanding loan balances is given at **Appendix 1**.
- 3.4 **Cost of Borrowing**

Accrued interest on the loans to 30 September is as follows:

Loan £000's	Maturity Date	Interest Rate	Interest £000's
4,436	30/06/2055	2.66	60
500	29/03/2052	4.10	10
14,088	Various	Various	234
2,000	09/08/2023	1.95	14
8,000	24/01/2024	4.10	164
5,000	26/02/2024	4.20	105

### 3.5 Liability Benchmark

The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its historic and current capital and revenue plans while keeping treasury investments at the minimum level of £3m required to maintain sufficient liquidity to manage day-to-day cash flow but minimise credit risk.

There are four components to the Liability Benchmark:

1. **External Borrowing:** the Authority's existing loans that are still outstanding in future years.
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.

Liability Benchmark	2022/23 Actual £m	2023/24 Forecast £m	2024/25 Forecast £m	2025/26 Forecast £m	2026/27 Forecast £m	2027/28 Forecast £m
Loans CFR	40.1	42.1	43.0	42.7	42.4	42.1
External borrowing	34.1	18.0	16.9	15.8	14.7	13.6
<b>Internal (over) borrowing</b>	<b>6.0</b>	<b>24.1</b>	<b>26.2</b>	<b>27.0</b>	<b>27.7</b>	<b>28.5</b>
Balance sheet resources	-9.2	-9.2	-9.2	-9.2	-9.2	-9.4
<b>Investments (new borrowing)</b>	<b>-3.2</b>	<b>14.9</b>	<b>17.0</b>	<b>17.7</b>	<b>18.5</b>	<b>19.1</b>

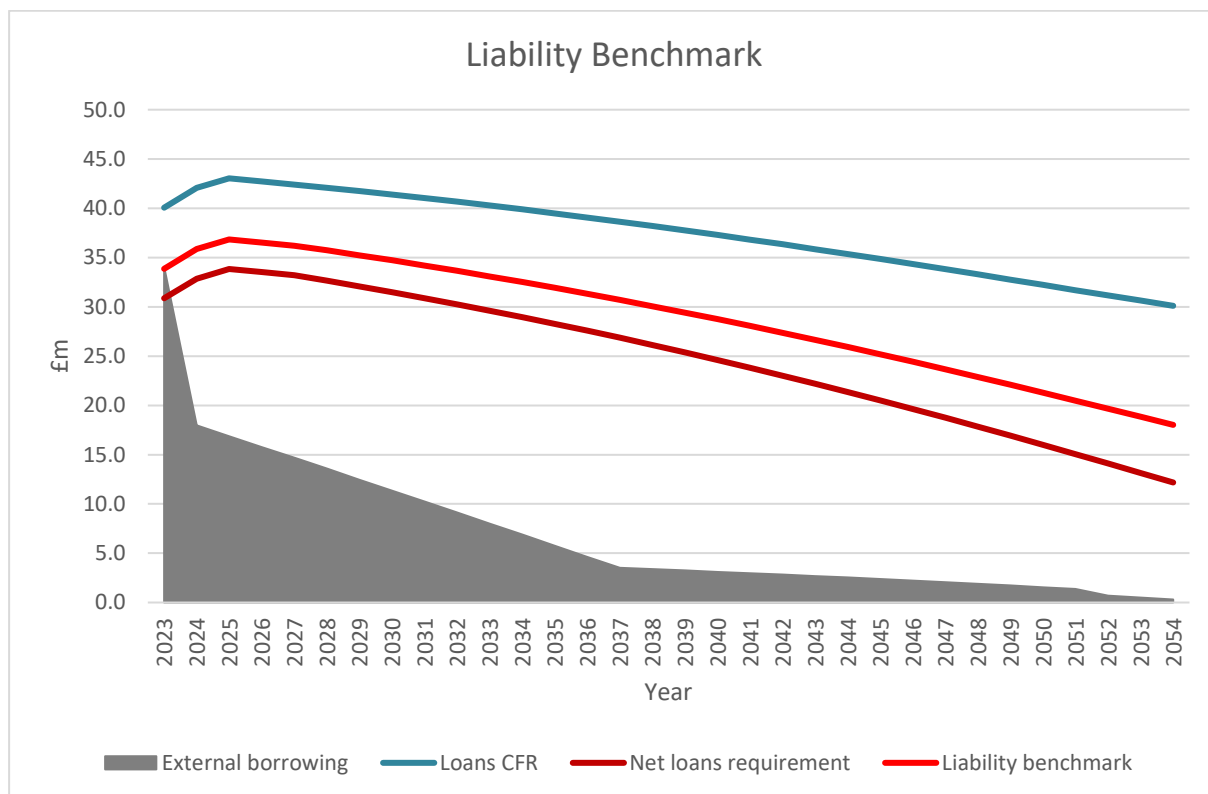
Treasury investments	3.2	3.0	3.0	3.0	3.0	3.1
New borrowing	0.0	17.9	20.0	20.7	21.5	22.2

Net loans requirement	30.9	32.9	33.8	33.5	33.2	32.7
Liquidity allowance	3.0	3.0	3.0	3.0	3.0	3.1
<b>Liability benchmark</b>	<b>33.9</b>	<b>35.9</b>	<b>36.8</b>	<b>36.5</b>	<b>36.2</b>	<b>35.8</b>

3.6 The benchmark assume the following from 2023/24 to 2025/26:

- Capital Expenditure funded by borrowing of £2.3m as reported in the Quarter 2 Financial Monitoring Report.
- Minimum Revenue Provision on new capital expenditure based on the Council's new MRP policy.
- No change in balance sheet resources.
- Existing loans of £16.2m are due to be repaid.

The Liability Benchmark for the next 30 years is presented below. This is a simplified model that assumes no capital spending after 2027/28



3.7 The liability benchmark shows that we have a borrowing need going forward. The gap between the external borrowing and the net loans requirement represents our need to borrow. Our current strategy is to manage our need to borrow through short term loans so the position assumes the current short-term loans are repaid, it is the intention to refinance these short term loan.

#### 4. Investments

4.1 During 2023/24, the Council is often in a position where it often has temporary cash surpluses to invest. When considering investments the Council must consider the following factors;

- Security – the Authority has a counterparty list, based on credit ratings, within its Investment Strategy that is approved prior to the commencement of the financial year.
- Liquidity – because of the fluctuation of cash flows, there is always a need to have a mix of investments that are realisable when required;
- Yield – probably the least important consideration as often higher yields mean greater risks.

Given the current economic climate, and the volatility and uncertainty in the financial markets, security has to be the most important factor of the three listed above.

4.2 For 2023/24 surplus cash is invested in the following ways.

**Special Interest Bearing Account** – This account is held with National Westminster Bank plc. There is no limit on the size of the deposits, and it pays

interest at 1.45% on balances of up to £1m, and 1.70% on balances between £1m and £10m.

**Money Market Deposits** – Used for larger amounts, up to £1.5 million. The list of institutions approved for investment was agreed at Committee on 23rd February 2023. The investments fall into two categories;

- Money on Call – These investments run for a minimum of 7 days after which they can be recalled at any time. Interest rates are variable and can fluctuate during the life of the investment;
- Fixed Deposits – Investments which mature at a pre-arranged date. The interest rate is fixed for the life of the investment.

**Debt Management Office Deposit Facility** – This is the overnight deposit facility for the British government. There is no limit on the size of the deposits, and the maximum duration is six months. The current interest rate for one-day deposits is 5.17%.

- 4.3 The total accrued interest received to 30th September 2023 on temporary investments amounted to £69,599 (2022/23 full year £92,465). A summary of the total amount invested in 2023/24 to date is given at **Appendix 2**.

## 5. Prudential Indicators

- 5.1 The Local Government Act 2003 requires Councils to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators which provide the basis for management and monitoring of borrowing and investments. These indicators were agreed by Council on 23 February 2023.

- 5.2 **The Capital Financing Requirement (CFR)** – This represents the Council's underlying need to borrow for capital purposes, based on the cumulative value of capital expenditure not fully paid for. The CFR will change year on year in accordance with the value of capital spending.

- 5.3 The key control over treasury activities is to ensure that over the medium term, net borrowing will only be for capital purposes. The Authority must ensure that net external borrowing does not, except for short periods, exceed the total of the CFR. A comparison of the estimate against the actuals is shown in the table below.

	<b>2023/24 Original Estimate At Year End £000's</b>	<b>2023/24 Revised Estimate At Year End £000's</b>
Gross Borrowing	34,474	35,474
Investments	0	0
<b>Net Borrowing 31<sup>st</sup> March</b>	<b>34,474</b>	<b>35,474</b>
<b>Total CFR 31<sup>st</sup> March</b>	<b>41,146</b>	<b>42,064</b>

**The Section 151 Officer reports that the Council is expected to comply with the requirement to keep borrowing below the relevant CFR in 2023/24 and no difficulties are foreseen for the current or future years.**

**Borrowing Levels** – The following two indicators control the overall level of borrowing;

- **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003;
- **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around the boundary for short times during the year. It should act as a barometer to ensure the authorised limit is not breached;
- **The Authorised and Operational limits agreed by Council are as follows.**

	<b>2023/24 Original Limit £000's</b>	<b>2023/24 Revised Limit £000's</b>
Authorised Limit	45,000	45,000
Operational Boundary	40,000	40,000

**Ratio of Financing Costs to Net Revenue Stream** – This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, Council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time.

	<b>2023/24 Original Estimate %</b>	<b>2023/24 Revised Estimate %</b>
General Fund	14.7	8.6
HRA	13.3	12.8

The above indicator shows that within the General Fund, financing costs were originally expected to be 14.7% of the net revenue income. We are now estimating 8.6% due to slippage in the capital programme resulting in borrowing taking place later in the year, and due to a change in the method utilised to calculate the Minimum Revenue Provision.

In the case of the HRA there is net interest payable which was expected to be 13.3% of the net revenue income. This is now estimated at 12.8%.

**Limits on Activity** – The following indicators constrain the activity of the treasury function to within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

- **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum Limit for variable interest rates;
- **Maturity Structures of Borrowing** – These gross limits are set to reduce the Council’s exposure to large fixed rate sums falling due for refinancing;
- **Total Principal Funds Invested** – This limit is set to reduce the need for early sale of investments and is based on the availability of investments after each year-end.

	2022/23 Original Indicators		2022/23 Revised Indicators		2022/23 Actual Maturity Structure	
	%		%		%	
Fixed Interest Rates Limit	100		100		100	
Variable Interest Rates Limit	100		25		0	
Maturity Structure of Borrowing	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 Months	0	50	0	50	0	44
12 Months to 2 Years	0	50	0	50	0	3
2 Years to 5 Years	0	50	0	50	0	9
5 Years to 10 Years	0	100	0	100	0	16
10 Years & Above	0	100	0	100	0	28

The Prudential Code requires indicators to be set for the maturity structure of fixed borrowings only.