

REPORT TO EXECUTIVE

Date of Meeting: 28 November 2023

REPORT TO COUNCIL

Date of Meeting: 12 December 2023

Report of: Director Finance

Title: Treasury Management 2023/24 Half Year Update

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

1.1 To report on the current Treasury Management performance for the 2023/24 financial year and the position regarding investments and borrowings at 30 September 2023. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

2.1 That Members of the Executive and Council note the Treasury Management report in respect of the first six months of the 2023/24 financial year.

3. Reasons for the recommendation:

3.1 It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

4. What are the resource implications including non-financial resources:

4.1 The report is an update on the overall performance in respect of Treasury Management for the first six months of the 2023/24 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

5.1 Higher interest rates than anticipated when the budget was set, along with a positive cashflow, has allowed the General Fund to more than offset the loss of interest from the ECL loans. The higher interest rates have also benefited the HRA, where the interest received from the General Fund is projected to double. A new section comparing the repayment of debt budget to the Outturn position has been added and shows a small fall in spite of adding in provision to reflect the changes to ECL.

6. What are the legal aspects?

The CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice recommends that members be updated on treasury management activities regularly. This report therefore, ensures this Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

Chapter 1 of the Act sets out capital finance and accounts requirements. Section 1 states that local authorities have the powers to borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Sections 2 to 6 of the Act cover the duty to control borrowing and the duty to determine affordable borrowing limits. Section 12 covers the power to invest.

The Treasury Management Strategy is based on the requirements of DLUHC's Guidance on Local Government Investments and the CIPFA Treasury Management code.

This report confirms that the Section 151 Officer is satisfied that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003, DLUHC's Guidance and CIPFA Code of Practice.

7. Monitoring Officer's comments:

This is a financial update report. Given that, the Monitoring Officer has no comment to make beyond what has been set out for members information.

8. Report Details:

8.1 Economics and Interest Rates

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.

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 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. Link PWLB rate forecasts below 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.

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

8.2 Treasury Management Strategy Statement

The Council approved the 2023/24 Treasury Management Strategy Statement (TMSS) at its meeting on 21 February 2023. There are no policy changes to the TMSS.

The Council's stated investment strategy was to continue to hold small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short dated deposits which would be placed with Local Authorities, Banks or Building Societies in-line with the Council's counterparty list.

The Council's stated borrowing strategy was to defer borrowing until later years, where possible, and to reduce the size of the Council's investment balance instead, however some targeted long term borrowing may be undertaken, where the costs will be offset against future income streams.

The Council is currently maintaining an under-borrowed position; so the actual borrowings of the Council are below the Council's borrowing requirement, as it has taken advantage of internal borrowings. This means that the Council's borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure.

8.3 Investments

The Council can utilise the Government's Debt Management Office (DMO) account and a reserve account with Barclays, these accounts have not been utilised during the period.

Appendix A sets out the institutions that the Council can use for deposits, this is known as our Counterparty list.

The Council had access to four Money Market Funds during the period. The money market funds allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

The Council made investments in the CCLA's LAMIT Property Fund in 2016. It should be noted that investments in property funds are a long term commitment which means that there can be fluctuations on the return from the investment.

The Council's investments held at 30 September 2023 were:

Money Market Funds –

Amount	Investment	Interest rate*
£10,000,000	Federated Investors	4.72%
£0	CCLA - The Public Sector Deposit Fund	4.70%
£1,000,000	Black Rock Asset Management	4.63%
£10,000,000	Aberdeen Standard Investments	4.73%

* Interest rate is variable (therefore rates quoted were the average as at 30 September 2023)

Fixed Term Deposits – Current

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
£5,000,000	London Borough of Barking and Dagenham	5.45%	26/09/23	03/01/24	99
£5,000,000	London Borough of Newham	5.00%	21/06/23	21/11/23	153
£4,000,000	Cheltenham Borough Council	5.27%	14/08/23	14/11/23	92
£3,000,000	Standard Chartered – Sustainable deposit	5.70%	15/09/23	15/03/24	182
£3,000,000	Goldman Sachs	5.40%	15/06/23	15/12/23	183
£2,000,000	Barclays Green notice account	5.25%	19/07/22	65 days from notice date	Min: 65
£1,000,000	Barclays Standard notice account	5.25%	19/07/22	65 days from notice date	Min: 65

The Standard Chartered Sustainable deposit guarantees that investment is referenced against sustainable assets aligned to the United Nations’ Sustainable Development Goals (SDGs).

The Barclays Green account is linked to projects in pursuit of the transition to a lower carbon economy and as such counts towards the Council’s Green agenda and can be included in a sustainability clause in the audited accounts.

Property Funds

Amount	Investment	Dividend Yield Q1
£5,000,000	CCLA – LAMIT Property Fund	4.34%

8.4 Borrowings

The Council’s long term borrowing is currently £165.526 million (£93.282 million General Fund and £72.244 HRA) and there is no short-term borrowing. Details of existing loans are set out below:

Principal Amount outstanding as at 30 September 2023	Lender	Interest rate	Loan type	Date of repayment
£56,884,000	PWLB (HRA)	3.48%	Maturity	28/03/2062
£1,892,228	PWLB	2.34%	Annuity	11/01/2044
£1,876,164	PWLB	2.08%	Annuity	04/04/2044
£4,151,400	PWLB	1.61%	Annuity	26/09/2049
£8,038,745	PWLB	1.71%	Annuity	26/09/2054
£34,154,725	PWLB	1.80%	Annuity	26/09/2069
£15,360,000	PWLB (HRA)	1.31%	Maturity	14/04/2070
£43,168,547	PWLB	1.78%	Annuity	24/12/2071

Given the ongoing high costs of borrowing the capital programme is being funded by internal temporary borrowing. The liability benchmark treasury indicator at Appendix B compares the current Capital Financing Requirement with existing debt.

The ongoing borrowing requirement will be monitored and a decision of whether to take further borrowing will be made in light of need and current and forecast interest rates. If additional borrowing is required advice will be sought from the treasury management advisors in order that the most cost effective form of borrowing can be secured.

8.5 Treasury and Prudential Limits

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. No difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices. The approved limits within the Annual Investment Strategy set out in the TMSS were not breached during the period ended 30th September 2023.

8.6 Net Interest Position

The General Fund shows a £550k improvement against the estimate for net interest payable, the position is:

	Estimate 2023/24 £	Actual to 30 September 2023 £	Estimated Outturn £	Variation £
Interest paid	2,592,000	938,780	1,877,559	(714,441)
Interest earned				

Temporary investment interest	(902,000)	(1,130,852)	(2,205,162)	(1,303,162)
ECL Loan	(732,000)	0	0	732,000
Other interest earned	(22,300)	(27,180)	(54,359)	(32,059)
Less				
Interest to HRA	524,000	553,886	1,107,773	583,773
Interest to S106 agreements	80,000	114,439	228,878	148,878
Interest to deposits held	1,800	5,064	10,128	8,328
Interest to Trust Funds & Lord Mayor's Charity	3,500	11,297	22,594	19,094
GF interest (received) / paid out	(1,047,000)	(473,346)	(890,148)	156,852
Net Interest	1,545,000	465,434	987,411	(557,589)
CCLA – LAPF Dividend	(225,000)	(54,300)	(217,200)	7,800
Net Interest after dividends	1,320,000	411,134	770,211	(549,789)

This reflects reduced interest payable of £714k as a result in delaying borrowing for the capital programme until later years, a reduction in interest receivable of £732k from ECL, and a net increase in interest earned from temporary investments of £567k.

8.7 Repayment of Debt (MRP) Position

	Estimate 2023/24	Outturn	Variation
	£	£	£
Repayment of Debt	1,694,670	1,666,015	(28,655)

There is a small reduction in the amount required to be set aside for the repayment of debt on the General Fund. Additional MRP added to repay the element covering the loans to ECL has been more than offset by a reduction in the amount borrowed in 2022-23.

8.8 Future Position

The short-term cash surplus will be invested in line with the Council's Treasury Management Strategy and will ensure that funds are available to meet demands, whilst also maximising returns.

The Council's Money Market Funds which are AAA rated, currently offer rates between 5.2% and 5.34%, the rates are liable to fluctuation in the year. The short term investments that are made through the money market funds ensure cash can be accessed immediately. This has an impact on returns but ensures the liquidity of funds.

The Council will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks, building societies

and the Debt Management Office. Over the year it is estimated that the weighted average return will be in the region of 4%.

Officers have regular meetings with the Treasury Management advisors in order to seek advice on how to maximise investment returns and to minimise the need to borrow whilst taking into account investment risk.

Officers continually explore the possibility of widening the investment options available to the Council. If the options are proved to be of interest, and viable, they will be included in the Treasury Management Strategy which is presented to committee for approval in February 2024.

This will be closely reviewed and advice will be sought from our financial advisors to ensure our counterparty list is adequate and robust enough. Any adjustments to the list and the impact of this will be presented to committee for approval in the Treasury Management Strategy 2024/25.

9. How does the decision contribute to the Council's Corporate Plan?

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

10. What risks are there and how can they be reduced?

The council uses Treasury Management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's Treasury Management strategy.

The volatility of the world economy is being closely monitored and daily updates are provided by our financial advisors and investment brokers. This has somewhat eased in the past month and economic forecasts now show an improved position.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers),

sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

- 11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because the report is for information only

12. Carbon Footprint (Environmental) Implications:

No direct carbon/environmental impacts arising from the recommendations.

13. Are there any other options?

No

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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