# Treasury Management Strategy Statement and Annual Investment Strategy

## Mid-Year Review Report 2023-24

# Contents

## 1. Background

### 1.1 Capital Strategy

In December 2021, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. These require all local authorities to prepare a Capital Strategy which is to provide the following: -

- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services;
- an overview of how the associated risk is managed;
- the implications for future financial sustainability.

### 1.2 Treasury management

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. 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 operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

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."

## 2. Introduction

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, covering activities during the previous year.

4. Receipt by the audit committee of Quarterly reports for the periods ending April to June and October to December.

5. 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.

6. 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 Committee:

This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:

- 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;
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators;
- 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 any debt rescheduling undertaken during 2023/24;
- A review of compliance with Treasury and Prudential Limits for 2023/24.

## 3. Economics and Interest Rates

### 3.1 Economics Update

- The first half of 2023/24 saw:

  - Interest rates rise by a further 1%, taking Bank Rate from 4.25% to 5.25%. In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%.
  - A 0.5% month on month decline in real GDP in July.
  - CPI inflation falling from 8.7% in April to 6.7% in September, its lowest rate since February 2022.
  - Core CPI inflation declining to 6.1% in September from 7.1% in May, a then 31 year high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3 month year on year growth of average earnings rose to 7.8% in August, excluding bonuses).

### 3.2 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. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 0.2%) 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.

| 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 |

## 4. Treasury Management Strategy Statement and Annual Investment Strategy Update

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

## 5. The Council's Capital Position (Prudential Indicators)

This part of the report is structured to update:

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

### 5.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget.

| Capital Expenditure by Service | 2023/24 Original Estimate £m | Current Position £m | 2023/24 Revised Estimate £m |
|---|---|---|---|
| Communities | 29.5 | 13.5 | 37.2 |
| Children & Families | 10.2 | 3.2 | 9.8 |
| Adults & Health | 1.7 | 0.7 | 2.4 |
| Central & Technical | 3.0 | 0.0 | 2.3 |
| Outcomes | 2.0 | 0.8 | 2.4 |
| **Total** | **46.4** | **18.2** | **54.1** |

### 5.2 Changes to the Financing of the Capital Programme

The table below draws together the main strategy elements of the capital expenditure plans (above), 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.

| Capital Expenditure | 2023/24 Original Estimate £m | Current Position £m | 2023/24 Revised Estimate £m |
|---|---|---|---|
| Total capital expenditure | 46.4 | 21.9 | 54.1 |
| Financed by: | | | |
| Capital receipts | 3.0 | 1.2 | 3.0 |
| Capital grants | 25.8 | 14.4 | 35.6 |
| Revenue | 0.0 | 0.1 | 0.1 |
| Total financing | 28.8 | 15.7 | 38.7 |
| Borrowing requirement | 17.6 | 6.2 | 15.4 |

### 5.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. It also shows the expected debt position over the period, which is termed the Operational Boundary.

**Prudential Indicator – Capital Financing Requirement**

We are currently forecasting that the Capital Financing Requirement will be £2.2m lower than estimated.

**Prudential Indicator – the Operational Boundary for external debt**

| | 2023/24 Original Estimate £m | Current Position £m | 2023/24 Revised Estimate £m |
|---|---|---|---|
| **Prudential Indicator – Capital Financing Requirement** | | | |
| **Total CFR** | 258.771 | 247.371 | 256.571 |
| | | | |
| **Net movement in CFR** | **11.1** | **-0.3** | **8.9** |
| | | | |
| **Prudential Indicator – the Operational Boundary for external debt** | | | |
| Borrowing | 183.564 | 183.564 | 183.564 |
| Other long-term liabilities* | 0 | 0 | 0 |
| **Total debt (year end position)** | **183.564** | **183.564** | **183.564** |

** On balance sheet finance leases etc.*

### 5.4 Limits to Borrowing Activity

The first key control over the treasury activity is a prudential indicator to ensure that over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. **Gross external borrowing** should not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy of not borrowing in advance of need.

| | 2023/24 Original Estimate £m | Current Position £m | 2023/24 Revised Estimate £m |
|---|---|---|---|
| Borrowing | 134.3 | 136.0 | 154.3 |
| Other long-term liabilities* | 0.0 | 0.0 | 0.0 |
| **Total debt** | 134.3 | 136.0 | 154.3 |
| **CFR* (year end position)** | 258.8 | 247.4 | 256.6 |

** Includes on balance sheet finance leases etc.*

A further prudential indicator controls the overall level of borrowing. This is **the Authorised Limit** which 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 in the longer term. 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.

| Authorised limit for external debt | 2023/24 Original Indicator £m | Current Position £m | 2023/24 Revised Indicator £m |
|---|---|---|---|
| Borrowing | 193.6 | 193.6 | 193.6 |
| Other long-term liabilities* | 0.0 | 0.0 | 0.0 |
| Total | 193.6 | 193.6 | 193.6 |

** Includes on balance sheet finance leases etc.*

## 6. Borrowing

The Council's capital financing requirement (CFR) for 2023/24 is £256.6m. 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 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, if necessary, to achieve optimum value and risk exposure in the long-term.

It is anticipated that further borrowing will be undertaken during this financial year.

## 7. Debt Rescheduling

No debt rescheduling has been undertaken to date in the current financial year.

## 8. Compliance with Treasury and Prudential Limits

It is a statutory duty for the Council to determine and keep under review the affordable borrowing 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. The Director of Finance reports that 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.

## 9. Annual Investment Strategy

The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 13th 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 investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the Link suggested creditworthiness approach.

**Creditworthiness.**

Moody's, S&P and Fitch placed the UK sovereign debt rating on Negative Outlook for the first half of 2023-2024. Moody's and S&P have since updated this rating to stable.

**Investment Counterparty criteria**

The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

**CDS prices**

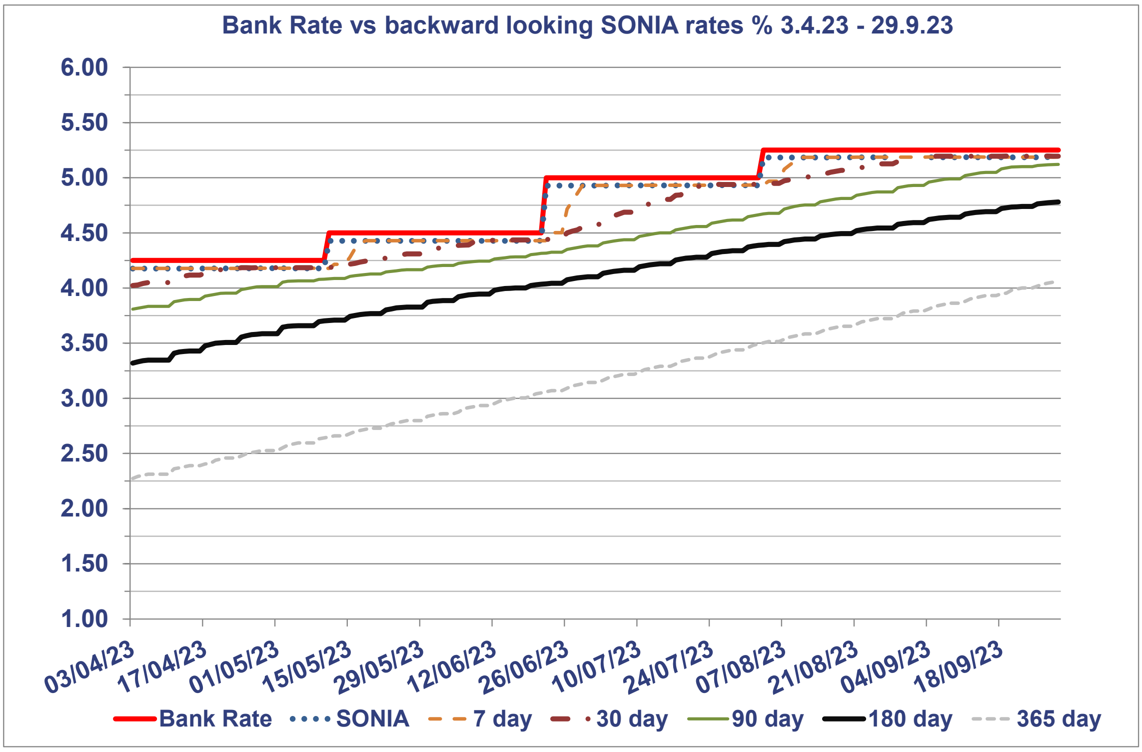
It is noted that sentiment in the current economic climate can easily shift, so it remains important to undertake continual monitoring of all aspects of risk and return in the current circumstances.

## Investment balances

The average level of funds available for investment purposes during the first half of the financial year was **£44.7m**. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

## Investment performance year to date as of 30th September 2023

The levels shown below use the traditional market method for calculating Sterling Overnight Index Average (SONIA) rates.




| | 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 |

The table above covers the first half of 2023/24.

## Investment performance year to date as of 30th September 2023

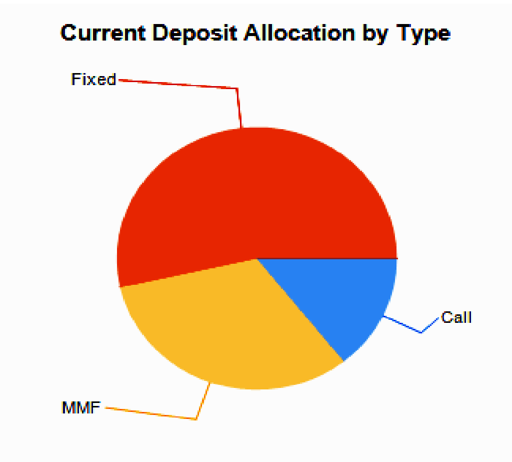
| Period | SONIA benchmark return | Council performance | Investment interest earned |
|---|---|---|---|
| **1 month** | 4.64 | 4.67 | 1.021m |

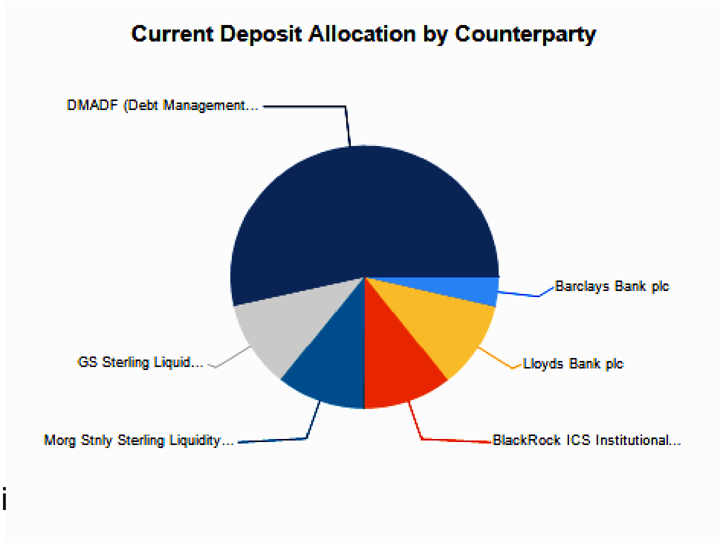
As illustrated, the Council *outperformed* the benchmark by **0.03%**. The Council's budgeted investment return for 2023/24 is **£0.525m**, the investment return to the 30th September 2023 was **£1.021m**.

**Fund investments**

- Money Market Funds (MMFs)
- DMO Deposits
- Interest earning call accounts

| Investments As at 30 September 2023 | | | |
|---|---|---|---|
| **Type** | **Counterparty** | **Rate** | **Principal O/S (£)** |
| Fixed | DMADF (Debt Management Account Deposit Facility) | 5.30% | 24,950,000.00 |
| Call | Barclays Bank plc | 2.02% | 1,686,461.12 |
| Call | Bank Of Scotland plc | 5.14% | 5,000,000.00 |
| MMF | Morgan Stanley Sterling Liquidity Inst | 5.26% | 5,000,000.00 |
| MMF | BlackRock Institutional Sterling Liquidity | 5.24% | 5,000,000.00 |
| MMF | Goldman Sachs MMF | 5.21% | 5,000,000.00 |
| **Total** | | | **46,636,461.12** |




Officers can confirm that the approved li ... t breached during the period ended 30th .

## 10. Other

There are no other issues to report.

# APPENDIX 1: the CFR, Liability Benchmark and Borrowing