

Report for: Audit Committee – 14 December 2023

Item number: 9

Title: Treasury Management Mid-Year Report 2023/24

Report authorised by: Josephine Lyseight, Assistant Director of Finance (Deputy S151 Officer)

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Ward(s) affected: N/A

**Report for Key/
Non Key Decision:** Non Key decision

1. Describe the issue under consideration

- 1.1. 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). This code requires the Council to approve, at a minimum, treasury management semi-annual and annual outturn reports.
- 1.2. This report includes the new requirement in the 2021 Code that mandates quarterly reporting of treasury management prudential indicators, effective from 1st April 2023.
- 1.3. The Council's treasury management strategy for 2023/24 was approved at a full Council meeting on 2 March 2023. The Council has borrowed and 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 remains central to the Council's treasury management strategy.
- 1.4. This report provides an update to the Audit Committee on the Council's treasury management activities and performance for the first half of the financial year ending 30 September 2023, in accordance with the CIPFA Code.

2. Cabinet Member Introduction

- 2.1. Not applicable.

3. Recommendations

The Audit Committee is requested:

- 3.1. To note the treasury management activity undertaken during the first half of the year to 30 September 2023 and the performance achieved which is attached as Appendix 1 to this report.

3.2. To note that all treasury activities were undertaken in line with the approved Treasury Management Strategy.

4. Reason for Decision

4.1. Not applicable.

5. Other options considered

5.1. Not applicable.

6. Background information

6.1. The Council's treasury management activity is underpinned by CIPFA's Treasury Management in Public Services: Code of Practice (the CIPFA Code), which requires local authorities to produce annually, Prudential Indicators and a Treasury Management Strategy Statement. CIPFA has defined Treasury management as: "The management of the authority's 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."

6.2. The CIPFA Code recommends that members are informed of treasury management activities at least twice a year. Following an amendment to the Council's constitution in 2023, it was determined that the reviewing and monitoring of treasury policy, strategy and activity is delegated to the Audit Committee. This Committee will continue to receive treasury update reports quarterly.

6.3. However, overall responsibility for treasury management remains with full Council, and the Council approved the Treasury Management Strategy Statement and set the Prudential Indicators for 2023/24 on 2 March 2023. The Audit Committee is responsible for monitoring treasury management activity, and this can be achieved through the receipt of the quarterly, mid-year and annual reports.

6.4. Government guidance on local authority treasury management states that local authorities should consider the following factors in the order they are stated:

Security - Liquidity - Yield

6.5. The Treasury Management Strategy reflects these factors and is explicit that the priority for the Council is the security of its funds. However, no treasury activity is without risk and the effective identification and management of risk are integral to the Council's treasury management activities.

Economic Background

6.6. Inflation in the UK remained persistently high for much of the period when compared to global economies. This persistent inflation, led to heightened expectations of further rate increases by the Bank of England (BoE). However, inflation data published later in the period fell short of projections, prompting financial markets to reassess the peak in the BoE Bank Rate.

- 6.7. Shortly thereafter, the BoE chose to maintain the Bank Rate at 5.25% in September, against the expectation of an additional 0.25% increase. The table below shows an extract of the Bank of England's Bank Rates throughout the financial year.

	Dec-22	Mar-23	Jun-23	Sep-23	Current Rate
BoE Bank Rate	3.5%	4.25%	5.00%	5.25%	5.25%

- 6.8. Further details on the implications of this can be found in section 2 of Appendix 1 to this report.

Borrowing Activity

- 6.9. The Council's primary objective when borrowing is to strike an appropriate balance between securing low interest costs and achieving cost certainty over the period for which funds are required.
- 6.10. The cost of borrowing has increased significantly for both short-term and long-term debt. The table below shows the rates offered across the various PWLB maturities on 30 September 2023. The rates shown include the 0.20% certainty discount rate offered by the PWLB to qualifying authorities.

PWLB Maturity	Dec-23	Mar-23	Jun-23	Sep-23
1-year	4.33%	4.78%	6.22%	5.69%
5-year	4.48%	4.31%	5.71%	5.22%
10-year	4.59%	4.33%	5.35%	5.26%
20 year	4.89%	4.70%	5.36%	5.64%
50 year	4.49%	4.41%	4.95%	5.43%

- 6.11. In keeping with the Council's Treasury Management Strategy, £25m of new long-term borrowing was undertaken during the period. The purpose of this borrowing was mainly to replace an existing LOBO (Lender's Option, Borrower's Option) after the option was exercised by the lender towards the end of the September. However, during the period, £20.7m of long-term loans were allowed to mature without immediate replacement.
- 6.12. With market interest rates having risen, the probability of call options on the LOBOs being called has been higher than in the recent past. £125m of LOBO loans had call option dates during the six-month period to September 2023. Out of these loans, one of the lenders exercised one of the loans with an outstanding principal of £25m.
- 6.13. The Council has a significant capital program that extends into the foreseeable future. A large proportion of this program will need to be financed by borrowing. This borrowing will be undertaken by the Council during the current and upcoming years.
- 6.14. The Council's borrowing decisions are not based on any single outcome for interest rates, and it maintains a balanced portfolio of short and long-term borrowing.
- 6.15. Further details on the borrowing activity of the Council over the period can be found in section 4 of Appendix 1 to this report.

Treasury Investment Activity

- 6.16. In accordance with the CIPFA Code and government guidance, the Council aims to strike an appropriate balance between risk and return, when making treasury investments. The aim is to prioritise the security and liquidity of its investments before seeking the optimum rate of return or yield.
- 6.17. During the period, the overnight deposit rates for both, the Debt Management Account Deposit Facility (DMADF) and Money Market Funds (MMFs), increased from approximately 4.00% in April 2023 to 5.30% by the end of March 2023.
- 6.18. Short-dated cash rates increased accordingly, with 3-month rates reaching approximately 5.25% and 12-month rates coming close to 6%.
- 6.19. The table on the following page shows how the Council's current Treasury investments compare with other local authorities.

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Ave. Maturity (Days)	Rate of Return
31.03.2023	3.67	AA-	38%	10	3.96%
30.09.2023	4.12	AA-	37%	20	5.25%
Similar Local Authorities	4.54	A+	67%	28	4.94%
All Local Authorities	4.65	A+	63%	11	4.32%

- 6.20. Further details on the Council's treasury investment activity over the period can be found in section 5 of Appendix 1 to this report.

Treasury Management Prudential Indicators

- 6.21. The Council measures and manages its exposures to treasury management risks using several indicators that are set when the Treasury Management Strategy is approved in advance of the new financial year.
- 6.22. The Chief Finance Officer reports that all treasury management activities carried out during the year were fully compliant with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.
- 6.23. A more detailed assessment of the Council's compliance with the agreed upon Treasury Management Indicators can be found in section 8 of Appendix 1 to this report.

7. Contribution to Strategic Outcomes

- 7.1. None

8. Carbon and Climate Change

- 8.1. Not applicable

9. Statutory Officers comments (Chief Finance Officer (including procurement), Assistant Director of Corporate Governance, Equalities)

Finance and Procurement

- 9.1. Finance Comments are included throughout the attached report.
Head of Legal and Governance [Benita Edwards, Head of Legal Services]
- 9.2. The Head of Legal Services has been consulted on the content of this report which is consistent with legislation governing the financial affairs of the Council. In particular, the Council must comply with the requirements of the Local Government Act 2003, the Local Authorities (Capital Financing & Accounting – England) Regulations 2003 and the CIPFA Treasury Management code.
- 9.3. In considering the report, Audit Committee must take into account the expert financial advice available to it and any further oral advice given at the meeting of the Committee.

Equalities

- 1.1. There are no equalities issues arising from this report.

10. Use of Appendices

- 10.1. Appendix 1 – Treasury Management Mid-Year Report 2023/24

11. Background Papers

- 11.1. None