



## **Treasury Management Update**

**31<sup>st</sup> December 2023**

## Introduction

- 1.1. Treasury Management is defined 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”.
- 1.2. This report is delivered in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management, which recommends that members be updated on treasury management activities regularly (annual, mid-year and quarterly reports).
- 1.3. The Audit & Regulatory Committee has delegated responsibility for scrutinising the treasury function. The Committee’s role includes approval of the annual treasury management strategy and scrutiny of operational treasury management reports. Decisions taken by the Audit & Regulatory Committee are reported to full Council.
- 1.4. The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Council on 21<sup>st</sup> February 2023. This report details treasury management performance up to the 31<sup>st</sup> December 2023 and projects forward for the remainder of the financial year.

## 2. Economic Forecast – Interest Rates

- 2.1. The Council’s treasury advisers, Link Asset Services (‘Link’), provided an update to their interest rate forecasts for the Bank of England base rate and PWLB (Public Works Loan Board) on 8<sup>th</sup> January:

%	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>Bank Rate</b>	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
<b>5yr PWLB rate</b>	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
<b>10r PWLB rate</b>	4.70	4.50	4.40	4.30	4.30	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70

- 2.2. The Bank of England base rate (bank rate) increased from 4.25% at the start of the year to 4.50% on 11<sup>th</sup> May, to 5.00% on 22<sup>nd</sup> June, and to 5.25% on 3<sup>rd</sup> August. There have been no increases since and current expectations are that it will remain at this level for the remainder of the year
- 2.3. The Council’s investment income budget was set with the expectation of a peak at 4.50%, returning to 4.00% by Spring 2024. Therefore there was the potential of improved investment income, although it would be influenced by the size of the investment portfolio available and decisions on cash flow and use of reserves and other funding.
- 2.4. Forecast PWLB and Intra-Local Authority external borrowing interest rates are high in the context of the last 10 years. Therefore wherever possible the Council

will avoid medium to long term borrowing commitments by utilising spare cash balances as internal funding, or short-term borrowing with a view to reviewing borrowing requirements should the rates begin to decrease. The practice of internal borrowing has served well over recent years to make net savings on financing costs with loss of interest income being smaller than external borrowing costs, which is still the case. However, this is kept under constant review in the climate of rises and fluctuations.

### 3. Investment Activity & Performance

3.1. The Council had budgeted to receive £699,260 in investment income in 2023/24 based on the high Bank of England base rate environment as described above. A surplus of £166,280 is forecast.

3.2. The Council manages its investments in-house and invests with financial institutions meeting the Council's approved lending criteria as detailed in the Treasury Management Strategy for the year and the investment priorities of Security of Capital, Liquidity and Yield (SLY).

3.3. The average balances for the year to date were £21.2million. The Council's investment portfolio at 31<sup>st</sup> December 2023 totalled £27.9million:

Counterparty	Country of Domicile	Amount	Interest rate at end of period	Maturity period	Link counterparty limit
Money Market Funds	UK	£10,580,000	5.30%	instant access	12 months
Standard Chartered	UK	£5,000,000	5.15-5.88%	183-184 days	6 months
Handelsbanken	UK	£4,400,000	4.60%	instant access	12 months
Santander	UK	£2,500,000	5.95%	180 day notice	6 months
NatWest Bank	UK	£2,370,000	1.70%	instant access	12 months
Nationwide Building Society	UK	£2,000,000	5.52%	153 days	6 months
Lloyds Bank	UK	£1,000,000	5.60%	183 days	6 months
<b>Total</b>		<b>£27,850,000</b>			
<b>ESG proportion of portfolio</b>	17.95%	£5,000,000			
<b>Standard Chartered</b>	<i>Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.</i>				

- 3.4. The main rating agencies used in the Link Creditworthiness model, which is used by the Council, incorporate ESG (Environmental, Social, Governance) risks alongside the more traditional financial risk metrics when assessing counterparty ratings, therefore all of the Council's financial investments have an element of ESG consideration applied. The Council directly invests in products which have specific ESG merits where they meet the priority SLY investment criteria. The balance of specific ESG linked investments at 31<sup>st</sup> December was £5million.
- 3.5. Average investment performance from this activity is shown in the table below. Investment returns are increasing with a general short lag behind the fast paced base rate increases as improved investment opportunities emerge. Average duration of investment is kept short to take advantage of these increases.

	Q1 Apr-Jun	Q2 Jul-Sept	Q3 Oct-Dec
<b>&gt;364 days</b>	-	-	-
<b>&lt;364 days</b>	4.17%	5.44%	5.48%
<b>instant access</b>	3.87%	4.57%	4.87%
<b>Total</b>	<b>4.00%</b>	<b>4.83%</b>	<b>5.01%</b>
<b>Bank of England base rate at end of period</b>	5.00%	5.25%	5.25%

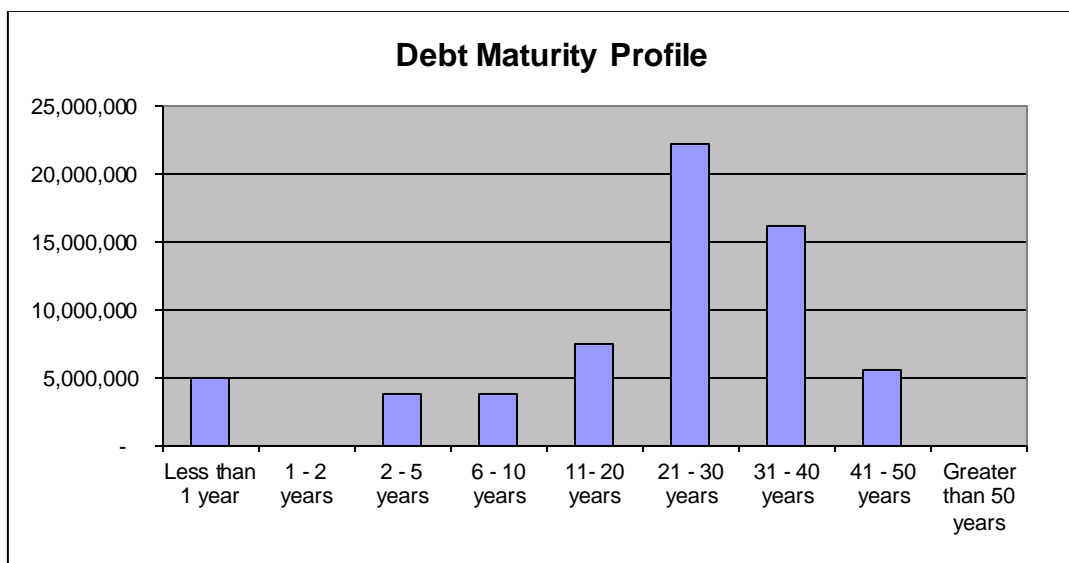
#### 4. Borrowing Position

- 4.1. In accordance with the Local Government Act 2003, it is a statutory duty of the Council to determine and keep under review how much it can afford to borrow. Therefore, the Council establishes 'Affordable Borrowing Limits' as part of the prudential indicators within the approved Treasury Management Strategy Statement.
- 4.2. The Council's total outstanding debt as at 31<sup>st</sup> December 2023 is £63,777,304. £2,000,000 of short-term borrowing was repaid on 16<sup>th</sup> May, replaced by £5,000,000 from October with a term of 11 months at 4.40%. A LOBO (Lender Option Borrower Option) loan of £1,000,000 was repaid upon maturity on 3<sup>rd</sup> April. Therefore, the Council no longer has any LOBO loans. There are no further maturities due during the year.

Lender	Forecast External Borrowing 2022/23	Average Interest Rate	Remaining Maturity period
<b>Public Works Loan Board</b>	£50,277,304	3.87%	between 4 and 39 years
<b>Market Loans</b>	£8,500,000	4.25%	between 32 and 43 years

<b>Local Authority Loans</b>	£5,000,000	4.40%	Less than 1 year
<b>Total</b>	<b>£63,777,304</b>	<b>3.96%</b>	

- 4.3. The 'operational boundary' (£99,816,000) and 'authorised limit' (£102,466,000) indicators govern the maximum level of external borrowing available to the Council to fund the capital programme. The current level of borrowing is within prudential limits.
- 4.4. The budget for borrowing costs was based on £5million external borrowing during the year to fund the general fund capital expenditure. There could be further borrowing where necessary to support a proportion of previous year's capital expenditure which is currently internally funded.
- 4.5. The Council adopts a 'one pool' approach to borrowing whereby investments and borrowing are managed centrally with the proportional income and expenditure then split between the general fund and HRA. The Council has budgeted for interest charges and other financing costs of £1,460,670 to the general fund and £1,944,580 to the HRA in 2023/24. The general fund is forecast to be £71,520 underspent due to a smaller capital borrowing requirement in 2022/23, the impact of which is a smaller Minimum Revenue Provision (MRP) charge than anticipated of £17,860, and a larger charge to the HRA of £53,660 from the resulting decrease in the general fund proportion of the pool.
- 4.6. The treasury team will continue to monitor the appropriate time to externally borrow based on the profile of spend and opportunities to 'internally' borrow, considering the movement in interest rates and the cost of carry of any borrowings taken. Attention must also be given to the maturity profile of the loans to ensure maturity dates are evenly spread so that the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below details the maturity profile of current loans.



4.7. Debt rescheduling is the reorganisation of existing debt in such a way as to amend the debt repayments, reduce the principal sum borrowed, alter the degree of volatility of debt or vary the interest payable, thus managing the risk. The treasury team, along with Link, continually monitor prospects for debt rescheduling to achieve overall financial benefit to the Council, particularly as opportunities for rescheduling are becoming more likely in the current rising interest rate climate.

## **5. Prudential Indicators**

5.1. All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices and within the treasury management and prudential indicators set in its Treasury Management Strategy Statement 2023/24. The Executive Director and Chief Finance Officer reports that no difficulties are envisaged for the current or future years in complying with these indicators.