

## Appendix B – Annual Treasury Management Mid-Year 2023/24

### 1. Introduction

The council has adopted the Chartered Institute of Public Finance and Accountancy *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the council to approve treasury management semi-annual and annual reports.

This report includes the new requirement in the 2021 Code, mandatory from 1<sup>st</sup> April 2023, of quarterly reporting of the treasury management prudential indicators. The non-treasury prudential indicators are incorporated in the Authority's normal quarterly budget reporting.

The Authority's treasury management strategy for 2023/24 was approved at a Council meeting on 22<sup>nd</sup> February 2023. The Authority has 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 Authority's treasury management strategy.

### 2. Local Context

On 31<sup>st</sup> March 2023, the council had net investments of £48.2m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m	31.03.24 Forecast £m
<b>General Fund CFR</b>	12,884	12,649
<b>Less: External Borrowing</b>	-3,052	-2,946
<b>Internal Borrowing</b>	9,832	9,703
<b>Less: Usable Reserves</b>	-43,220	-43,220
<b>Less: Working Capital Position</b>	-14,817	-14,817
<b>Net Debt (Investments)</b>	-48,205	-48,334

The treasury management position at 30<sup>th</sup> September and the change over the six months' is shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £000	Movement £000	30.9.23 Balance £000	30.9.23 Rate %
<b>Long-term borrowing</b>	2,821	-	2,821	4.04%
<b>Short-term borrowing</b>	231	- 53	178	4.04%
<b>Total borrowing</b>	<b>3,052</b>	<b>- 53</b>	<b>2,999</b>	<b>0</b>
<b>Long-term investments</b>	8,593	- 292	8,301	
<b>Short-term investments</b>	30,259	4,741	35,000	4.86%
<b>Cash and cash equivalents</b>	9,346	7,369	16,715	1.90%
<b>Total investments</b>	<b>48,198</b>	<b>11,818</b>	<b>60,016</b>	<b>0</b>
<b>Net [borrowing / investments]</b>	<b>- 45,146</b>	<b>- 11,871</b>	<b>- 57,017</b>	

## Borrowing

The council did not borrow to invest primarily for commercial return in this period.

## Borrowing Update

CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions for the council. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

## Borrowing Strategy and Activity

As outlined in the treasury strategy, the councils chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the councils long-term plans change being a secondary objective. The councils borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

There was a substantial rise in the cost of both short and long-term borrowing over the last 18 months. Bank Rate rose by 1% from 4.25% at the beginning of April to 5.25% at the end of September. Bank Rate was 2% higher than at the end of September 2022.

As at 30<sup>th</sup> September the council held £2.999m of loans, a decrease of £0.053m from 31<sup>st</sup> March 2023. This relates to a loan with the PWLB, with an interest rate of 4.04% for a 30-year period.

## Treasury Investment Activity

The CIPFA Treasury Management Code now defines treasury management investments as those investments which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

The Authority holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the half year, the Authority's investment balances ranged between £38.6m and £43.6m to timing differences between income and expenditure. The investment position is shown in table 3 below.

Table 3: Treasury Investment Position

	31.3.23 Balance £000	Net Movement £000	30.9.23 Balance £000	30.9.23 Income Return %	30.9.23 Weighted Ave Maturity Days
<b>Banks &amp; building societies (unsecured)</b>	9,346	7,369	16,715	1.90%	1
<b>Local authorities and other govt entities</b>	30,259	4,741	35,000	4.86%	338
<b>Bonds (Long Term)</b>	2,593	-13	2,580	4.34%	1,391
<b>Funds (Long Term)</b>	6,000	- 279	5,721	4.65%	-
<b>Total investments</b>	<b>48,198</b>	<b>11,818</b>	<b>60,016</b>		

Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

As demonstrated by the liability benchmark in this report, the Authority expects to be a long-term investor and treasury investments therefore include both short-term low risk instruments to manage day-to-day cash flows and longer-term instruments where limited additional risk is accepted in return for higher investment income to support local public services.

Bank Rate increased by 1% from 4.25% at the beginning of April to 5.25% by the end of September. Short-dated cash rates rose commensurately, with 3-month rates rising to around 5.25% and 12 month rates to nearly 6%.

The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 4 below.

Table 4: Investment Benchmarking

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Ave Maturity (days)	Rate of Return %
<b>31.03.2023</b>	4.79	A+	13%	310	4.16%
<b>30.09.2023</b>	4.72	A+	48%	179	5.29%
<b>Similar LAs</b>	4.43	AA-	57%	63	3.52%
<b>All LAs</b>	4.47	AA-	59%	13	3.67%

### Externally Managed Pooled Funds

£5.7m of the Authority's investments is invested in externally managed strategic pooled funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability.

These funds generated an average total return of -£0.08m (-1.37%), comprising a £0.155m (2.7%) income return which is used to support services in year, and £-0.233 (-4.07%) of unrealised capital loss.

### Statutory Override

In April 2023 the Department for Levelling Up, Housing and Communities published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended for two years until 31st March 2025 but no other changes have been made; whether the override will be extended beyond the new date is unknown but commentary to the consultation outcome suggests not. The Authority will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

### Non-Treasury Investments

The definition of investments in the Treasury Management Code now covers all the financial assets of the Authority as well as other non-financial assets which the Authority holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return).

Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) and Welsh Government also includes within the definition of investments all such assets held partially or wholly for financial return.

The Authority held £38m of investments made for commercial purposes in directly owned property.

## Treasury Performance

	23/24 Estimate £000	23/24 Budget £000	Variance £000
Interest Payable	123	134	- 11
Interest Receivable	- 2,150	- 1,225	- 925

### 3.Compliance

The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the principles in the Treasury Management Code and the Authority's approved Treasury Management Strategy. Compliance with specific investment limits is demonstrated in table 5 below.

Table 5: Investment Limits

	2023/24 Maximum	31.09.23 Actual	2023/24 Sector Limit	Complied?
<b>The UK Government</b>	-	-	n/a	Yes
<b>Local authorities &amp; other government entities</b>	£35m	£35m	Unlimited	Yes
<b>Secured Investments</b>	-	-	Unlimited	Yes
<b>Banks (unsecured)</b>	£16.7m	£16.7m	Unlimited	Yes
<b>Building Societies (unsecured)</b>	-	-	£5m	Yes
<b>Registered Providers (unsecured)</b>	-	-	£13m	Yes
<b>Money Market Funds</b>	-	-	Unlimited	Yes
<b>Strategic Pooled Funds</b>	£5.7m	£5.7m	£26m	Yes
<b>Real estate investment trusts</b>	-	-	£13m	Yes
<b>Other investments (bonds)</b>	£2.6m	£2.6m	£5m	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 6 below.

Table 8: Debt and the Authorised Limit and Operational Boundary

	2023/24 Maximum £000	30.9.23 Actual £000	2023/24 Operational Boundary £000	2023/24 Authorised Limit £000	Complied?
<b>Borrowing</b>	3,052	2,999	25,000	25,000	Yes

## Treasury Management Prudential Indicators

As required by the 2021 CIPFA Treasury Management Code, the Authority monitors and measures the following treasury management prudential indicators.

### Asset Benchmark

The asset 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. The asset benchmark itself represents an estimate of the cumulative amount of investment balances the council must hold on to fund its current capital and revenue plans.

	31.03.23 Actual £000	31.03.24 Forecast £000	31.03.25 Forecast £000	31.03.26 Forecast £000
<b>Loans CFR</b>	12,884	12,649	12,414	12,179
<b>External Borrowing</b>	- 3,052	- 2,900	- 2,800	- 2,700
<b>Internal (over) Borrowing</b>	<b>9,832</b>	<b>9,749</b>	<b>9,614</b>	<b>9,479</b>
<b>Balance Sheet Resources</b>	- 58,000	- 52,800	- 50,500	- 50,500
<b>Investments (new borrowing)</b>	<b>48,168</b>	<b>43,051</b>	<b>40,886</b>	<b>41,021</b>

	31.03.23 Actual £000	31.03.24 Forecast £000	31.03.25 Forecast £000	31.03.26 Forecast £000
<b>Treasury Investments</b>	48,168	43,051	40,886	41,021
<b>New Borrowing</b>	-	-	-	-
<b>Net investment requirement</b>	45,100	40,200	38,100	38,400
<b>Liquidity allowance</b>	- 10,000	- 10,000	- 10,000	- 10,000
<b>Asset benchmark</b>	<b>35,100</b>	<b>30,200</b>	<b>28,100</b>	<b>28,400</b>

The council has an asset benchmark rather than a liability benchmark as it does not have a borrowing requirement. The asset benchmark is a useful tool to understand the council's investment horizon.

### Maturity Structure of Borrowing

This indicator is set to control the council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	Upper Limit	Lower Limit	30.9.23 Actual	Complied?
<b>Under 12 months</b>	50%	0%	3.72%	Yes
<b>12 months and within 24 months</b>	50%	0%	3.88%	Yes
<b>24 months and within 5 years</b>	50%	0%	12.60%	Yes
<b>5 years and within 10 years</b>	50%	0%	24.68%	Yes
<b>10 years and above</b>	100%	100%	55.12%	

### Long-term Treasury Management Investments

The purpose of this indicator is to control the council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

	2023/24 £000	2024/25 £000	2025/26 £000	No fixed date £000
<b>Limit on principal invested beyond year end</b>	20,000	20,000	20,000	10,000
<b>Actual principal invested beyond year end</b>	8,301	8,593	8,593	-
<b>Complied?</b>	Yes	Yes	Yes	Yes

Long-term investments with no fixed maturity date include strategic pooled funds, real estate investment trusts and directly held equity but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

### Interest Rate Exposures

This indicator is set to control the council's exposure to interest rate risk. Bank Rate rose by 1.25% from 4.25% on 1<sup>st</sup> April to 5.25% September.

	2023/24 Target	30.9.23 Actual	Complied?
<b>Upper limit on one-year revenue impact of a 1% <u>rise</u> in interest rates</b>	471,000	361,470	Yes
<b>Upper limit on one-year revenue impact of a 1% <u>fall</u> in interest rates</b>	-371,000	-361,470	Yes