South Ribble Borough Council

Report of	Meeting	Date
Director of Finance and Section 151 Officer	Governance Committee	28th November 2023

TREASURY MANAGEMENT MID-YEAR REVIEW 2023/24

Is the report confidential ?	No
Is the decision key ?	No

Purpose of report

1. To report on Treasury Management performance and compliance with Prudential Indicators for the period ended 30th September 2023.

2. To present monitoring figures for the quarter ended 30th September 2023, including updated interest rate forecasts from Link Asset Services.

Recommendation to Governance Committee

3. That the report be noted.

Reasons for recommendations

4. Production of a Mid-Year Report is a requirement under the Treasury Management Code of Practice.

Other options considered and rejected

5. Not applicable

Corporate priorities

6. The report relates to the following corporate priorities:

An exemplary council	**Thriving communities**
A fair local economy that works for everyone	**Good homes, green spaces, healthy places**

Background to the report

7. At its meeting on 1st March 2023, Council approved the Treasury Management Policy Statement; Prudential Indicators; Investment Strategy; and the Annual Minimum Revenue Provision (MRP) Policy for 2023/24.

8. The Treasury Management Outturn Report for 2022/23 was presented to Governance Committee on 8th August 2023.

9. The Code of Practice for Treasury Management requires Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

Capital Expenditure and Financing 2023/24

10. The Council undertakes capital expenditure on long-term activities. These activities may either be:
    - financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no impact on the Council's borrowing need; or
    - if sufficient financing is not available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

11. Capital expenditure is monitored monthly and reported to Cabinet every quarter.

12. The report for the quarter ended 30th September 2023 was considered by Cabinet on 15th November 2023 and highlighted a reduced forecast borrowing requirement for the year of £12.609m compared to an original forecast of £18.057m (£21.306m at July 2023).

Table 1 - Capital Expenditure and Financing	Budget 2023/24 Approved at Council Feb 2023 £'000	Budget 2023/24 Approved by Cabinet for 4 months to July 2023 £'000	Slippage and reprofiling of budget (to)/from future years £'000	Quarter 2 2023/24 Variations £'000	Revised Budget 2023/24 as at 31st September 2023 £'000
COSTS					
Good homes, green spaces and healthy places	24,168	32,174	(10,931)	68	21,310
A fair economy that works for everyone	14,021	15,760	(13,453)	-	2,306
Thriving communities	88	1,571	-	-	1,571
An exemplary council	1,753	3,264	(1,171)	-	2,093
Total Forecast Expenditure	**40,030**	**52,768**	**(25,556)**	**68**	**27,280**
					-
RESOURCES					-
Decarbonisation Grant		1,713	-	-	1,713
Disabled Facilities Grants	774	1,450		68	1,518
LCC Home Adaptations		-			-
Homes England	5,760	6,169	(1,500)		4,669
Lottery Funding		-			-
EV Charging		160	-	-	160
Sport England		82	-	-	82
Town Deal	10,000	11,550	(9,866)		1,684
Brownfield Grant - Town Deal		516	-	-	516
Other Grants		22	-	-	22
Government Grants	**16,534**	**21,662**	**(11,366)**	**68**	**10,364**
Capital Receipts	1,549	1,549	(1,549)	-	-
CIL	745	597	(597)	-	-
External Contributions		161	-	-	161
Revenue Contributions		-	-	-	-
Reserves	1,600	3,849	(1,238)		2,611
Section 106 - Affordable	1,413	3,268	(2,053)		1,215
Section 106 - Other	132	376	(56)		320
Unsupported Borrowing	18,057	21,306	(8,697)		12,609
Total Forecast Resources	**40,030**	**52,768**	**(25,556)**	**68**	**27,280**

Full details are outlined in the report to Cabinet 15th November 2023; 2023/24 Capital Programme and Balance Sheet Monitoring Report position at 30th September 2023.

Capital Financing Requirement 2023/24

13. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. It represents the unfinanced capital expenditure in 2023/24 plus unfinanced capital expenditure from prior years which has not yet been paid for by revenue or other resources.

14. The CFR is not matched in full by external borrowing, as the Council has "under borrowed" by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken, then the interest payable would have been at a higher rate. Use of the Council's own cash helps to achieve savings in net interest.

15. The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum

Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need.

16. The Council's CFR for the year is shown below and represents a key prudential indicator;

Table 2 - Capital Financing Requirement	**2022/23** **Outturn** **£'000**	**2023/24** **Forecast as at 30/9/23** **£'000**
Opening CFR – 1 April 2023	3,511	6,157
Increase in Borrowing (Table 1) during 2023/24	3,004	12,609
Less MRP – charged in 2023/24	(358)	(346)
Closing CFR – 31 March 2024	**6,157**	**18,420**

The CFR and Gross Debt

17. In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not exceed the total of the CFR.

18. The borrowing position is summarised below, and no borrowing has been undertaken. Planned Capital Expenditure will be contained within the Council's overall Treasury position where possible, however borrowing will potentially be required in the future to fund the planned Capital Programme. The Council will however retain its "under-borrowed" position.

Table 3 - Actual Debt : CFR	**2022/23** **Actual** **£'000**	**2023/24** **As at 30/9/23** **£'000**
Debt < 12 mth	0	0
Debt > 12 mth	0	0
Gross Debt	**0**	**0**
Capital Financing Requirement (Table 2)	6,157	18,420
Under / (Over) Borrowing	**6,157**	**18,420**

19. **The authorised limit**. This is the "affordable borrowing limit" required by Section 3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The limit set for 2023/24 by Council on 1st March 2023 was

£30.401m and actual debt is currently NIL. The Council has therefore maintained borrowing within its authorised limit throughout the year.

20. **The operational boundary**. This is the expected borrowing position of the Council during the year. The operational boundary set for 2023/24 was £27.637m and actual debt is currently NIL. The Council remained within its operational boundary throughout the year.

Investments

21. The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by Council for 2023/24. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, Standard and Poor's, Moody's and Fitch Group, supplemented by additional market data. Link Asset Services, the Council's treasury advisors, provide suggested investment durations for the approved counterparties.

22. The approved Counterparties for 2023/24 are outlined at ***Appendix B.***

23. Cash has been invested in term deposits and is also held in highly liquid accounts. This enables the Council to take advantage of the better rates of the term deposits whilst also managing the Council's cash flow requirements.

24. Investment returns had started to improve by the beginning of this Financial Year from very low rates in the immediately previous years, and rates continued to rise in the period to September 30th. Yields have provided a return to date of 3.85% compared with 1.64% in 2022/23.

25. The Council has continued to achieve budget savings by maintaining a position of under borrowing, which means that it has used its own cash balances to finance capital expenditure rather than taking additional external loans, and has invested where prudent to provide a return with cash not immediately required.

26. Average Investment performance for the year to date is summarised overleaf;

Table 4 - Average Investment Yield	**Average Daily Investment**	**Earnings to 30/09/23**	**Average Rate**
	£'000	**£**	**%**
Debt Management Office	9,923	237,991	4.81
Local Authority Investments	14,665	261,881	3.58
Notice Accounts	4,286	13,019	1.22
Call Accounts	1,767	21,553	1.22
Money Market Funds	11,994	289,191	4.70
Total	**42,634**	**823,636**	**3.85**

This compares to a Link "benchmark" yield of 4.74%. Many of the Council's investments, especially those in existence at the beginning of the financial year, were made prior to recent interest rate rises – hence the shortfall compared to the benchmark, however any new investments will attract higher rates of return. It should also be noted that investment income is forecast to exceed the amount budgeted for.

27. Actual investments as at 30th September 2023 are summarised below;

Table 5 - Actual Investments as at 30/9/23	Type	Amount £'000	Rate %	Date	Maturity
Chorley Borough Council	Term	6,000	4.70%	15-Mar-23	15-Jan-24
London Borough of Barking & Dagenham	Term	5,000	5.40%	26-Sep-23	14-Mar-24
Stockport MBC	Term	5,000	5.30%	26-Sep-23	16-Feb-24
Debt Management Office	Term	4,500	5.26%	08-Sep-23	19-Oct-23
Debt Management Office	Term	9,500	5.17%	29-Sep-23	19-Oct-23
Fixed Term Deposit sub total		**30,000**	**Listed in Order of Maturity**		
Barclays BPA Deposit Account	Call	717	2.00%	On Call	
Call Accounts sub total		**717**			
Federated	MMF	4,950	5.25%	On Call	
Aberdeen Standard	MMF	4,950	5.21%	On Call	
Blackrock	MMF	4,950	5.09%	On Call	
Money Market Funds sub total		**14,850**			
Total		**45,567**			

These investments are <u>within</u> the approved Counterparty Limits outlined at ***Appendix A***.

Advice of Link Asset Services

28. Link Asset Services' assessment of the Economy and Interest Rates is presented at ***Appendices B & C.***

29. Latest forecasts show PWLB borrowing rates peaking December 2023 - June 2024 then gradually reducing, however the volatility of world and domestic markets must be stressed.

Summary

30. Members are asked to note that the Council has;

- remained within its Prudential Indicators;
- adhered to its approved Counterparty Limits;
- not entered into any new borrowing over the course of the 6 months to 30th September;

- retained its “under borrowed” position;
- has achieved an increased investment yield of 3.85%

Climate change and air quality

31. The work noted in this report does not impact the climate change and sustainability targets of the Councils Green Agenda and all environmental considerations are in place.

Equality and diversity

32. Not applicable

Risk

33. Regular monitoring and reporting of the Council’s Treasury Management position ensure compliance with Prudential Indicators and the Treasury Management Code of Practice.

Comments of the Statutory Finance Officer

34. There are no direct financial implications arising from this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategy for 2023/24 approved previously by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies.

35. The Council is compliant with its Prudential Indicators, Counterparty limits and the latest PWLB reforms.

Comments of the Monitoring Officer

36. Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management in the Public Services (2017 edition).

Background documents

- CIPFA Treasury Management in the Public Services: Code of Practice & Guidance Notes
- Treasury Management Policy Statement 2023/24 to 2025/26 (Council 1st March 2023)
- Treasury Management Outturn Report 2022/23 (Governance Committee 1st August 2023)
- 2023/24 Corporate Capital Programme and Balance Sheet Monitoring Report Position at 30th September 2023 (Cabinet 15th November 2023)

Appendices

Appendix A: Approved Counterparty limits 2023/24

Appendix B: Link Commentary - Economic Outlook

Appendix C: Link Interest Rate Forecasts

Louise Mattinson

Director of Finance (s151 Officer)

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APPENDIX A

Investment Counterparties 2023/24

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO) UK Local Authority	Yellow Yellow	6 months 1 year 2 years	Unlimited £3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

APPENDIX B

Summarised View from Link Treasury Advisors – The Economy and Interest Rates 2023/24

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

• Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

• Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

• In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

• On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

• Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

THE BALANCE OF RISKS TO THE UK ECONOMY

• The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

• Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

• The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

• UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

• Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

• Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

• The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt.
Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)

• Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

APPENDIX C

Updated Interest Rate Forecasts (as at 7/11/23) supplied by Link Asset Services (%)

Link Group Interest Rate View	07.11.23												
	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	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80