

Title of meeting:	Governance and Audit and Standards Committee
Date of meeting:	20 September 2023
Subject:	Treasury Management Monitoring Report for the First Quarter of 2023/24
Report by:	Chris Ward, Director of Finance and Resources (Section 151 Officer)
Wards affected:	All
Key decision:	No
Full Council decision:	No

1. Executive Summary

This report outlines the Council's performance against the treasury management indicators approved by the City Council on 14th March 2023.

2. Purpose of report

The purpose of the report is to inform members and the wider community of the Council's Treasury Management position, i.e., its borrowing and cash investments as of 30th June 2023 and of the risks attached to that position.

Whilst the Council has a portfolio of investment properties and some equity shares which were acquired through the capital programme; these do not in themselves form part of the treasury management function.

3. Recommendations

It is recommended that the following be noted:

3.1 That the Council's Treasury Management activities have remained within the Treasury Management Policy 2023/24 in the period up to 30th June 2023.

3.2 That the actual Treasury Management indicators as of 30th June 2023 set out in Appendix A be noted.

4. Background

The Council's treasury management operations encompass the following:

- Cash flow forecasting (both daily balances and longer-term forecasting)
- Investing short term surplus cash flows in approved cash investments
- Borrowing to finance short term cash deficits and capital payments
- Management of debt (including rescheduling and ensuring an even maturity profile)

The key risks associated with the Council's treasury management operations are:

- Credit risk - that the Council is not repaid, with due interest in full, on the day repayment is due
- Liquidity risk - that cash will not be available when it is needed, or that the ineffective management of liquidity creates additional, unbudgeted costs
- Interest rate risk - that the Council fails to get good value for its cash dealings (both when borrowing and investing) and the risk that interest costs incurred are more than those for which the Council has budgeted
- Maturity (or refinancing risk) - this relates to the Council's borrowing or capital financing activities, and is the risk that the Council is unable to repay or replace its maturing funding arrangements on appropriate terms
- Procedures (or systems) risk - that a treasury process, human or otherwise, will fail and planned actions are not carried out through fraud or error

The treasury management budget accounts for a significant proportion of the Council's overall budget.

The Council's Treasury Management Policy aims to manage risk whilst optimising costs and returns. The Council monitors and measures its treasury management position against the indicators described in this report. Treasury management monitoring reports are brought to the Governance and Audit and Standards Committee for scrutiny.

The Governance and Audit and Standards Committee noted the recommendations to Council contained within the Treasury Management Policy 2023/24 on 8th March 2023. The City Council approved the Treasury Management Policy 2023/24 on 14th March 2023.

5. Reasons for Recommendations

To highlight any variance from the approved Treasury Management Policy and to note any subsequent actions.

To provide assurance that the Council's treasury management activities are effectively managed.

6. Integrated Impact Assessment

An integrated impact assessment is not required as the recommendations do not directly impact on service or policy delivery. Any changes made arising from this report would be subject to investigation in their own right.

7. Legal Comments

The Section 151 Officer is required by the Local Government Act 1972 and by the Accounts and Audit Regulations 2015 to ensure that the Council’s budgeting, financial management, and accounting practices meet the relevant statutory and professional requirements. Members must have regard to and be aware of the wider duties placed on the Council by various statutes governing the conduct of its financial affairs.

8. Director of Finance and Resources Comments

All financial considerations are contained within the body of the report and the attached appendices.

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Signed by Director of Finance and Resources (Section 151 Officer)

Appendices:

Appendix A: Treasury Management Monitoring Report for the First Quarter of 2023/24

Background list of documents: Section 100D of the Local Government Act 1972

The following documents disclose facts or matters, which have been relied upon to a material extent by the author in preparing this report:

<u>Title of document</u>	Location
1 Treasury Management Records	Financial Services

APPENDIX A: TREASURY MANAGEMENT MONITORING REPORT FOR THE FIRST QUARTER OF 2023/24

A1. SUMMARY OF TREASURY MANAGEMENT INDICTORS

The City Council approved the authorised limit (the maximum amount of borrowing permitted by the Council) and the operational boundary (the maximum amount of borrowing that is expected) when it considered the budget on 28th February 2023. The Council's debt on 30th June was as follows:

Prudential Indicator	Limit £m	Actual £m
Authorised Limit - the maximum amount of borrowing permitted by the Council	1,100	743
Operational Boundary - the maximum amount of borrowing that is expected	1,068	743

The maturity structure of the Council's fixed rate borrowing was:

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	10%	20%	30%	40%	40%	40%
Actual proportion of loans maturing	1%	1%	4%	13%	15%	8%	31%	27%

The maturity structure of the Council's variable rate borrowing was:

	Under 1 Year	1 to 2 Years	3 to 5 Years	6 to 10 Years	11 to 20 Years	21 to 30 Years	31 to 40 Years	41 to 50 Years
Minimum proportion of loans maturing	0%	0%	0%	0%	0%	0%	0%	0%
Maximum proportion of loans maturing	10%	10%	20%	20%	30%	40%	40%	40%
Actual proportion of loans maturing	2%	2%	7%	11%	24%	26%	13%	15%

Surplus cash invested for periods longer than 365 days on 30 June 2023 was:

	Limit	Quarter 1 Actual
	£m	£m
Maturing after 31/3/2024	130	14
Maturing after 31/3/2025	50	8
Maturing after 31/3/2026	50	5

A2. GOVERNANCE

The Treasury Management Policy approved by the City Council on 14th March 2023 provides the framework within which treasury management activities are undertaken.

There have been no breaches of these policies during 2023/24 up to the quarter ending 30th June 2023.

A3. INTEREST RATE FORECASTS

The Council has appointed Link Group as its treasury advisor and part of their service is to assist the Council to formulate a view on interest rates.

The latest forecasts are shown below.

Link Group Interest Rate View 26.06.23													
	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26
BANK RATE	5.00	5.50	5.50	5.50	5.25	4.75	4.25	3.75	3.25	2.75	2.75	2.50	2.50
3 month ave earnings	5.30	5.60	5.50	5.30	5.00	4.50	4.00	3.50	3.00	2.70	2.60	2.50	2.50
6 month ave earnings	5.80	5.90	5.70	5.50	5.10	4.60	4.00	3.50	3.00	2.70	2.60	2.60	2.60
12 month ave earnings	6.30	6.20	6.00	5.70	5.30	4.80	4.10	3.60	3.10	2.80	2.70	2.70	2.70
5 yr PWLB	5.50	5.60	5.30	5.10	4.80	4.50	4.20	3.90	3.60	3.40	3.30	3.30	3.20
10 yr PWLB	5.10	5.20	5.00	4.90	4.70	4.40	4.20	3.90	3.70	3.50	3.50	3.50	3.40
25 yr PWLB	5.30	5.40	5.20	5.10	4.90	4.70	4.50	4.20	4.00	3.90	3.80	3.80	3.70
50 yr PWLB	5.00	5.10	5.00	4.90	4.70	4.50	4.30	4.00	3.80	3.60	3.60	3.50	3.50

PWLB is the Public Works Loans Board

The Bank of England base rate started the quarter at 4.25% but this was followed by a 0.25% increase in May and a further 0.5% increase on 22 June 2023 taking the rate to 5.0%.

Since this quarter has ended the Bank of England's Monetary Policy Committee (MPC) has increased the Bank Rate by a further 25 basis points to 5.25%.

Link's central forecast for interest rates was most recently updated on 26th June 2023 and despite the Bank Rate increase in August, these forecasts have not been changed. The forecasts reflect the view that short and long-dated interest rates will be elevated for some while, as the Bank of England seeks to reduce inflation, against a backdrop of a tight labour market and rising average earnings.

The expectation is that rates will be raised to at least 5.5% in the short-term and this rate may be maintained until mid-2024. Link anticipate this will weaken the UK economy sufficiently to push it into recession, however, the markets are currently pricing in a slightly higher base rate peak of between 6% and 6.25%.

A4. BORROWING ACTIVITY

No borrowing was undertaken in the first quarter of 2023/24.

The Council's gross borrowing on 30th June 2023 of £743m is within the Council's Authorised Limit (the maximum amount of borrowing approved by City Council) of £1,100m and within the Council's Operational Boundary (the limit beyond which borrowing is not expected to exceed) of £1,068m.

The Council plans for gross borrowing to have a reasonably even maturity profile. This is to ensure that the Council does not need to replace large amounts of maturing borrowing when interest rates could be unfavourable.

The actual maturity profile of the Council's borrowing is within the limits contained within the Council's Treasury Management Policy (see paragraph A1).

Early Redemption of Borrowing

No debt rescheduling or early repayment of debt has been undertaken during the first quarter of 2023/24 as it has not been financially advantageous for the Council to do so.

A5. INVESTMENT ACTIVITY

In accordance with the Annual Investment Strategy which forms part of the Treasury Management Policy Statement approved by the Council on 14 March 2023, the investment priorities of security first, portfolio liquidity second and then yield are followed. The aim is to achieve the optimum yield that is commensurate with proper levels of security and liquidity within the Council's appetite for risk.

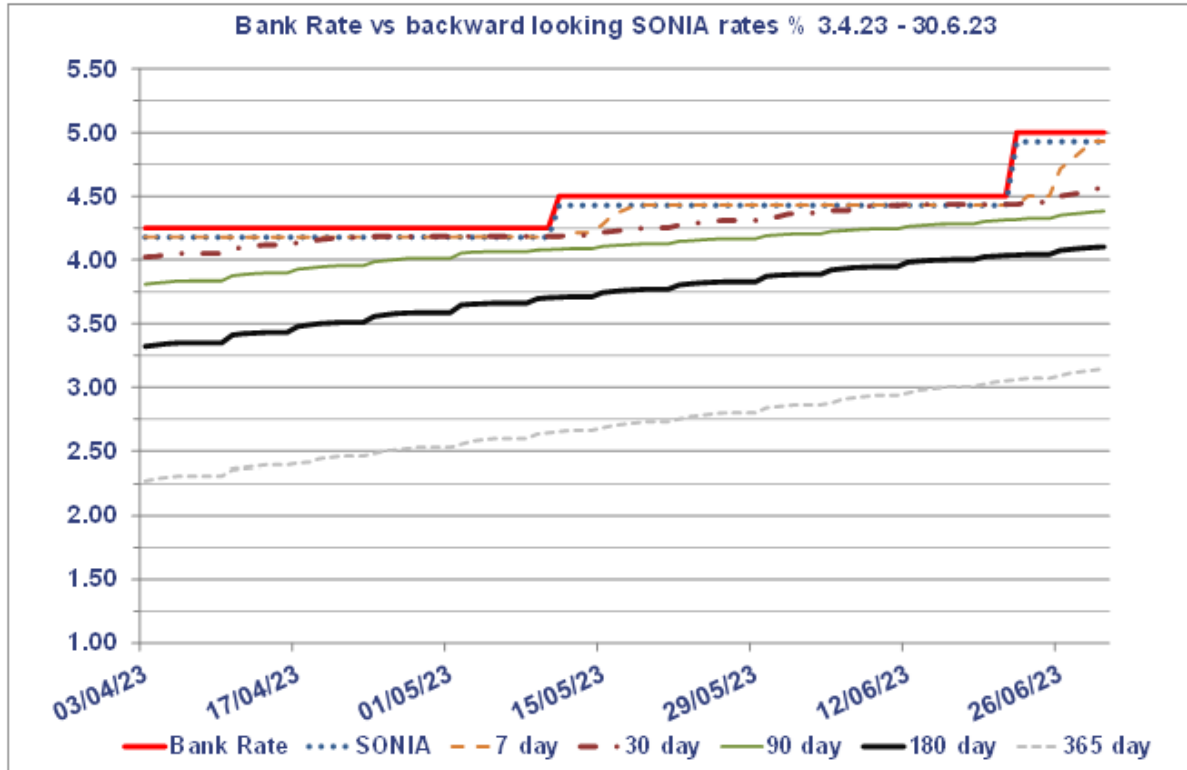
In the current climate, once sufficient investments are kept short-term to cover cashflow requirements, there is a benefit to seek out value available in periods up to 12 months with highly creditworthy counterparties. These counterparties are monitored regularly to ensure that they continue to meet the Council's minimum requirements and there have been few changes to counterparties during the current quarter.

The average level of funds available for investments was £415m in the 3 months to 30th June 2023. The funds invested made an average annualised return of 3.75% in the quarter. This is compared with the performance in prior years in the table below.

Year	Overall Return
2021/22	0.31%
2022/23	1.42%
2023/24 (to 30 th June)	3.53%

	Average Value (Proportion) of Portfolio	Annual Return at 31 March 2023	Annualised Return at 30 June 2023
Externally Managed Funds - Tradable Instruments	£11M (3%)	-6.52%	-8.15%
Tradable Structured Interest-Bearing Deposit	£20M (5%)	-0.1%	2.6%
Vanilla Interest Bearing Deposits	£384M (92%)	1.72%	4.15%
Overall Return	100%	1.42%	3.75%

The above returns can be compared to the backward-looking rates in the graph below which reflects where average market rates were positioned when investments were placed.



As market interest rates have increased over the period, the returns achieved on the Council's 'Vanilla Interest Bearing Deposits' have also followed a steady upward trend in the first quarter of 2023/24.

With the increases in the base rate, new investments made at the start of this financial year have had higher returns, and this has helped to increase the overall rate of return on the Council's investments. This is expected to continue as more of the Council's investments, which were made when interest rates were lower, reach maturity and any surplus funds can be reinvested at current rates, subject to considerations around the security and liquidity of the funds.

However, when interest rates are increasing, the returns on long-term managed funds and tradable structured notes often move in the opposite direction. This is shown by a fall in the return on the externally managed funds held by the Council. This is due to the investments trading at a discount below their face value in the period as the investments were made when rates were lower than they are at present. This is partly offset by a positive return overall on the tradable structured notes in this quarter. This has arisen due to one of these notes (£10m), maturing in June and the return being realised. For the whole of this first quarter this note has paid interest at 3.5%, which was a good rate when the note was originally purchased in June 2018.

A6. COMBINED BORROWING AND INVESTMENT POSITION (NET DEBT)

The Councils net debt position on 30th June 2023 is summarised in the table below.

	Principal	Average Interest Rate	Interest to 30th June 2023
Borrowing (including finance leases & private finance initiative (PFI) schemes)	£743m	3.45%	£6.41m
Investments	(£390m)*	(3.75%)	(£3.9m)
Net Debt	£353m		£2.51m

*Although the Council's investments were £390m on 30th June 2023, the average sum invested over this period was £415m.