

<b>Meeting of:</b>	<b>GOVERNANCE AND AUDIT COMMITTEE</b>
<b>Date of Meeting:</b>	<b>9 NOVEMBER 2023</b>
<b>Report Title:</b>	<b>TREASURY MANAGEMENT HALF YEAR REPORT 2023-24</b>
<b>Report Owner / Corporate Director:</b>	<b>CHIEF OFFICER – FINANCE, PERFORMANCE AND CHANGE</b>
<b>Responsible Officer:</b>	<b>NIGEL SMITH, GROUP MANAGER – CHIEF ACCOUNTANT</b>
<b>Policy Framework and Procedure Rules:</b>	<b>Paragraph 22.8 of the Financial Procedure Rules notes that the Governance and Audit Committee is responsible for ensuring effective scrutiny of the Treasury Management policies and practice. This report supports this scrutiny function.</b>
<b>Executive Summary:</b>	<p><b>The report provides an update on Treasury Management activity for the half year 1 April – 30 September 2023.</b></p> <p><b>As at 30 September 2023 the Council had £99.79 million of long term debt, £13.36 million of other long term liabilities and £85.50 million of short term investments, an overall net debt position of £27.65 million.</b></p> <p><b>The average interest rate for debt was 4.69% (excluding Salix borrowing which is interest free) and for investments it was 4.42%.</b></p> <p><b>The Council has a manageable maturity structure of borrowing, with its current debt repayable at various points over the next 30 years.</b></p> <p><b>The Council has complied with the Chartered Institute of Public Finance and Accountancy’s Treasury Management Code and Welsh Government Investment Guidance.</b></p>

## **1. Purpose of Report**

The purpose of this report is to update the Governance and Audit Committee on the mid-year review and half-year position for treasury management activities and treasury management indicators for 2023-24.

## **2. Background**

- 2.1 Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council is 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 financial risk are therefore central to the Council's prudent financial management.
- 2.2 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2021 edition (the CIPFA Code), which requires the Council to approve a Treasury Management Strategy before the start of each financial year, and, as a minimum, a semi-annual and annual treasury outturn report. The CIPFA Code also requires the Council to set a number of Treasury Management Indicators, which are forward looking parameters, and enable the Council to measure and manage its exposure to treasury management risks, and these are included throughout this report. Welsh Government (WG) guidance issued in November 2019 on Local Authority Investments requires the Council to approve an Investment Strategy before the start of each financial year. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the Welsh Government Guidance.
- 2.3 In 2021 CIPFA published an updated version of the Prudential Code for Capital Finance in Local Authorities (the Prudential Code). The Prudential Code includes a requirement for Local Authorities to provide a Capital Strategy, which is a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The definition of investments in the revised 2021 CIPFA Code covers all the financial assets of the Council as well as other non-financial assets which the authority holds primarily for financial return. The Council's Capital Strategy 2023-24 complied with CIPFA's requirement and included the Prudential Indicators along with the details regarding the Council's non-treasury investments. The Capital Strategy and Treasury Management Strategy should be read in conjunction with each other as they are interlinked, as borrowing and investments are directly impacted upon by capital plans, and both were approved together by Council on 1 March 2023.
- 2.4 The Council's treasury management advisors are Arlingclose. The current services provided to the Council include:
- advice and guidance on relevant policies, strategies and reports
  - advice on investment decisions
  - notification of credit ratings and changes
  - other information on credit quality
  - advice on debt management decisions
  - accounting advice
  - reports on treasury performance
  - forecasts of interest rates
  - training courses

### **3. Current situation / proposal**

#### **3.1 External Context – Economic Background**

- 3.1.1 The Consumer Price Index (CPI) inflation dropped to 6.7% in August from 6.8% in July, which was below the forecasted level. This drop was driven by factors beyond energy prices, with core CPI inflation (excluding energy, food, beverages, and tobacco) at 6.2%. The rate in September remained at 6.7%.
- 3.1.2 In quarter 2 2023, UK Gross Domestic Product (GDP), a measure of the size and health of the economy, increased by 0.2%, slightly better than expected in the August Monetary Policy Report. Household consumption and business investment exceeded expectations, growing by 0.6% and 3.4% respectively. However, housing investment continued to decline, falling by 2.3% in the quarter and 7.7% compared to the previous year. July saw a 0.5% decrease in monthly GDP, in contrast to a 0.5% rise in June.
- 3.1.3 On 20th September 2023 the Bank of England's Monetary Policy Committee voted by a majority of 5-4 to maintain the official Bank Rate at 5.25% and did not increase them again as anticipated.

#### **3.2 Public Works Loan Board (PWLB) Lending Facility Advice, Revised CIPFA Codes**

- 3.2.1 The Council continues to undertake its duties in line with the current guidance for the PWLB lending facility which was significantly revised by HM Treasury in August 2021. Authorities that are purchasing or intending to purchase investment assets primarily for yield, or financial return, will not be able to access funding from the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.
- 3.2.2 The Council's treasury management activities are undertaken in line with CIPFA's Prudential Code for Capital Finance and CIPFA's Treasury Management Code. To comply with the Prudential Code authorities must not borrow to invest primarily for financial return. The Prudential Code also states it is not prudent for local authorities to make investment or spending decisions that will increase the Capital Financing Requirement (CFR) unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold, however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments. The Council has complied with the full requirements of both codes during the first half of 2023-24.

#### **3.3 Treasury Management half-year 2023-24**

- 3.3.1 The Council has complied with its legislative and regulatory requirements during the period 1 April to 30 September 2023. The Treasury Management Strategy 2023-24 was approved by Council on 1 March 2023. The quarter 1 report was presented to Cabinet on 18 July 2023.

3.3.2 A summary of the treasury management activities is shown in the Treasury Management Half Year Report to 30 September 2023 at **Appendix A**. The Council's external debt and investment position at 30 September 2023 is shown in Table 1 below, and more detail is provided within the appendix within Section 3: External Debt and Investment Position, Section 4: Borrowing and Section 5 Treasury Investments. As with the previous year, no long-term borrowing has been taken out in 2023-24 and no debt rescheduling has been undertaken as there has been no opportunity to make significant savings. However, should the opportunity arise to reschedule any loans at a preferential rate, this would be done.

Favourable cash flows continue to provide surplus funds for investment and the balance on investments held at 30 September 2023 was £85.5 million, with an average interest rate of 4.42%. The total balance of investments has increased compared to those at 31 March 2023, when the balance held was £74.50 million, at an average interest rate of 2.55%.

**Table 1: Council's external debt and investment position as of 30 September 2023**

<b>Investments for Treasury Purposes</b>	<b>Principal as at 31/03/2023 £m</b>	<b>Principal as at 30/09/2023 £m</b>	<b>Average Rate 30/09/2023 %</b>
<b>External Long Term Borrowing</b>			
Public Works Loan Board	77.62	77.62	4.70
Lender's Option Borrower's Option	19.25	19.25	4.65
Salix Loans (interest Free)	3.06	2.92	NIL
<b>Total External Long Term Borrowing</b>	<b>99.93</b>	<b>99.79</b>	<b>4.69*</b>
<b>Other Long Term Liabilities</b>			
Private Finance Initiative**	13.90	13.23	
Other Long Term Liabilities	0.23	0.13	
<b>Total Other Long Term Liabilities</b>	<b>14.13</b>	<b>13.36</b>	
<b>Total Gross Debt</b>	<b>114.06</b>	<b>113.15</b>	
<b>Investments for treasury management purposes</b>			
Debt Management Office	7.50	12.00	5.22
Local Authorities	53.00	43.00	4.16
Money Market Funds (instant access)	NIL	18.50	5.32
Banks	14.00	12.00	3.19
<b>Total Treasury Investments</b>	<b>74.50</b>	<b>85.50</b>	<b>4.42</b>
<b>Net Debt</b>	<b>39.56</b>	<b>27.65</b>	

\* Excluding Salix loans which are interest free

\*\* (PFI) arrangement for the provision of a Secondary School in Maesteg 10.50 years remaining term

3.3.3 The £19.25 million in Table 1 above relates to Lender's Option Borrower's Option (LOBO) loans which have a maturity date of 2054 though these may be rescheduled in advance of this maturity date. The LOBO rate and term may vary in the future depending on the prevailing rates at one of the bi-annual trigger points (these being July and January) and, therefore, the Council being given the option to accept the increase or repay the loan without incurring a penalty. There have been significant interest rate rises recently, with an expectation that they may rise further, thus the lender could still exercise this option in the future.

- 3.3.4 The Total Other Long Term Liabilities figure of £13.36 million at 30 September 2023 includes £13.23 million for the Council's Private Finance initiative (PFI) arrangement for the provision of a Secondary School in Maesteg. The Other Long-Term Liabilities are for the Innovation Centre and Waste Contract.
- 3.3.5 Both the CIPFA Code and Welsh Government Guidance require the Council to invest its funds prudently and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return. Investment decisions are made by reference to the lowest published long-term credit rating from Fitch, Moody's or Standard and Poor's to ensure that this lies within the Councils' agreed minimum credit rating.
- 3.3.6 The Council defines high credit quality as organisations and securities having a credit rating of A- (A3 for Moody's) or higher and the Council does not invest in any organisation below this level. **Schedule A** in **Appendix A** shows the equivalence table for credit ratings for Fitch, Moody's, and Standard and Poor's and explains the different investment grades.
- 3.3.7 There is one long-term investment (original duration of 12 months or more) outstanding as at 30 September 2023 of £5 million with Medway Council. This is repayable within the next 12 months. All other investments at 30 September 2023 are short term deposits including instant access and notice accounts.
- 3.3.8 The Treasury Management Code requires the Council to set and report on a number of Treasury Management Indicators. The indicators either summarise the expected activity or introduce limits upon the activity. Details of the estimates for 2023-24 set out in the Council's Treasury Management Strategy compared to the actual at 30 September 2023 are shown in **Appendix A** and these show that the Council operated within the approved limits throughout the period.

#### **4. Equality implications (including Socio-economic Duty and Welsh Language)**

- 4.1 The protected characteristics identified within the Equality Act, Socio-economic Duty and the impact on the use of the Welsh Language have been considered in the preparation of this report. As a public body in Wales the Council must consider the impact of strategic decisions, such as the development or the review of policies, strategies, services and functions. This is an information report, therefore it is not necessary to carry out an Equality Impact assessment in the production of this report. It is considered that there will be no significant or unacceptable equality impacts as a result of this report.

#### **5. Well-being of Future Generations implications and connection to Corporate Well-being Objectives**

- 5.1 The well-being goals identified in the Act were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the achievement of well-being goals/objectives because of this report.

#### **6. Climate Change Implications**

6.1 The Climate Change implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon the environment because of this report.

## **7. Safeguarding and Corporate Parent Implications**

7.1 The Safeguarding and Corporate Parenting implications were considered in the preparation of this report. It is considered that there will be no significant or unacceptable impacts upon Safeguarding and Corporate parenting because of this report.

## **8. Financial Implications**

8.1 The financial implications are reflected within the report and attached at **Appendix A**.

## **9. Recommendation**

9.1 It is recommended that the Governance and Audit Committee note the treasury management activities for 2023-24 for the half year period 1 April 2023 to 30 September 2023 and the projected Treasury Management Indicators for 2023-24.

## **Background documents**

None