



COMMITTEE TITLE: Audit & Scrutiny Committee

DATE: 26/09/2023

REPORT TITLE:	Treasury Management April - July Update
REPORT OF:	Tim Willis, Interim Director – Resources

REPORT SUMMARY

This report gives an update on the Council's treasury management activity and performance for the period April to July 2023.

RECOMMENDATIONS

To note the Council's treasury management activity and performance for the period April to July 2023

SUPPORTING INFORMATION

1.0 REASONS FOR RECOMMENDATIONS

To enable the scrutiny of the Council's Treasury Management activity and performance in 2023/24 in compliance with CIPFA's Treasury Management in the Public Services: Code of Practice (the CIPFA Code 2021 Edition) and generally accepted good practice

2.0 OTHER OPTIONS CONSIDERED

N/A

3.0 BACKGROUND INFORMATION

Main Report

UK Economy and Interest Rate Forecasts

1. The period April to July saw:

- CPI inflation falling from 10.1% to 8.7% in the twelve months to April, before remaining at 8.7% in May and falling to 7.9% in June and 6.8% in July
- Core CPI inflation (excluding energy, food, alcohol and tobacco rose in the twelve months to both April and May, reaching a new 31-year high of 7.1% before falling to 6.9% in June and July
- A tighter labour market in April, as the 3myy growth of average earnings rose from 6.1% to 6.5%;
- Interest rates rise by a further 75bps over the quarter, taking Bank Rate from 4.25% to 5.00% in July.
- 10-year gilt yields nearing the “mini-Budget” peaks, as inflation surprised to the upside.

2. The following table shows bank rate and PWLB rate forecasts up to June 2026 (provided by Link Group, the Council’s treasury advisors):

	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
Bank Rate	5.50%	5.50%	5.50%	5.25%	4.75%	4.25%	3.75%	3.25%	2.75%	2.50%	2.50%
PWLB Rates											
- 5 years	5.60%	5.30%	5.10%	4.80%	4.50%	4.20%	3.90%	3.60%	3.60%	3.40%	3.30%
- 10 years	5.20%	5.00%	4.90%	4.70%	4.40%	4.20%	3.90%	3.70%	3.50%	3.50%	3.40%
- 25 years	5.40%	5.20%	5.10%	4.90%	4.70%	4.50%	4.20%	4.00%	3.90%	3.80%	3.70%
- 50 years	5.10%	5.00%	4.90%	4.70%	4.50%	4.30%	4.00%	3.80%	3.60%	3.60%	3.50%

3. They set out a view that the bank rate will peak at 5.50% later this year, as the Bank of England seeks to squeeze inflation out of the economy, before starting to fall next year. They also show a gradual decline over the period in PWLB rates from a current high.

Investment Activity

4. The Council's investments have benefited from the increase in interest rates during the period. The month-end investment balances and interest rates for the period are as follows:

Month end	Balance (£000)	Ave interest rate
April 2023	17,000	4.21%
May 2023	10,000	4.38%
June 2023	15,000	4.69%
July 2023	11,800	5.00%

5. The approach to investments has been to keep up to £5m on call with the Council's bankers, Lloyds Banking Group, and to invest the remaining funds through short-dated fixed term investments with the Debt Management Account Deposit Facility (DMADF) and with UK domiciled banks (accessible either directly or through the Link Agency Treasury Service). This is considered to be a secure, low risk approach.
6. The following table shows the investments as at 31 July 2023.

Borrower	Amount (£000)	Interest rate (%)	Start date	Maturity date
Lloyds Treasury Call	4,800	4.90		Call
DMADF	1,000	4.88	30-Jun-23	03-Aug-23
DMADF	1,000	5.16	18-Jul-23	19-Sep-23
SMBC Bank International plc	2,000	5.27	03-Jul-23	31-Aug-23
National Bank of Kuwait (International) plc	2,000	5.00	19-Jul-23	21-Aug-23
National Westminster Bank Plc	1,000	4.75	25-Apr-23	28-Sep-23
Total	11,800			

Borrowing Activity

7. No new borrowing was undertaken during the period and the borrowing totals remained unchanged between the beginning and the end of the period.

	Short term	Long term	Total
	£000	£000	£000
01-Apr-23	34,000	192,019	226,019
31-Jul-23	34,000	192,019	226,019
Interest rate	3.51%	2.37%	

8. The short-term borrowing was from other local authorities and will mature by April 2024. All the long-term borrowing was from PWLB. A breakdown of the short-term and long-term borrowings is shown in Appendix A.
9. Since the end of the period, long-term borrowing has increased by £25m as the Council has drawn down this amount from a market lender, Phoenix Life Ltd. This is the first tranche of the £45m deferred loan agreement that the Council arranged in December 2021. This amount will be paid back over 40 years at 2.058%. The remaining £20m will be drawn down in June 2024. The £25m is intended to fund the social housing development programme.
10. It is anticipated that other borrowing will be undertaken during the later stages of this financial year in order to refinance maturing short-term borrowing and/or to finance new general fund capital expenditure. The timing of any borrowing will be influenced by the movement in interest rates (para 2).

Compliance with Treasury and Prudential Limits

11. During the period ended 31st July 2023, the Council has operated within the prudential and treasury codes set out in the Council's Treasury Management Strategy Statement (TMSS) for 2023/24. The Interim Director - Resources is content that no revisions are required to these indicators and that no difficulties are envisaged for the remainder of the year in complying with these indicators. The indicators are shown in the following tables:

Prudential Indicators	2022/23 outturn (£000)	2023/24 TMSS (£000)
Capital Expenditure-GF	2,842	36,332
Capital Expenditure-HRA	11,601	22,008

Capital Financing Requirement	251,767	303,964
Gross External Borrowing	226,196	268,688
Operational Boundary	260,000	305,000
Authorised Limit	330,000	340,000

Treasury Indicators		
Maturity structure of borrowing (upper limit)		
Under 12 months	15%	50%
12 months and within 24 months	0%	50%
24 month and 5 years	5%	50%
5 year and within 10 years	14%	50%
10 years and above	66%	100%

Review of capital investment and treasury management

12. The Interim Director- Resources recently commissioned Link Group to carry out a review of the Council's capital investment and treasury management arrangements. This work is currently in progress, and it is expected that a report will be presented to the November meeting of this committee.

References to Corporate Plan

4.0 FINANCIAL IMPLICATIONS

- 4.1 These are contained within the body of the report.

5.0 LEGAL IMPLICATIONS

Name & Title: Claire Mayhew, Acting Joint Director – People & Governance & Monitoring Officer

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- 5.1 The Council has duties within an existing legal framework to set a balanced budget for each financial year and to monitor income and expenditure against this budget.

6.0 RESOURCE IMPLICATIONS: STAFFING, ICT AND ASSETS

- 6.1 None.

7.0 RELEVANT RISKS

7.1 The risks associated with the treasury management operation are managed through limits set out in the annual treasury management strategy

8.0 ENGAGEMENT/CONSULTATION

8.1 None.

9.0 EQUALITY IMPLICATIONS

9.1 None

10.0 ECONOMIC AND CLIMATE IMPLICATIONS

10.1 The economic implications are contained in the body of the report..

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APPENDICES

- Appendix A: short and long-term borrowing at 31 July 2023

BACKGROUND PAPERS

- None

SUBJECT HISTORY (last 3 years)

Council Meeting	Date
<ul style="list-style-type: none">• Ordinary Council: 2023/24 Treasury Management Strategy	1 st March 2023
<ul style="list-style-type: none">• Ordinary Council: 2022/23 Treasury Management Strategy	23 rd February 2022 24 th February 2021

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| <ul style="list-style-type: none">• Ordinary Council: 2021/21 Treasury Management Strategy | |
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Appendix A: Short and long-term borrowing at 31 July 2023

Short-term borrowing

Lender	Amount (£000)	Start date	Maturity date	Interest rate
Hyndburn Borough Council	2,000	12-Apr-23	14-Aug-23	4.18%
Craven District Council	2,000	27-Oct-22	25-Aug-23	1.30%
Crawley Borough Council	3,000	27-Oct-22	25-Aug-23	1.30%
West Midlands Combined Authority	5,000	27-Oct-22	26-Oct-23	2.25%
West Midlands Combined Authority	5,000	27-Feb-23	27-Nov-23	4.17%
West of England Combined Authority	5,000	15-Sep-22	15-Aug-23	1.30%
West Midlands Combined Authority	5,000	24-Apr-23	24-Aug-23	4.30%
West Midlands Combined Authority	5,000	28-Apr-23	26-Apr-24	4.65%
Lichfield District Council	2,000	03-Mar-23	01-Mar-24	4.40%
Total	34,000			

Long-term borrowing (all PWLB)

HRA/GF	Amount (£000)	Start date	Maturity date	Interest rate
HRA	2,853	14-Mar-22	14-Mar-42	2.31%
HRA	10,000	28-Mar-12	28-Mar-27	3.01%
HRA	15,000	28-Mar-12	28-Mar-32	3.30%
HRA	15,000	28-Mar-12	28-Mar-37	3.44%
HRA	14,166	28-Mar-12	28-Mar-42	3.50%
Total HRA	57,019			
General Fund	400	08-Jan-03	08-Jan-28	4.88%
General Fund	800	24-Apr-95	24-Feb-55	8.88%
General Fund	800	30-Apr-95	30-Apr-55	8.88%
General Fund	7,000	16-Sep-20	16-Sep-50	2.57%
General Fund	10,000	27-Nov-20	27-Nov-30	2.16%
General Fund	10,000	27-Nov-20	27-Nov-50	2.71%
General Fund	20,000	26-Mar-21	26-Mar-71	1.89%
General Fund	30,000	27-Apr-21	27-Apr-71	1.87%
General Fund	7,000	19-Jul-21	19-Jul-31	1.48%
General Fund	10,000	22-Jul-21	22-Jul-34	1.55%
General Fund	9,000	22-Jul-21	22-Jan-68	1.67%
General Fund	10,000	22-Jul-21	22-Jul-69	1.65%
General Fund	20,000	04-Nov-21	04-Nov-62	1.72%
Total General Fund	135,000			
Total	192,019			