Cabinet

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Report for:	Cabinet
Title of report:	Treasury Management 2023/24 Mid-Year Performance Report
Date:	12th December 2023
Report on behalf of:	Cllr Ron Tindall, Portfolio Holder for Corporate and Commercial Services
Part:	I
If Part II, reason:	N/A
Appendices:	Appendix A: Investment portfolio as at 30 September 2023 Appendix B: Link Asset Services counterparty credit list as at 30 September 2023 Appendix C: Prudential Indicators Q1 and Q2 2023-24
Background papers:	Cabinet 20th June 2023 – Treasury Management Strategy (Appendix D to Provision Outturn Report)
Glossary of acronyms and any other abbreviations used in this report:	CIPFA-The Chartered Institute of Public Finance and Accountancy MPC- Bank of England Monetary Policy Committee CFR- Capital Financing Requirement GDP- Gross Domestic Product CPI- Consumer Prices Index

Report Author / Responsible Officer

Report Author: Lexi Schultz, Financial and Regulatory Accounting Manager

Lexi.schultz@dacorum.gov.uk / 01442 228533 (ext. 2533)

Responsible Officer: Fiona Jump, Head of Financial Services

Fiona.jump@dacorum.gov.uk / 01442 228162 (ext. 2162)

Corporate Priorities	A clean, safe and enjoyable environment Building strong and vibrant communities Ensuring economic growth and prosperity

	Providing good quality affordable homes, in particular for those most in need Ensuring efficient, effective and modern service delivery Climate and ecological emergency
Wards affected	All
Purpose of the report:	To report upon the mid-year information on Treasury Management performance for 2023/24.
Recommendation (s) to the decision maker (s):	Cabinet recommends to Council acceptance of the 2023/24 Treasury Management performance report.
Report Period for post policy/project review:	Regular reports are taken to Members on the Council’s Treasury Management performance.

1. Background

1.1 The purpose of this report is to update Cabinet on the performance of this Council's treasury management function during the first half of 2023/24, to the period 30 September 2023.

1.2 Treasury management is defined as:

"The management of the local authority's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."

The Council's Treasury Management team manages the Council's cash flows in order to strike the optimal balance between the following three elements:

- The liquidity requirements for the Council's day-to-day business;
- Funding the Council's capital programme;
- Investing surplus monies in line with the Treasury Management Strategy.

2. Governance

2.1 This report has been written in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management.

2.2 The Code requires:

- Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
- Creation and maintenance of treasury management practices setting out the manner in which the Council will seek to achieve those policies and objectives;
- Receipt by Full Council of an annual Treasury Management Strategy Statement - including the Annual Investment Strategy and Minimum Revenue Provision Policy - for the year ahead, a Mid-year Review Report (this report) and an Annual Report (stewardship report) covering during the previous year;
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and execution and administration of treasury management decisions;
- This Council nominates Cabinet to be responsible for effective scrutiny of the Treasury Management Strategy, policies and monitoring before recommendation to Full Council.

3. Economic update

3.1 The first half of 2023/24 saw:

- Interest rates rise from 4.25% to 5.25%.
- A 0.5% decline in real Gross Domestic Product (GDP) in July.
- Consumer Prices Index (CPI) inflation decreased from 8.7% in April to 6.7% in August, its lowest rate since February 2022.
- Employment fell by 207,000 from April to June, but there is no evidence yet that it has led to wage growth easing (average earnings rose to 7.8% in August, excluding bonuses). UK wage growth remains much faster than in the US and Euro-zone.

3.2 In September 2023, the Bank of England Monetary Policy Committee (MPC) left interest rates unchanged. Our treasury advisors expect interest rates to stay at the probable peak of 5.25% until the second half of 2024.

3.3 Below is our treasury advisors, Link Group's forecast of interest rates. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps, calculated as gilts plus 80bps) which has been accessible to most authorities since 1st November 2012.

Link Group Interest Rate View	25.09.23												
	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	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5 yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10 yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25 yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50 yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

4. Treasury Management Strategy Statement and Annual Investment Strategy update

4.1 Council approved the 2023/24 Treasury Management Strategy Statement (TMSS) on 12 July 2023.

4.2 The Council's Annual Investment Strategy, which is included in the TMSS, outlines the Council's investment priorities as:

- Security of capital;
- Liquidity;
- Return on investment.

4.3 The Council aims to achieve optimum return on investments within the context of the first 2 priorities. See Appendix A for a breakdown of the Council's investment portfolio, as at 30 September 2023.

4.4 Link Asset Services' full counterparty credit list as at 30 September 2023 identifies those organisations the Council is able to place funds and is shown in Appendix B.

4.5 All investments during the first six months of 2023/24 were placed in accordance with the approved strategy.

5. Investment Performance 2023/24

5.1 It is the Council's priority to ensure security of capital and liquidity and to obtain a level of return consistent with the Council's risk appetite. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out best value available in periods up to 12 months with high credit rated financial institutions.

5.2 As shown in section 3.3, the latest interest forecast sets out a view that in the short-term interest rates and therefore investment returns will be high, as the Bank of England seeks to manage inflation. The general fund half yearly performance is achieving £1.7m against a budget of £0.4m, a surplus of £1.3m. On the HRA, half yearly performance is achieving investment income of £1m against a budget of £0.1m, a surplus of £0.9m.This favourable return is unlikely to continue in the long-term if interest rates fall as predicted.

5.3 The Council held £108.722m of investments as at 30 September 2023 (£103.668m at 31 March 2023). The average investment return for the first six months of the year was 4.51%. In comparison, the Council achieved 1.12% in the first 6 months of 2022/23.

6. Borrowing

<u>The Capital Financing Requirement</u>

6.1 The Council's Capital Financing Requirement (CFR) is the Council's underlying need to borrow for capital purposes and is forecasted to be £372.763m as at 31/03/2024. This includes the fixed interest rate borrowing from the Public Works Loan Board (PWLB) for HRA Self Financing and the General Fund capital expenditure requirements.

Current Borrowing Arrangements

6.2 As a Local Authority, the Council is able to borrow from PWLB, which operates within the Debt Management Office (DMO), an Executive Agency of HM Treasury.

6.3 The PWLB charges interest on loans it issues. Any Council borrowing will be carried out in line with its approved Treasury Management Strategy. If required, the Council can utilise existing cash balances to fund its future capital programme instead of undertaking new external borrowing.

Debt rescheduling

6.4 No debt rescheduling has been undertaken in the current financial year. There may be opportunities in the future, although only prudent and affordable debt rescheduling will be considered.

Compliance with Treasury and Prudential Limits

6.5 The Council has a statutory duty to determine and monitor affordable borrowing limits. During the half year ended 30th September 2023, the Council operated within the treasury and prudential indicators in the Council's Treasury Management Strategy Statement. The Chief Finance Officer envisages no difficulties for the current or future years in complying.

7. The Council's Capital Expenditure (Prudential Indicators)

7.1 Prudential indicators are set yearly as part of the Council's Treasury Management Strategy. They set the annual limits on borrowing, and provide a basis for assessing the affordability of financing costs, external debt and capital expenditure.

Prudential Indicators for Capital Expenditure

7.2 The table below shows the revised estimates for capital expenditure and financing with the changes since the capital programme was agreed in February 2023, as at the end of September 2023.

Capital Expenditure by Service	**2023/24 Original Budget** **£M**	**Revised Forecast as at September 2023** **£M**
General Fund	32.47	7.798
HRA	81.248	64.786
Total	**113.719**	**72.584**
Financed by:		
Capital grants & S106	7.405	7.989
Capital receipts & reserves	56.522	38.539
Revenue	2.538	0.000
Internal Borrowing General Fund	11.848	0.000
HRA Borrowing	35.406	26.056
Total financing	**113.719**	**72.584**

7.3 The table below shows the CFR and the expected debt position over the period; termed the 'Operational Boundary'. The changes to the forecast CFR are due to incorporation of the actual Capital Programme outturn position from 2022/23 and slippage and underspends in 2023/2024. It is assumed as per the budget that £15m of HRA borrowing will be internal (funded by cash balances rather than borrowing externally), this is usually more cost effective.

	2023/24	**2023/24**
	Original Estimate £M	**Revised Forecast £M**
Prudential Indicator – Capital Financing Requirement		
CFR – General Fund	29.728	17.940
CFR – HRA	364.174	354.824
Total CFR	393.901	372.763
Net movement in CFR from 31/03/23	**44.552**	**23.414**
Prudential Indicator – External Debt / the Operational Boundary		
Borrowing	355.214	346.193
Other long term liabilities (leases)	0.188	0.188
Total debt 31 March 2024	**355.402**	**346.381**

Prudential Indicator for Borrowing Activity

7.4 The key control over treasury activity is a prudential indicator to ensure that, over the medium term, net borrowing (borrowings less investments) will only be for a capital purpose. Gross external borrowing should not, except in the short term, exceed the total of CFR in the preceding year, plus the estimates of any additional CFR for 2023/24 and the next two financial years.

7.5 The table highlights that the Council's gross borrowing is forecast to be below its CFR.

	2023/24	**2023/24**
	Original Estimate £M	**Revised Estimate £M**
Gross borrowing	**355.214**	**346.193**
Plus other long term liabilities (leases)	0.188	0.188
Less investments	(15.35)	(108.72)
Net borrowing	340.048	237.659
CFR (year-end position)	**393.901**	**372.76**

7.6 A further prudential indicator controls the overall level of borrowing. This is the Authorised Limit which represents the limit beyond which borrowing is prohibited, and needs to be set and revised annually by full Council. It reflects the level of external debt which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. As at 30 September 2023, the Council is forecast to have borrowing and other long term liabilities of £346.381m at 31/03/2024, which is £63.619m under the authorised limit.

Authorised limit for external debt	**2023/24 Original Indicator £M**	**Current Forecast Debt 31/03/2024 £M**
Borrowing	400.000	346.193
Other long term liabilities	10.000	0.188
Total	**410.000**	**346.381**

7.7 Councils are now required to report quarterly on a variety of prudential indicators, these can be seen in Appendix C. The Capital Financing Indicators demonstrate the affordability and sustainability of the Council's capital programme. The Council's council expenditure forecast and capital financing requirement (borrowing requirement) for 2023/24 have reduced since the budget was set due to slippage.

7.8 The affordability indicators in appendix C look at the affordability of the Council's borrowing on revenue and monitors the amount of revenue budget needed to cover financing costs. Due to slippage, these have improved since the budget was set.

7.9 The treasury indicators ensure the Council is borrowing and investing within the authorised limits set in the treasury management strategy. In all instances, the Council is complying with this indicators in Q1 2023/24 and Q2 2023/24. The liability benchmark is a new indicator, calculated using the net loan requirement plus an allowance for short term investments needed to provide an adequate but not excessive level of cash for daily cash flow management. The Council is successfully operating within this benchmark.

7. .Options and alternatives considered

None. A mid- year treasury management review is a statutory requirement.

8. Consultation

The council liaise with Link Asset Services, our Treasury advisors.

9. Financial and value for money implications:

In accordance with the CIPFA Treasury Management in the Public Services Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.

10. Legal Implications:

There are no direct legal implications arising from this report.

11. Risk implications:

A prudent approach to investment is required to minimise the risk to the Council of investment losses, as outlined in the Council's Treasury Management Strategy 2023/24. This report provides an update on the delivery of that strategy.

12. Equalities, Community Impact and Human Rights:

A Community Impact Assessment is not required. There are no Human Rights Implications.

13. Sustainability Implications (including climate change, health and wellbeing, community safety):

None arising directly from the report.

14. Council infrastructure (including Health and Safety, HR/OD, assets and other resources):

None arising directly from the report

15. Statutory Comments

Monitoring Officer:

Deputy S151 Officer:

This is a Deputy S151 Officer report. Comments are contained within the body of the report.

16. Conclusion:

The Treasury Management Mid-Year Report provides an update of the Council's 2023/24 treasury activities and highlights compliance with policies previously approved by Members. Its approval is required for the Council to meet its statutory obligations in respect of Treasury Management activities.