Agenda Item No:	9	
Committee:	Council	
Date:	11 December 2023	
Report Title:	Treasury Management Strategy Statement and Annual Investment Strategy Mid-Year Review 2023/24	

Cover sheet:

1 Purpose / Summary

The purpose of this report is to review the Council's Treasury Management activity for the first six months of 2023/24 and to provide members with an update on matters pertinent to future updates to the Council's Treasury Management Strategy.

2 Key issues

- The attached report has previously been presented to Audit and Risk Management Committee at their meeting on 20 November 2023.
- The Council has operated within its Treasury Management Strategy Statement (TMSS), Annual Investment Strategy, treasury limits and prudential indicators set by Council for the first six months of 2023/24.
- Forecasts are that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.
- Forward projections for PWLB certainty rates are forecast to fall back over the next two to three years as inflation dampens.
- Prudential indicators have been updated to reflect the latest capital programme and borrowing projections.
- No new external borrowing has been taken out to date in 2023/24. The current Medium Term Financial Strategy assumes that some external borrowing will be required over the three-and-a-half-year period to 31 March 2026.
- Investment income received from temporary investments (call accounts and fixed term deposits) for the first six months of 2023/24 was £490k. The 2023/24 budget of £550k is expected to be exceeded.
- Projected income from property funds for 2023/24 is forecast at £130,000 against an original budget of £150,000.
- Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.

3 Recommendations

It is recommended that Members note the report.

Wards Affected	All
Portfolio Holder(s)	Cllr Chris Boden, Leader and Portfolio Holder, Finance
Report Originator(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Contact Officer(s)	Peter Catchpole, Chief Finance Officer and Corporate Director Mark Saunders, Chief Accountant
Background Paper (s)	Link Asset Services template Council Report - 20 February 2023 - General Fund Budget 2023/24 and Capital Programme 2023-26

Report:

1 Context

1.1 The Council's responsibilities in relation to Treasury Management are defined as part of the Local Government Act 2003 ('the Act'). The Act requires the Council to have regard to the Treasury Management Code published by the Chartered Institute of Public Finance and Accountancy, (CIPFA).

1.2 Additionally, there is a statutory requirement for the Council to comply with the Prudential Code. There is a close interaction between the Treasury Management Code and the Prudential Code. The Prudential Code establishes a framework for the Council to self-regulate the affordability, prudence and sustainability of its capital expenditure and borrowing plans whilst the Treasury Management Code is concerned with how the Council uses its Treasury Management function to progress the future plans developed with reference to the Prudential Code.

1.3 In December 2021, CIPFA issued revised Prudential and Treasury Management Codes. These require local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments.

1.4 The Council's Capital Strategy for 2023/24 was approved by Full Council on the 20 February 2023.

Treasury Management

1.5 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."

1.6 The Council complies with the requirements of CIPFA's Code of Practice on Treasury Management (revised 2021).

1.7 The primary requirements of the Code applicable to the 2023/24 financial year are as follows:

- 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, which set 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 and an Annual Report covering activities during the previous year.
- Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
- Delegation by the Council of the role of scrutiny of treasury management strategy and policies (including Mid-year Review Report) to a specific named body. For this Council the delegated body is the Audit and Risk Management Committee.

1.8 This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management and covers the following:

- an economic update for the first six months of 2023/24 taking account of expert analysis provided by the Council's Treasury Management Advisors, Link Asset Services;
- a review of the Treasury Management Strategy Statement and Annual Investment Strategy;
- the Council's capital plans;
- a review of the Council's investment portfolio for 2023/24;
- a report of the Council's borrowing strategy for 2023/24;
- a report of debt rescheduling during 2023/24;
- a review of compliance with Treasury and Prudential Limits for 2023/24.

2 Economic Update

2.1 The start of 2023/24 has been dominated by high inflation and the measures of the Monetary Policy Committee (MPC) to bring inflation in line with Central Government 2% target. The MPC have increased interest rates by 100 basis points, taking Bank Rate to 5.25% and possibly the peak in the tightening cycle.

2.2 In its latest monetary policy meeting on 2 November, the Bank of England left interest rates unchanged at 5.25%. The weak August/September CPI inflation release, the recent loosening in the labour market and the downbeat activity surveys appear to have convinced the Bank of England that it has already raised rates far enough. The commentary supports the views that from the MPC that rates will be "sufficiently restrictive for sufficiently longer" support the views that rates will now stay at or their peak for an extended period of time.

2.3 Further down the road, it is anticipated that the Bank of England will be keen to loosen monetary policy once the worst of the inflationary pressures have lessened – but that timing will be 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.

3 Interest Rate Forecast

3.1 The Council's treasury advisor, Link Group, provided the following forecasts on 7th November 2023 (PWLB rates are certainty rates, gilt yields plus 80bps):

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

3.2 The latest forecast on 7th November 2023 sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

3.3 Gilt Yields/PWLB Rates – Gilt yield curve movements have broadened since the 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 30 basis points difference between the 5 and 50 year parts of the curve.

4 Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1 The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Council on 20 February 2023. There are no policy changes to the TMSS.

4.2 Changes are required to some of the prudential indicators as a result of the forecast 2023/24 capital outturn. The following table compares the previous prudential indicators (agreed on 20th February) against the latest revised indicators.

Prudential Indicators	2023/24 Previous £000	2023/24 Revised £000
Capital Programme	20,572	22,713
Capital Financing Requirement	19,461	18,026
Gross Debt	19,051	17,403
Operational Boundary	37,477	18,405
Authorised Limit For External Debt	41,477	22,405

5 The Council's Capital Position

5.1 This part of the report is structured to update:

- the Council's capital expenditure plans;
- how these plans are being financed;
- the impact of the changes in the capital expenditure plans on the prudential indicators and the underlying need to borrow; and
- compliance with limits in place for borrowing activity.

5.2 An update capital programme and the financing of that programme for 2023/24 is to be presented to Cabinet for approval on 18 December 2023. This revised estimate will address amendments to the programme since February, including re-profiling schemes from 2022/23 and the allocation of further capital funds for, energy efficiency works at leisure centres, construction of the Wisbech pavilion, concrete repairs at the suspended quay Wisbech and a re-assessment of resources available in the period 2023-26. The tables in this report reflect this updated programme.

5.3 From February 2020 the programme has reflected the Council's decision to allocate £25m to take forward schemes in accordance with the Council's Commercial and Investment Strategy. Members will be aware that the Investment Board approved the purchase of an investment and residential properties in previous years.

5.4 In 2023/24 £4m of funding has been allocated towards the purchase of 29 properties to house resettled Ukraine/Afghan families and households facing homelessness as part of the governments Local Authority Housing Fund Programme. The remaining Commercial and Investment Strategy allocation funding has been profiled to reflect the anticipated timing of future projects, including those due to be delivered by Fenland Future Limited. However, the Investment Board retains the discretion to vary when the available funds are utilised over the life of the programme.

5.5 The table below compares the revised estimates with the original capital programme which was incorporated into the 2023/24 Treasury Management Strategy Statement (TMSS).

Capital Programme	2023/24 Original Estimate £000	2023/24 Revised Estimate £000
Current Forecast Expenditure	**20,572**	**22,713**
Financed by:		
Capital Grants	9,600	12,501
Section 106's & Contributions	45	25
Capital Receipts	250	155
Capital Reserves	149	452
Total Financing (before borrowing)	**10,044**	**13,133**
Borrowing Requirement	**10,528**	**9,580**

5.6 The capital expenditure plans set out above provide a summary of future level of spend. The treasury management function ensures that the Council's cash is organised in accordance with the relevant professional codes, so that sufficient cash is available to meet service activity and the Council's capital strategy.

5.7 The Council's projections for borrowings in 2023/24 are summarised below. The following table shows the actual external debt, against the underlying capital borrowing need (the Capital Financing Requirement – CFR). The revised estimated CFR is lower than the original budget forecast (see paragraph 5.2 to 5.4 above).

External Debt Projections	2023/24 Original Estimate £000	2023/24 Revised Estimate £000
External Debt at 1 April	8,523	7,823
Prudential Borrowing	10,528	9,580
Gross Debt at 31 March	**19,051**	**17,403**
Capital Financing Requirement at 31 March 2024	**19,461**	**18,026**
Borrowing Less CFR – 31 March 2024	**(410)**	**(623)**

5.8 The Council has made provision to repay all 'borrowing' liabilities through increased Minimum Revenue Provision (MRP) in the General Fund revenue budget.

5.9 Within the prudential indicators there are a number of key indicators to ensure that the Council operates its activities within defined limits. One of these is that the Council needs to ensure that its gross debt does not, except in the short term, exceed the total

CFR in the preceding year plus the estimates of any additional CFR for 2023/24 and the next two financial years. This allows some flexibility for limited early borrowing for future years. The Council has approved a policy for borrowing in advance of need. The policy permits borrowing in advance of need where it is prudent to do so. Members should note that the current limits and estimates set out below have been determined with reference to the existing capital programme.

5.10 The operational boundary is the limit beyond which external debt is not normally expected to exceed. In most cases this would be a similar figure to the CFR but may be lower or higher depending on the levels of actual debt.

Operational Boundary	**2023/24 Original Estimate £000**	**2023/24 Revised Estimate £000**
Debt	15,500	12,400
Plus Other Long Term Liabilities Finance Leases	1,000	1,000
Commercial Activities/ Non Financial Investments	20,977	5,005
Operational Boundary for Year	**37,477**	**18,405**

5.11 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 by Members. It reflects the level for borrowing which, while not desired could be afforded in the short term but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit determined under section 3 (1) of the Local Government Act 2003.

Authorised Limit For External Debt	**2023/24 Original Estimate £000**	**2023/24 Revised Estimate £000**
Debt	19,500	16,400
Plus Other Long Term Liabilities Finance Leases	1,000	1,000
Commercial Activities/ Non Financial Investments	20,977	5,005
Total Borrowing	**41,477**	**22,405**

5.12 The Corporate Director & Chief Finance Officer reports that no difficulties are envisaged for the current year in complying with the above prudential indicators.

6 Investment Portfolio

6.1 In accordance with the Treasury Management Code, it is the Council's priority to ensure security of capital and liquidity and to obtain an appropriate level of return which is consistent with the Council's risk appetite.

6.2 The current forecasts for bank rate are shown in paragraph 3.1 above.

6.3 The Council held £28.679m of investments, including property funds at 30th September 2023 (22.550m at 31st March 2023). The investment portfolio yield from temporary investments (call and fixed term deposits) for the first 6 months of the year was 4.72% (7 day backward looking average Sonia Rate 4.71%).

6.4 It should be noted that the value of investments remains high due to the distorting impact of capital and revenue grants paid in advance or during the first 6 months of this financial year. Some of this funding has not been spent in the first six months of this year. However, it is expected that a significant proportion of this grant funding advanced will be spent or repaid in the next 6 months and consequently investment balances will be lower by the end of this financial year.

6.5 The Council has achieved investment income of £490k to 30th September 2023. The 2023/24 budget of £550k is expected to be exceeded. With the Bank of England base rate rising steadily since April 2023, interest rates and therefore income returns have increased significantly.

6.6 £4m of the Council's investments are held in externally managed pooled property funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income (from quarterly cash distribution payments) and long-term price stability. The Council views these as a long-term investment that it has entered into for a minimum of five years as this manages the risk of fluctuations in the value of the investment which was £3.379m at 30 September 2023. Since mid-2022 commercial property market has had a difficult time in general as property prices fell sharply in response to high inflation, rising interest rates and increased debt costs which accounts for the fall in value. Income flows to property have remained strong and distributions from the fund are not affected by the movement in capital value. The distributions payable for the first quarter was £31,883 (second quarter returns are expected in November), which is a 3.77% distribution return.

6.7 The 2023/24 projected outturn for property fund income is £130k against a budget of £150k.

6.8 The Corporate Director and Chief Finance Officer confirms that the approved limits within the Annual Investment Strategy were not breached during the first six months of 2023/24.

7 Borrowing Strategy

7.1 The Council's estimated CFR for 2023/24 is £18.026m (including finance lease borrowing facilities). The CFR denotes the Council's underlying need to borrow for capital purposes. If the CFR is positive the Council may borrow from the PWLB or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

7.2 No new external borrowing has been undertaken during 2023/24 to date. The Council has utilised surplus cash flow funds in lieu of borrowing. This is a prudent and cost-effective approach in the current economic climate but will require ongoing monitoring in the event that any upside risk to gilt yields prevails.

7.3 The current Medium Term Financial Strategy assumes that some external borrowing will be required over the three-and-a-half-year period to 31 March 2026. Assumptions about the level of external interest payable are included within the budget. Responsibility for deciding when to borrow externally, together with details of the amount to borrow and the term and type of any loan, rests with the Chief Finance Officer. The Chief Finance Officer's decision will be informed by advice from the Council's treasury management advisors and information regarding the progress of schemes set out in the capital programme. Any borrowing decisions will be reported to Cabinet through the annual treasury management report.

8 Debt Rescheduling

8.1 Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings. However, no debt rescheduling has been undertaken to date in the current financial year.