

Harborough District Council



Report to the Cabinet

27 November 2023

Title:	Mid-Year Treasury Management Report 2023/24 and Prudential Indicators
Status:	Public
Key Decision:	No
Report Author:	Carolyn Bland, Head of Financial Services
Portfolio Holder:	Councillor Mark Graves, Finance
Appendices:	Appendix 1: Economic Background Appendix 2: Interest Rate Forecasts Appendix 3: Investments Appendix 4: Borrowing Appendix 5: Treasury and Prudential Indicators

Executive Summary

- i. Treasury Management is an integral part of the Council's finances relating to cash flow management and financing of capital schemes and therefore underpins all of the Council's aims. The mid-year treasury report is a requirement of the Council's reporting procedures and covers the treasury management activity for the first six months of 2023/24. The report also covers the actual Prudential Indicators for this period in accordance with the requirements of the Prudential Code.

Recommendations

- a. To note the Mid-Year Treasury Management Report for 2023/24 and treasury activity;
- b. To note the Prudential Indicators

Reasons for Recommendations

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| <p>ii. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities.</p> |
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Purpose of Report

1. In accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management (revised 2021), the Council is required to receive, as a minimum, three main treasury reports each year – the annual Treasury Management Strategy Statement, a Mid-year Review Report (this report) and an Annual Report. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

Background

2. This mid-year report has been prepared in compliance with CIPFA's Code of Practice on Treasury Management, and covers the following:
 - a. An Economic update for the first half of the 2023/24 financial year;
 - b. Interest rate forecasts;
 - c. Annual Investment Strategy;
 - d. Borrowing;
 - e. Debt rescheduling;
 - f. Compliance with Treasury and Prudential Limits.

Details

Economic update

3. The Council appointed Link Group as its treasury advisor following a competitive process and their detailed economic background for the first half of 2023/24 is provided in **Appendix 1**. In summary bank rates continued to rise to possibly its peak of 5.25% and inflation fell to its lowest rate since February 2022.

Interest rate forecasts

4. Part of the Link Group service is to assist the Council to formulate a view on interest rates. Their detailed forecasts are attached at **Appendix 2**, in summary the most recent forecast for bank rates sets out a view that interest rates will be elevated for some while, the most favourable time for a rate cut is predicted as Q3 2024.

Treasury Management Strategy Statement and Annual Investment Strategy Update

5. The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by Council on 27 February 2023. There are no policy changes to the TMSS; the details in this report update the position in the light of the updated economic position and budgetary changes already approved.

Annual Investment Strategy

6. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:
 - a. Security of capital.
 - b. Liquidity.
 - c. Yield.
7. The Council aims to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short-term to cover cashflow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.
8. As shown by the rate graphs in **Appendix 3**, rates have continued to improve dramatically during the first half of 2023/24 but are forecast to have topped at 5.25% see **Appendix 2**.

Creditworthiness

9. Following the Government's fiscal event on 23rd September 2022, both S&P and Fitch placed the UK sovereign debt rating on Negative Outlook. This reflected a downside bias to the then current ratings in light of expectations of weaker finances and a challenging economic outlook. Nothing further has evolved in the first half of 2023/24.

Investment Counterparty criteria

10. The current investment counterparty criteria selection approved in the TMSS is meeting the requirement of the treasury management function.

Investment performance year to date as at 30 September 2023

11. The average level of funds available for investment purposes during the quarter was £37m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme. The Council holds £25m core cash balances for investment purposes (i.e., funds available for more than one year).
12. The Council's budgeted investment return for 2023/24 is £697k, and performance for the year is forecast to be £1,417k above budget because of the increase in interest rates detailed above. The Council achieved an average rate of return of 4.51% for the six months against the benchmark of the 7-day compounded SONIA (Sterling Overnight Index Average) average for the period of 4.71%.

Property Fund investment

13. The Council continued to hold shares in the Churches Charities and Local Authorities Investment Management Ltd (CCLA) Local Authority Property Fund which earned a return of 4.32% during the period. The Council takes advantage of the temporary override of International Financial Reporting Standard 9 (IFRS 9, this standard determines how organisations account for financial instruments) which was extended by the Department for Levelling Up, Housing and Communities until 31 March 2025. This means that any adverse movements in this pooled fund do not impact on the Council's General Fund.

Approved limits

14. The approved limits set out within the Annual Investment Strategy were not breached during the six months ending 30 September 2023.
15. A full list of investments held by the Council at 30 September 2023 is shown in **Appendix 3**.

Borrowing

16. The Council's capital financing requirement (CFR) for 2023/24 is £15.585m. 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. **Appendix 5** shows the Council has borrowings of £1.490m and has utilised 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 if further upside risk to gilt yields prevails.
17. PWLB rates for the year to 29 September 2023 are shown in **Appendix 4**.
18. Due to the overall financial position no new external borrowing was undertaken. The capital programme is being kept under regular review due to the effects of inflationary pressures, shortages of materials and labour. Our borrowing strategy will, therefore, also be regularly reviewed and then revised, if necessary, to achieve optimum value and risk exposure in the long-term.
19. It is anticipated that there will be no borrowing undertaken during this financial year.

Debt Rescheduling

20. 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.

Compliance with Treasury and Prudential Limits

21. The prudential and treasury Indicators are shown in **Appendix 5**.
22. It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. During the half year ended 30 September 2023, the Council operated within the treasury and prudential indicators set out in the Council's TMSS for 2023/24. No difficulties are envisaged for the current or future years in complying with these indicators.
23. All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices that was approved in February 2023.

Implications of Decisions

Corporate Priorities

24. The Council relies upon sound financial management to ensure it has the financial stability to deliver its corporate priorities. This report evidences how the Council monitors issues that may affect the delivery of its Corporate Priorities.

Financial

25. These are covered in detail within the report. The report satisfied the statutory requirements on the Council to account for its financial management arrangements.

Legal

26. This report ensures that the statutory obligations upon the Council to report on matters relating to capital financing and treasury management, as set out in the Local Government Act 2003 and subsequent Regulations.

Policy

27. This report does not conflict with or undermine the Council's budget and policy framework.

Environmental Implications

28. No environmental issues arise directly from this report.

Risk Management

29. Management of the Council's financial resources is key to achieving targets set out in the budget. Security of the Council's money in the current banking market is paramount. Accordingly, regular monitoring and reporting of performance forms part of the mitigation of risk posed by financial turbulence.

Equalities Impact

30. No equalities issues arise directly from this report.

Data Protection

31. This report does not contain personal data.

Summary of Consultation and Outcome

32. The Portfolio Holder for Finance is regularly appraised of issues relating to the financial performance of the Council and has been briefed on the content of this report. Consultation has been undertaken with the Portfolio Holder.

Alternative Options Considered

33. The Council is required to report the matters contained within this report and retains independent financial experts to provide that advice therefore no alternative options.

Background papers

Various Treasury and Capital related reports approved by Council in February 2023 as part of the 2023/24 Budget and MTFS.

