

# **Report of the Director of Finance to the meeting of Governance and Audit to be held on 23 November 2023**

**X**

---

## **Subject:**

**Treasury Management Mid-Year Review up to 30 September 2023**

## **Summary statement:**

**This report shows the Council's Treasury Mid-Year Review up to 30 September 2023.**

---

Christopher Kinsella  
Director of Finance

**Portfolio:**  
**Leader of the Council and Corporate**

Report Contact: Colin Standish  
Chief Investment Officer  
Phone: (01274) 43 2361  
E-mail: [Colin.Standish@wypf.org.uk](mailto:Colin.Standish@wypf.org.uk)

**Overview & Scrutiny Area:**  
**Corporate**

# Treasury Management Review up to 30<sup>th</sup> September 2023

## Background

### 1.1 Treasury management

The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the treasury management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

The second main function of the treasury management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

Accordingly, 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.”

### 1.2 Introduction

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 (revised 2021).

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.
2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.
3. Receipt by the 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, (stewardship report), covering activities during the previous year.
4. 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.
5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specific named body. For this Council the delegated body is Governance and Audit Committee.

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 the 2023-24 financial year.
- A review of the Treasury Management Strategy Statement and Annual Investment Strategy.
- The Council's capital expenditure, as set out in the Capital Strategy, and prudential indicators.
- A review of the Council's investment portfolio for 2023-24.
- A review of the Council's borrowing strategy for 2023-24.
- A review of compliance with Treasury and Prudential Limits for 2023-24.

## 2. Economics and interest rates

### 2.1 Economics update

- The first half of 2023-24 saw:
  - Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle.
  - Short, medium and long-dated gilts remain elevated as inflation continually surprised to the upside.
  - A 0.5% m/m decline in real GDP in July, mainly due to more strikes.
  - CPI inflation falling from 8.7% in April to 6.7% in August, its lowest rate since February 2022, but still the highest in the G7.
  - Core CPI inflation declining to 6.2% in August from 7.1% in April and May, a then 31 years high.
  - A cooling in labour market conditions, but no evidence yet that it has led to an easing in wage growth (as the 3myy growth of average earnings rose to 7.8% in August, excluding bonuses).
- The 0.5% m/m fall in GDP in July suggests that underlying growth has lost momentum since earlier in the year. Some of the weakness in July was due to there being almost twice as many working days lost to strikes in July (281,000) than in June (160,000). But with output falling in 10 out of the 17 sectors, there is an air of underlying weakness.
- The fall in the composite Purchasing Managers Index from 48.6 in August to 46.8 in September left it at its lowest level since COVID-19 lockdowns reduced activity in January 2021. At face value, it is consistent with the 0.2% q/q rise in real GDP in the period April to June, being followed by a contraction of up to 1% in the second half of 2023.
- The 0.4% m/m rebound in retail sales volumes in August is not as good as it looks as it partly reflected a pickup in sales after the unusually wet weather in July. Sales volumes in August were 0.2% below their level in May, suggesting much of the resilience in retail activity in the first half of the year has faded.
- As the growing drag from higher interest rates intensifies over the next six months, we think the economy will continue to lose momentum and soon fall into a mild recession. Strong labour demand, fast wage growth and government handouts have all supported household incomes over the past year. And with CPI inflation past its peak and expected to decline further, the economy has got through the cost-of-living crisis without recession. But even though the worst of the falls in real household disposable incomes are behind us, the phasing out of financial support packages provided by the government during the energy crisis means real incomes are unlikely to grow strongly. Higher interest rates will soon bite harder too. We expect the Bank of England to keep interest rates at the probable peak of 5.25% until the second half of 2024. Mortgage rates are likely to stay above 5.0% for around a year.
- The tightness of the labour market is showing signs of easing, with employment in the three months to July falling by 207,000. The further decline in the number of job vacancies from 1.017m in July to 0.989m in August suggests that the labour market has loosened a bit further since July. That is the first time it has fallen below 1m since July

2021. At 3.0% in July, and likely to have fallen to 2.9% in August, the job vacancy rate is getting closer to 2.5%, which would be consistent with slower wage growth. Meanwhile, the 48,000 decline in the supply of workers in the three months to July offset some of the loosening in the tightness of the labour market. That was due to a 63,000 increase in inactivity in the three months to July as more people left the labour market due to long term sickness or to enter education. The supply of labour is still 0.3% below its pre-pandemic February 2020 level.

- The cooling in labour market conditions has only started to feed through to an easing in wage growth in the latest data sets. Recently the monthly rate of earnings growth eased sharply from an upwardly revised +2.2% in June to -0.9% in July, a lot of that was due to the one-off bonus payments for NHS staff in June not being repeated in July. The headline 3myy rate rose from 8.4% (revised up from 8.2%) to 8.5%, which meant UK wage growth remains much faster than in the US and in the Euro-zone. Moreover, while the Bank of England's closely watched measure of regular private sector wage growth eased a touch in July, from 8.2% 3myy in June to 8.1% 3myy, it is still well above the Bank of England's prediction for it to fall to 6.9% in September.
- CPI inflation declined from 6.8% in July to 6.7% in August, the lowest rate since February 2022. The biggest positive surprise was the drop in core CPI inflation, which declined from 6.9% to 6.2%. That reverses all the rise since March and means the gap between the UK and elsewhere has shrunk (US core inflation is 4.4% and, in the Euro-zone it is 5.3%). Core goods inflation fell from 5.9% to 5.2% and the further easing in core goods producer price inflation, from 2.2% in July to a 29-month low of 1.5% in August, suggests it will eventually fall close to zero. But the really positive development was the fall in services inflation from 7.4% to 6.8%. That also reverses most of the rise since March and takes it below the forecast of 7.2% the Bank of England published in early August.
- In its latest monetary policy meeting on 20 September, the Bank of England left interest rates unchanged at 5.25%. The weak August 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 minutes show the decision was "finely balanced". Five MPC members (Bailey, Broadbent, Dhingra, Pill and Ramsden) voted for no change and the other four (Cunliffe, Greene, Haskel and Mann) voted for a 25bps hike.
- Like the US Fed, the Bank of England wants the markets to believe in the higher for longer narrative. The statement did not say that rates have peaked and once again said if there was evidence of more persistent inflation pressures "further tightening in policy would be required". Governor Bailey stated, "we'll be watching closely to see if further increases are needed". The Bank also retained the hawkish guidance that rates will stay "sufficiently restrictive for sufficiently long".
- This narrative makes sense as the Bank of England does not want the markets to decide that a peak in rates will be soon followed by rate cuts, which would loosen financial conditions and undermine its attempts to quash inflation. The language also gives the Bank of England the flexibility to respond to new developments. A rebound in services inflation, another surge in wage growth and/or a further leap in oil prices could conceivably force it to raise rates at the next meeting on 2nd November, or even pause in November and raise rates in December.

- The yield on 10-year Gilts fell from a peak of 4.74% on 17th August to 4.44% on 29th September, mainly on the back of investors revising down their interest rate expectations. But even after their recent pullback, the rise in Gilt yields has exceeded the rise in most other Developed Market government yields since the start of the year. Looking forward, once inflation falls back, Gilt yields are set to reduce further. A (mild) recession over the next couple of quarters will support this outlook if it helps to loosen the labour market (higher unemployment/lower wage increases).
- The pound weakened from its cycle high of \$1.30 in the middle of July to \$1.21 in late September. In the first half of the year, the pound bounced back strongly from the Truss debacle last autumn. That rebound was in large part driven by the substantial shift up in UK interest rate expectations. However, over the past couple of months, interest rate expectations have dropped sharply as inflation started to come down, growth faltered, and the Bank of England called an end to its hiking cycle.
- The FTSE 100 has gained more than 2% since the end of August, from around 7,440 on 31st August to 7,608 on 29th September. The rebound has been primarily driven by higher energy prices which boosted the valuations of energy companies. The FTSE 100's relatively high concentration of energy companies helps to explain why UK equities outperformed both US and Euro-zone equities in September. Nonetheless, as recently as 21st April the FTSE 100 stood at 7,914.

## 2.2 Interest rate forecasts

The Council has appointed Link Group as its treasury advisors and part of their service is to assist the Council to formulate a view on interest rates. Link Group 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.

The latest forecast on 25th September 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.

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
<b>BANK RATE</b>	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

### 3 Treasury Management Strategy Statement and Annual Investment Strategy Update

The Treasury Management Strategy Statement, (TMSS), for 2023-24 was approved by this Council on 23 March 2023 (Governance & Audit Committee). 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.

#### 3.1 The Council's Capital Position (Prudential Indicators)

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.
- Compliance with the limits in place for borrowing activity.

##### 3.1.1 Prudential Indicator for Capital Expenditure

This table shows the revised estimates for capital expenditure and the changes since the capital programme was agreed at the Budget. The revised estimate is based on increased scrutiny of the schemes and budget profiles within the capital programme that took place at Quarter 1.

<b>Capital Expenditure</b>	<b>2023-24 Original Estimate £m</b>	<b>Current Position 30 Sept 2023 £m</b>	<b>2023-24 Revised Q2 Estimate £m</b>
General Fund	232	74.1	212
HRA*	5	1.7	3
<b>Total capital expenditure</b>	<b>237</b>	<b>75.8</b>	<b>215</b>

##### 3.1.2 Changes to the Financing of the Capital Programme

The table over draws together the main strategy elements of the capital expenditure plans (above), highlighting the original supported and unsupported elements of the capital programme, and the expected financing arrangements of this capital expenditure. The borrowing element of the table increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

<b>Capital Expenditure</b>	<b>2023-24 Original Estimate £m</b>	<b>2023-24 Revised Q2 Estimate £m</b>
<b>Total capital expenditure</b>	<b>237.0</b>	<b>215.0</b>
<b>Total financing</b>	<b>133.0</b>	<b>107.0</b>
<b>Borrowing requirement</b>	<b>104.0</b>	<b>108.0</b>

Projected changes to the profiling of individual schemes and their funding have resulted in an increased new borrowing requirement of £108m for the 2023-24 Capital Programme.

### 3.1.3 Changes to the Prudential Indicators for the Capital Financing Requirement (CFR), External Debt and the Operational Boundary

The table below shows the CFR, which is the underlying external need to incur borrowing for a capital purpose. The CFR is the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of the Council's indebtedness and so the underlying borrowing need. Any capital expenditure above, which has not immediately been paid for, will increase the CFR. The increased borrowing requirement for estimated capital spend funding in 2023-24 has increased the CFR estimate.

The table below also shows the expected debt position over the period, which is termed the Operational Boundary. This is the limit beyond which external debt is not normally expected to exceed.

	<b>2023-24 Original Estimate £m</b>	<b>2023-24 Revised Estimate £m</b>
<b>Prudential Indicator – Capital Financing Requirement</b>		
Non-HRA	819	822
HRA	35	35
<b>Total CFR**</b>	<b>854</b>	<b>857</b>
<b>Net movement in CFR</b>		<b>3</b>
<b>Prudential Indicator – the Operational Boundary for external debt</b>		
Borrowing	729.5	729.5
Other long-term liabilities*	130.5	130.5
<b>Total debt (year-end position)</b>	<b>860</b>	<b>860</b>

\*Includes on balance sheet PFI schemes and finance leases

\*\*Review of MRP Policy will impact on CFR, further updates to be provided

	<b>2021-22 Actual £m</b>	<b>2022-23 Actual £m</b>	<b>2023-24 Estimate £m</b>	<b>2024-25 Estimate £m</b>	<b>2025-26 Estimate £m</b>	<b>2026-27 Estimate £m</b>
<b>Non-HRA</b>	-	-	822	901	920	953
<b>HRA*</b>	-	-	35	37	37	33
<b>Capital Financing Requirement</b>	<b>712</b>	<b>769</b>	<b>857</b>	<b>938</b>	<b>957</b>	<b>986</b>
<b>Movement in CFR</b>		<b>57</b>	<b>88</b>	<b>81</b>	<b>19</b>	<b>29</b>

#### Movement in CFR represented by

Net financing need for the year (above)		<b>77</b>	<b>108</b>	<b>104</b>	<b>35</b>	<b>57</b>
Less MRP/VRP and other financing movements		-20	-20	-23	-26	-28
<b>Movement in CFR</b>		<b>57</b>	<b>88</b>	<b>81</b>	<b>19</b>	<b>29</b>



### 3.1.4 Limits to Borrowing Activity

The first key control over the 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 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 which will be adhered to if this proves prudent.

	<b>2023-24 Original Estimate £m</b>	<b>Current Position 30 Sept 2023 £m</b>	<b>2023-24 Revised Estimate £m</b>
Long term Borrowing	546.0	415.1	468.1
Other long-term liabilities	130.5	130.5	130.5
Short term borrowing	0.0	92.0	88.0
<b>Total debt</b>	<b>676.5</b>	<b>637.6</b>	<b>686.6</b>
<b>Total debt excluding short term borrowing</b>	<b>676.5</b>	<b>545.6</b>	<b>598.6</b>
<b>CFR (year-end position)</b>	854.0		857.0

The CFR calculation is shown in the table above and the Director of Finance reports that no difficulties are envisaged for the current or future years in complying with this prudential indicator.

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 of 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.

<b>Authorised limit for external debt</b>	<b>2023-24 Original Indicator £m</b>	<b>2023-24 Revised Indicator £m</b>
Borrowing	749.5	749.5
Other long-term liabilities	130.5	130.5
<b>Total</b>	<b>880</b>	<b>880</b>

### 3.1.5 Borrowing

The Council's capital financing requirement (CFR) for 2023-24 is expected to be above the original forecast of £854m. 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. The Council has current borrowings of £507.1m and has utilised cash flow funds in lieu of borrowing and taken out short term loans. This is a prudent and cost-effective

approach in the current economic climate but will require ongoing monitoring if any upside risk to gilt yields prevails.

The capital programme is being kept under regular review because of inflation and 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.

£6.5m of PWLB (Public Works Loan Board) loans are due to mature in January 2024 with a rate of interest of 9.125%. It is anticipated that borrowing will be undertaken during this financial year.

Short-term borrowing of £92m has also been undertaken at interest rates ranging between 5.2% and 5.9%. Based on current capital spend forecasts it is anticipated that more borrowing will be undertaken during this financial year.

The Council has two Lender Option Borrower Option (LOBO) loans, totalling £14.3m that have a call date within the next few months. Due to the current volatility and increasing borrowing rates within the market, these loans could possibly have the interest rate increased at the call date. The Council would then have the option to accept the increased interest rate or repay the loans. The treasury team will monitor this situation and report back to the Governance & Audit Committee at a future date on any loans that have been repaid.

### **PWLB maturity certainty rates (gilts plus 80bps) year to date to 29th September 2023**

Gilt yields and PWLB certainty rates were on a generally rising trend throughout the first half of 2023/24. At the beginning of April, the 5-year rate was the cheapest part of the curve and touched 4.14% whilst the 25-year rate was relatively expensive at 4.58%.

July saw short-dated rates peak at their most expensive. The 1-year rate spiked to 6.36% and the 5-year rate to 5.93%. Although, in due course, short-dated rate expectations fell, the medium dates shifted higher through August and the 10-year rate pushed higher to 5.51% and the 25-year rate to 5.73%. The 50-year rate was 4.27% on 5th April but rose to 5.45% on 28th September.

We forecast rates to fall back over the next two to three years as inflation dampens. The CPI measure of inflation is expected to fall below 2% in the second half of 2024, and we forecast 50-year rates to stand at 3.90% by the end of September 2025. However, there is considerable gilt issuance to be digested by the market over the next couple of years, as a minimum, so there is a high degree of uncertainty as to whether rates will fall that far.

### **3.1.6 Debt Rescheduling**

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.

### **3.1.7 Compliance with Treasury and Prudential Limits**

It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30<sup>th</sup> September 2023, the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management

Strategy Statement for 2023-24. The Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices.

### **3.2 Annual investment strategy**

The Treasury Management Strategy Statement (TMSS) for 2023-24, which includes the Annual Investment Strategy, was approved by the Council on 23<sup>rd</sup> May 2023. In accordance with the CIPFA Treasury Management Code of Practice, it sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

The Council will aim 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 cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

#### **Creditworthiness**

Significant levels of downgrades to Short- and Long-Term credit ratings have not materialised since the crisis in March 2020. In the main, where they did change, any alterations were limited to Outlooks.

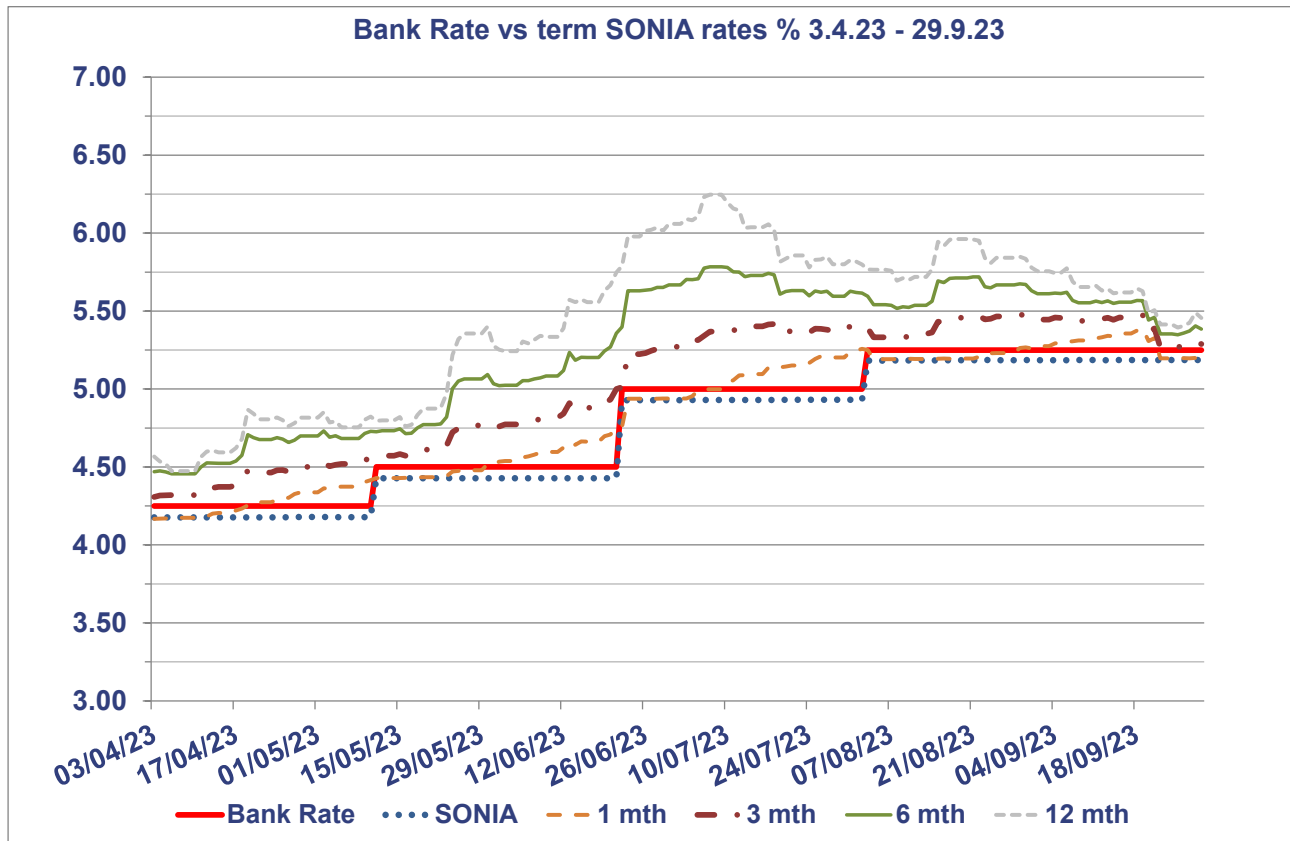
#### **Investment Counterparty criteria**

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

#### **Investment balances**

The Council held net £29.5m of investments as at 30<sup>th</sup> September 2023 (£48.3m at 31<sup>st</sup> March 2023) and the average investment portfolio yield for the 6 months of the year April to September is 4.65% against a benchmark of 4.75%.

## Investment performance year to date as of 29<sup>th</sup> September 2023



	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
<b>High</b>	5.25	5.19	5.39	5.48	5.78	6.25
<b>High Date</b>	03/08/2023	29/09/2023	19/09/2023	30/08/2023	07/07/2023	07/07/2023
<b>Low</b>	4.25	4.18	4.17	4.31	4.46	4.47
<b>Low Date</b>	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
<b>Average</b>	4.81	4.74	4.83	5.03	5.26	5.45
<b>Spread</b>	1.00	1.01	1.22	1.17	1.33	1.77

As illustrated, the Council underperformed the benchmark by around 10 bps or 0.10%. This equates the expected return in the liquidity funds the Council uses to have short term cash deposits on call. Typically, they return around 10 – 15 bp below the base rate at any one time. The Council’s budgeted investment return for the year to date is expected to be below budget.

### Approved limits

Officers can confirm that the approved limits within the Annual Investment Strategy were not breached during the period ended 30<sup>th</sup> September 2023.

### 3.3 Other areas for consideration

#### 3.1.1 None

## 4. Other Issues

4.1 No new issues

## 5. Financial and Resources Appraisal

5.1 The financial implications are set out in sections 2 and 3 of this report.

## 6. Risk Management and Governance Issues

6.1 The principal risks associated with treasury management are:

Risk: Loss of investments as a result of failure of counterparties.

Mitigation: Limiting the types of investment instruments used, setting lending criteria for counterparties, and limiting the extent of exposure to individual counterparties.

Risk: That the Council will commit too much of its investments in fixed term investments and might have to recall investments prematurely resulting in possible additional costs or new borrowing (Liquidity risk).

Mitigation: Ensuring that a minimum proportion of investments are held in short term investments for cash flow purposes.

Risk: The level of investments and surplus cash is higher than needed to fund short term timing differences.

Mitigation: Cash flow forecasting and capital expenditure monitoring.

Risk: Increase in the net financing costs of the Council due to borrowing at high rates of interest.

Mitigation: Planning and undertaking borrowing and lending in light of assessments of future interest rate movements, and by undertaking mostly long-term borrowing at fixed rates of interest (to reduce the volatility of capital financing costs).

Risk: Higher interest rates increase borrowing making it more difficult to self-finance capital schemes. Debt servicing becomes less affordable and less sustainable and crowds out revenue spend.

Mitigation: To pause, delay or defer capital schemes. Also review opportunities to borrow in the future at current interest rates.

Risk: Return on non-treasury investments lower than expected.

Mitigation: Review and analysis of risk prior to undertaking non-treasury investments.

Risk: The Council's Minimum Revenue Policy charges an insufficient amount to the Revenue Estimates to repay debt.

Mitigation: Align the Minimum Revenue Policy to the service benefit derived from the Council's assets.

Risk: Associated with cash management, legal requirements and fraud.

Mitigation: These risks are managed through:

- Treasury Management Practices covering all aspects of Treasury management procedures including cash flow forecasting, documentation, monitoring, reporting and division of duties.
- All Treasury management procedures and transactions are subject to inspection by internal and external auditors. The Council also employs external financial advisors to

provide information on market trends, credit rating alerts, lending criteria advice and investment opportunities.

Risk: Anticipated borrowing is lower than expected because the 2023-24 capital programme is underspent. This is explained in more detail below, together with the actions being taken to reduce these risks:

Mitigation: The Council is required to set a balanced budget for its revenue estimates; so in broad terms, income received will match expenditure over the 2023-24 financial year. The 2023-24 revenue estimates cause only temporary cash flow differences, for example when income is received in a different month to when the expenditure is incurred.

However, the 2023-24 capital budget will cause a cash flow shortfall in the long term, which generates a borrowing requirement. While some of the capital budget is funded immediately, mainly with Government grants, other elements are not funded initially, leading to the cash flow deficit that requires borrowing.

Managing borrowing is part of the Treasury Management role. To help in its management, the Treasury Strategy identifies the element within the capital budget that is not funded straightaway, to anticipate the Council's borrowing requirement.

However, when the capital budget is underspent, the Council has a lower borrowing requirement than anticipated. This risk is managed in practice because the Council only borrows when there is an actual cash flow shortage. The uncertainty around spend against the capital budget makes cash flow management more difficult. For example, it is less likely that the Council would take advantage of a short-term fall in interest rates, without more certainty around the timing of any borrowing need. Actions that have taken place to manage the risks relating to this uncertainty in the timing of capital spend are Councillor and Officer challenge sessions on the capital budget, increased scrutiny of the capital forecasts in the quarterly monitoring, and the collection of additional documentation around the critical paths of individual schemes.

## **7. Legal Appraisal**

7.1 Any relevant legal considerations are set out in the report

## **8. Other Implications**

- 8.1 Equality & Diversity – no direct implications
- 8.2 Sustainability implications – no direct implications
- 8.3 Green house Gas Emissions Impact – no direct implications
- 8.4 Community safety implications – no direct implications
- 8.5 Human Rights Act – no direct implications
- 8.6 Trade Unions – no direct implications
- 8.7 Ward Implications – no direct implications
- 8.8 Implication for Children & Families – no direct implications
- 8.9 Issues arising from Privacy Impact Assessment– no direct implications

## **9. Not for publications documents**

9.1 None

## **10. Recommendations**

10.1 That the details in Sections 2 and 3 be noted by the Governance and Audit Committee and passed to Full Council on the 12<sup>th</sup> December for adoption.

## **11. Appendices**

Appendix 1 Prudential and Treasury Indicators as at 30 September 2023

Appendix 2 The CFR, Liability Benchmark and Borrowing

Appendix 3 Borrowing Rates

Appendix 4 Approved Countries for Investment as at 30 September 2023

## APPENDIX 1: Prudential and Treasury Indicators as at 30<sup>th</sup> September 2023

<b>Treasury Indicators</b>	<b>2023-24 Budget £m</b>	<b>(Apr - Sept) Actual £m</b>
Authorised limit for external debt	£880	£880
Operational boundary for external debt	£860	£860
Gross external long-term debt	£676.5	£637.6
Upper limit for principal sums invested over 365 days	£20	£0

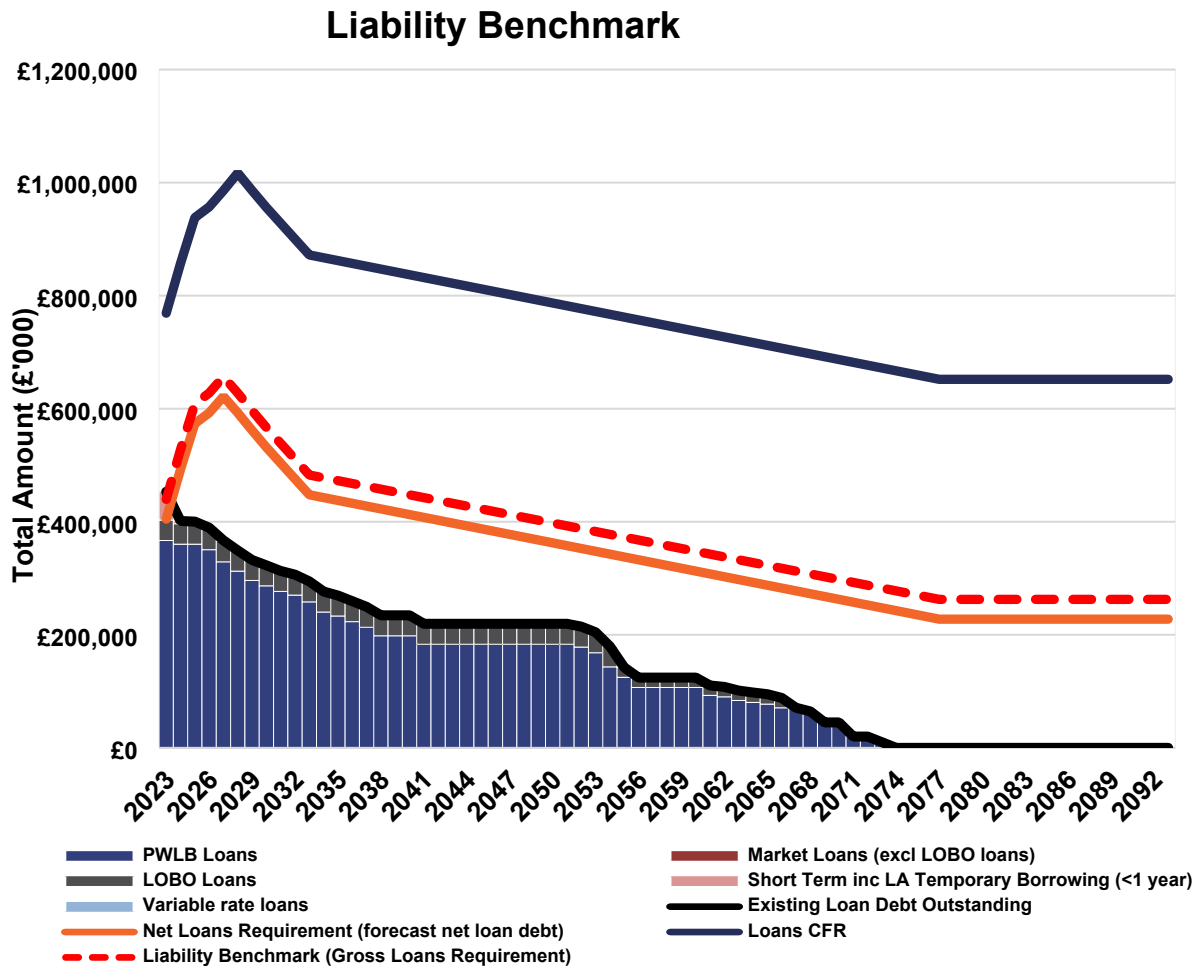
<b>Maturity structure of fixed rate borrowing -</b>	<b>Upper Limit</b>	<b>(Apr-Sept) Actual</b>
Under 12 months	20%	19%
12 months to 2 years	20%	2%
2 years to 5 years	50%	13%
5 years to 10 years	50%	11%
10 years and above	90%	55%

<b>Prudential Indicators</b>	<b>2023-24 Q2 Budget £m</b>	<b>2023-24 Revised Estimate £m</b>
Capital expenditure (Revised Q2 Budget)	215	194
Capital Financing Requirement (CFR)	854.0	857.0
Ratio of financing costs to net revenue stream	13.0%	13.0%

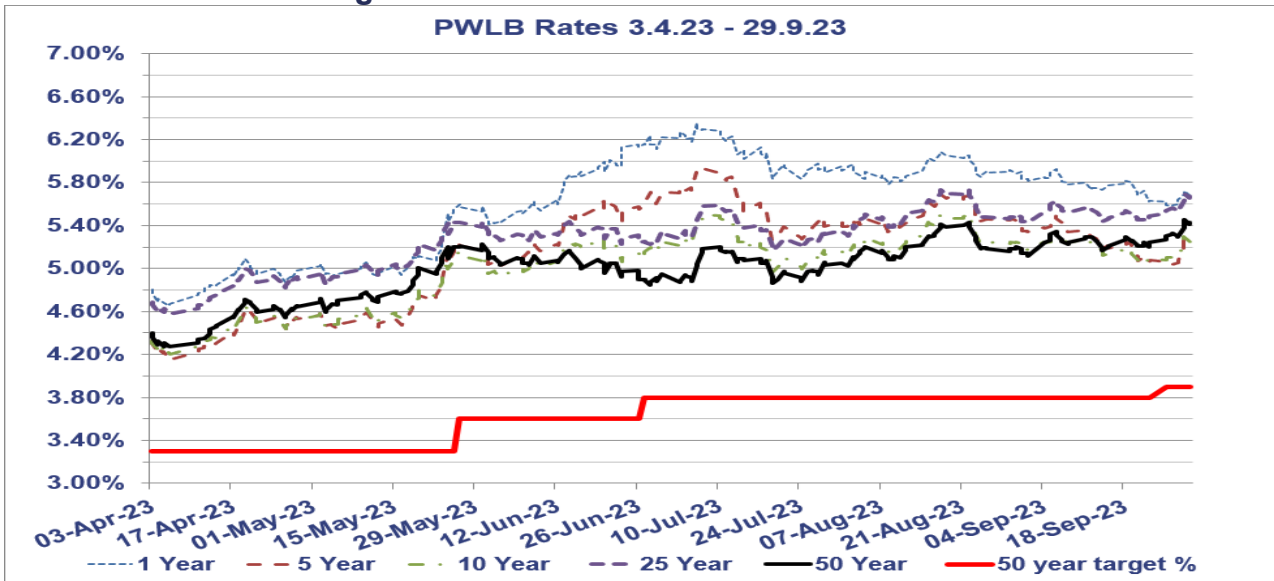


## APPENDIX 2: The CFR, Liability Benchmark and Borrowing

This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £35.0m required to manage day-to-day cash flow.



### APPENDIX 3: Borrowing rates

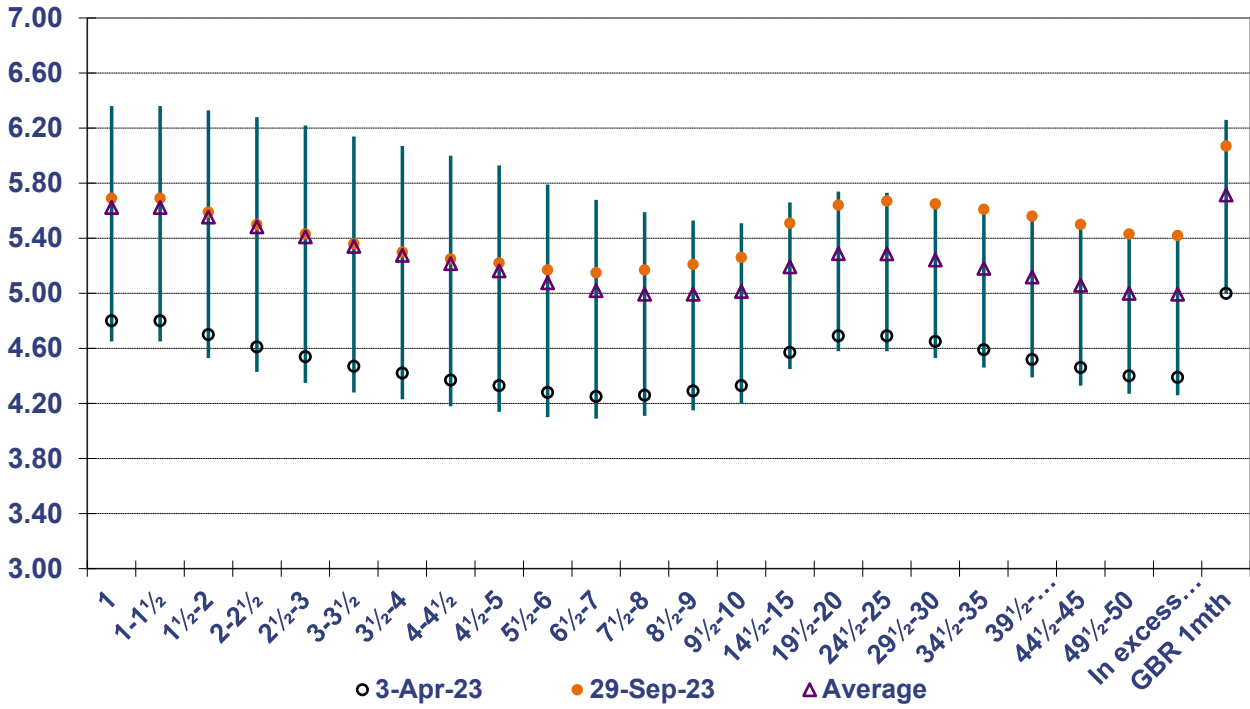


### HIGH/LOW/AVERAGE PWLB RATES FOR 01.04.23 – 29.09.23

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.65%	4.14%	4.20%	4.58%	4.27%
<b>Date</b>	06/04/2023	06/04/2023	06/04/2023	06/04/2023	05/04/2023
<b>High</b>	6.36%	5.93%	5.51%	5.73%	5.45%
<b>Date</b>	06/07/2023	07/07/2023	22/08/2023	17/08/2023	28/09/2023
<b>Average</b>	5.62%	5.16%	5.01%	5.29%	5.00%
<b>Spread</b>	1.71%	1.79%	1.31%	1.15%	1.18%

- The current PWLB rates are set as margins over gilt yields as follows: -
  - **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
  - **PWLB Certainty Rate (GF)** is gilt plus 80 basis points (G+80bps)
  - **PWLB Local Infrastructure Rate** is gilt plus 60 basis points (G+60bps)
  - **PWLB Certainty Rate (HRA)** is gilt plus 40bps (G+40bps)
- The **UK Infrastructure Bank** will lend to local authorities that meet its scheme criteria at a rate currently set at gilt plus 40bps (G+40bps).

### PWLB Certainty Rate Variations 3.4.23 to 29.9.23



## **APPENDIX 4: Approved countries for investments as at 30th September 2023**

### ***Based on lowest available rating***

#### ***Based on lowest available rating***

##### **AAA**

- Australia
- Denmark
- Germany
- Netherlands
- Norway
- Singapore
- Sweden
- Switzerland

##### **AA+**

- Canada
- Finland
- U.S.A.

##### **AA**

- Abu Dhabi (UAE)

##### **AA-**

- Belgium
- France (downgraded by Fitch on 9th May 2023)
- Qatar
- **U.K.**