REPORT TO AUDIT AND STANDARDS COMMITTEE
30 OCTOBER 2023

TITLE OF REPORT: **Treasury Management – Performance to 30 September 2023**

REPORT OF: **Darren Collins – Strategic Director, Resources & Digital**

Purpose of the Report

1. The purpose of this report is to review Treasury Management performance for the six months to 30 September 2023, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The mid-year performance of the Treasury Management Service is reported in line with CIPFA's Code of Practice on Treasury Management and the Council's Treasury Policy Statement and Treasury Strategy which was approved by Council on 24 March 2023.

3. The Council operates a balanced approach, and this means broadly that 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 security and adequate liquidity initially before considering optimising investment return.

4. 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.

5. Accordingly, treasury management is defined as:

   "The management of the Council'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."

6. The primary objective of the investment strategy is to safeguard the Council's assets with a secondary objective of obtaining an optimum rate of return on investments and minimising the costs of borrowing.

Treasury Management Strategy Statement

7. The Treasury Management Strategy Statement (TMSS) for 2023/24 was approved by Council on 24 March 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.

Investment Performance

8. The latest projection of gross investment income for 2023/24 based on interest earned to date and expected interest to March 2024 is £5.102m, compared to an original estimate of £4.560m.

9. This gross investment interest is adjusted to account for £0.700m interest payable to third parties (budget £0.742m), temporary loans of £0.031m (budget £0.011m) and interest receivable of £1.273m from various third parties (budget £1.273m). This gives a projected net interest to the General Fund 2023/24 of £5.644m compared to the budget of £5.080m. The variance to budget is mainly as a result of higher levels of interest received due to higher increases to the Bank of England base rate than anticipated when the 2023/24 budget was set.

The Economy

10. Since the historically low bank base rates during the covid pandemic interest rates have been on an upward curve from December 2021. The Bank of England's Monetary Policy Committee have agreed the following increases so far in 2023/24:

Date	Base Rate
01 April 2023	4.25%
11 May 2023	4.50%
23 June 2023	5.00%
04 August 2023	5.25%

It is anticipated that base rate increases have peaked at 5.25% and are projected to fall slightly in the second half of the current financial year to 5.00%.

Rate of Return

11. The average rate of return is monitored for each investment type the Council enters into and these are used to calculate an average rate of return for the year to date. The current rate of return is 4.85%, which is an improvement on the original estimate of 3.82%.

12. The quarterly LINK Asset Services Investment Benchmarking report assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return, which is used for comparison across regional Local Authorities. In the most recent report received at June 2023 the Council achieved a weighted average rate of return of 4.81% on its investments for Quarter 1 2023/24 which is above the risk adjusted expectations (4.20% to 4.54%) defined in the Benchmarking Report for our Group.

13. The average rate of return would be expected to increase during the remainder of the financial year as low interest investments mature, increased stability in the bank base rates, investment balances are projected to remain consistent and new deposits placed with higher yielding returns.

14. In the current financial year the economic conditions in the investment market improved and the Council will likely exceed levels of interest rates achieved in recent financial years. The majority of available interest rates up to 12 months duration are at or around 5.60% compared to the bank base rate of 5.25% (at 30

September 2023). No further increases in the Bank Base Rate are forecast during the current financial year ending 31st March 2024, with investment returns forecast to remain fairly consistent in the short and medium term.

Borrowing

14. The total borrowing for the Council and HRA as at 30 September 2023 was £684.966m, which was within the operational borrowing limit of £855.000m. This borrowing is made up of £636.966m Public Works Loans Board (PWLB) loans and £48.000m market loans.

15. The Treasury Strategy estimates for the 2023/24 financial year were based on a total borrowing requirement of £81.573m with £62.406m relating to the GF and £19.166m the HRA. Due to the council holding high levels of cash reserves there has been no borrowing taken in the year to date. The timing of any further borrowing will depend on cash flow requirements to support the capital programme.

16. The current forecast for interest payable on borrowing is allocated to the General Fund and the Housing Revenue Account (HRA) as shown in the following table:

	General Fund	**HRA**
Forecast Interest Payable	£13.591m	£12.228m
Average rate of interest	3.38%	3.79%

This represents a gross saving of £0.828m on the original estimate, of which £0.793m is a saving for the General Fund and £0.035m additional cost to the HRA.

Compliance with Treasury and Prudential Limits

17. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the half year ended 30th 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 as demonstrated in Appendix 1.

18. **Liability Benchmark**

A new prudential indicator has been introduced for 2023/24, the Liability Benchmark (LB). The Council is required to estimate and measure the LB for the forthcoming financial year and the following two financial years, as a minimum and Appendix 2 shows the current position as 30 September 2023.

Summary of Mid-Year Performance

19. The projected net impact of investment and borrowing activity on the revenue budget in 2023/24 is an underspend of £1.425m, comprising £1.795m General Fund underspend and £0.370m HRA overspend.

	General Fund			HRA		
	Estimate £m	Projected Outturn £m	Variance £m	Estimate £m	Projected Outturn £m	Variance £m
Investments	(5.080)	(6.083)	(1.003)	(0.555)	(0.150)	0.405
Borrowing	13.591	12.798	(0.793)	12.228	12.193	(0.035)
Premia	0.462	0.463	0.001	0.000	0.000	0.000
Net Position	**8.973**	**7.178**	**(1.795)**	**11.673**	**12.043**	**0.370**

20. Current interest rates for investments are around 5.60% for 12 months and 5.50% for 6 months, allowing the Council to maintain existing returns from investing cash balances. PWLB rates are currently higher than budgeted and will be monitored to ensure borrowing is taken at the optimum time to minimise the number of long term loans entered into at the current higher level of interest rates.

21. The balance of external and internal borrowing is generally driven by market conditions. The council will continue to monitor the market to identify any opportunity to repay borrowing earlier than planned, subject to any discounts received.

Recommendation

The Committee is requested to note the Treasury Management Performance to 30 September 2023, prior to submission to Cabinet.

Appendix 1

Maturity Profile of Fixed Rate Borrowing

The following table shows that Gateshead is within the prudential limits set for the maturity profiles of fixed rate borrowing.

Fixed Rate Borrowing				
	Lower	**Upper**	**Actual @ 30 September**	**Max Actual to date**
< 1 yr	0%	15%	2.78%	2.78%
1 – 2 yrs	0%	19%	2.29%	2.99%
2 – 5 yrs	0%	22%	8.42%	9.15%
5 – 10 yrs	0%	22%	10.98%	11.71%
10 – 20 yrs	0%	17%	5.04%	6.50%
20 – 30 yrs	0%	41%	6.65%	6.65%
30 – 40 yrs	0%	42%	32.73%	33.46%
40 – 50 yrs	0%	41%	29.64%	33.29%
50 yrs +	0%	11%	0.00%	0.00%

Maturity Profile of Variable Rate Borrowing

The following table shows that Gateshead is within the prudential limits set for the maturity profiles of variable rate borrowing.

Variable Rate Borrowing				
	Lower	**Upper**	**Actual @ 30 September**	**Max Actual to date**
< 1 yr	0%	16%	1.46%	2.92%
1 – 2 yrs	0%	11%	0.00%	0.00%
2 – 5 yrs	0%	11%	0.00%	0.00%
5 – 10 yrs	0%	11%	0.00%	0.00%
10 – 20 yrs	0%	11%	0.00%	0.00%
20 – 30 yrs	0%	11%	0.00%	0.00%
30 – 40 yrs	0%	11%	0.00%	0.00%
40 – 50 yrs	0%	11%	0.00%	0.00%
50 yrs +	0%	11%	0.00%	0.00%

Operation and Authorised Limits (External Debt)

	£m
Operational Limit 2023/24	850.000
Authorised Limit 2023/24	865.000
Actual External Debt Outstanding 30 Sept 2023	684.966
Maximum Debt Outstanding to 30 Sept 2023	684.966

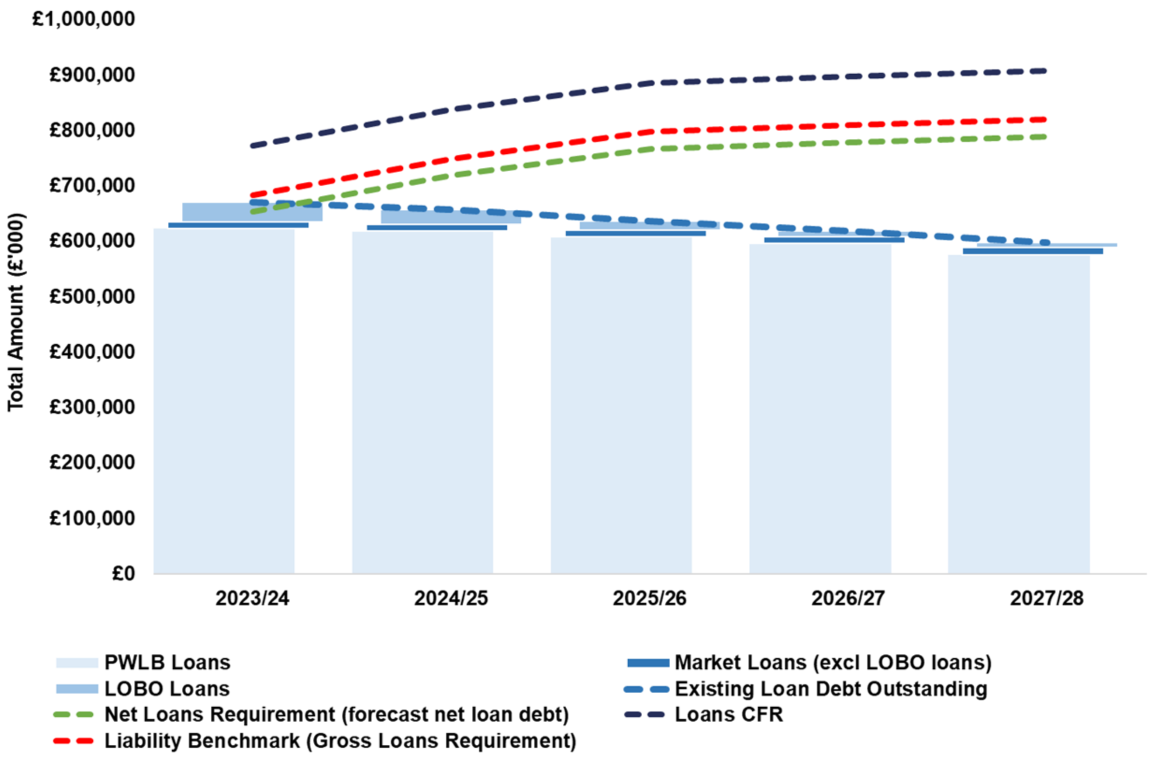
Non-Specified Investments

As part of the Annual Investment Strategy, the approved limits in respect of non-specified investments have been agreed. The limits and actual performance are detailed below for counterparties with ratings which fall short of the Council's high credit rating. Investments over 364 days are also classed as non-specified.

	Limits 2023/24	Actual Levels 30 Sep 2023	Maximum to date
Rated Not High	25.00%	0.00%	5.82%
Not Rated	0.00%	0.00%	0.00%
Over 364 days (max of 3 yrs.)	£15m / 20.00%	£0m / 0.00%	£0m /0.00%

Appendix 2

Liability Benchmark



The Liability Benchmark gross loans requirement, subject to using internal borrowing and maintaining £30m (liquidity allowance) in Treasury Management investments, is £683m compared to the existing loan debt of £671m, so external debt is circa £12m below the benchmark.