

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

REPORT OF: Darren Collins – Strategic Director, Resources and 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. Cabinet will receive half yearly performance reports on the agreed Treasury Management budget identifying any variances. This report sets out the monitoring position at 30 September 2023.
3. Council agreed the Treasury Policy Statement and Treasury Strategy 2023/24 to 2027/28 which provided a framework for the Strategic Director, Resources and Digital to exercise his delegated powers on 24 March 2023.
4. Council also agreed the original Treasury Management 2023/24 budgets on 23 February 2023 of £20.646m, split £8.973m for General Fund and £11.673m for the HRA.

Proposals

5. The projected outturn for 2023/24 at 30 September 2023 for the General Fund is £7.178m compared to the budget of £8.973m, an underspend of £1.795m. The HRA projection is £12.043m compared to the budget of £11.673m, an overspend of £0.370m.
6. The Audit and Standards Committee reviewed the Treasury Management performance to 30 September 2022 on 31 October 2023 and raised no comments for submission to Council.
7. It is important that effective budget monitoring and action planning is in place to ensure that spending in 2023/24 is contained within approved budgets as this will contribute to a sustainable financial position for the Council.

Recommendation

8. Cabinet is asked to recommend that Council note the Treasury Management Performance to 30 September 2023; to contribute to sound financial management and the long-term financial sustainability of the Council.

Policy Context

1. The proposals in this report are consistent with Council priorities and in particular they ensure that effective use is made of the Council's resources to ensure a sustainable financial position and support of the framework for achieving the Council's strategic approach 'Making Gateshead a Place Where Everyone Thrives'. The Council recognises there are huge financial pressures on not just Council resources, but those of partners, local businesses and residents. This requires the Council's decision-making to be policy and priority led and driven.

Background

2. The Prudential Code plays a key role in capital finance in local authorities. Local authorities determine their own programmes for capital investment that are central to the delivery of quality public services. The Prudential Code was developed by CIPFA, the Chartered Institute of Public Finance and Accountancy, as a professional code of practice to support local authorities in taking their decisions. Local authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003.
3. In December 2021 CIPFA issued a revised Treasury Management Code of Practice and a revised Prudential Code (the Code) which represent best practice. The Council fully complies with the Code and this contributes towards achieving good practice.
4. Part 1 of the Local Government Act 2003 specifies the powers of a local authority to borrow for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Borrowing is linked to the CIPFA Prudential Code for Capital which sets out a range of prudential and treasury indicators that must be calculated to ensure borrowing is affordable, prudent and sustainable. The Prudential Code refers to the need for a clear and integrated treasury strategy.
5. In addition, under Section 15 of the Local Government Act 2003, authorities are required to have regard to the MHCLG's guidance on Local Government Investments. This document stipulates the requirement for an annual investment strategy to be integrated into the Council's Treasury Strategy.
6. Under Part 4 of the Council's Constitution the Strategic Director, Resources and Digital will produce a Treasury Policy Statement annually, setting out the general policies and objectives of the Council's treasury management function.

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.

Mid-Year Performance to 30 September 2023

8. This report sets out the latest position on the 2023/24 Treasury Management budget as at 30 September 2023 and projects interest on borrowing and investment income to the end of the financial year.
9. The combined General Fund and HRA projected outturn for 2023/24 at 30 September 2023 is £19.221m compared to the estimate of £20.646m, a projected underspend of £1.425m. The underspend relates to two main areas:
 - a) Borrowing costs are lower than budget. Due to the council holding high levels of cash reserves and reduced projected capital financial requirements borrowing has been delayed until later in the financial year
 - b) Investment interest achieved is higher than budgeted estimates. Due to changes in the market conditions and higher levels of interest available the council has received a higher return on investments placed during the financial year.
10. Appendix 2 details the budget for 2023/24 compared to an assessment of the projected outturn for the year.

Consultation

11. The Leader of the Council has been consulted on this report.

Alternative Options

12. There are no alternative options, as the Treasury Management mid-year performance report recommended for approval is required to comply with the policy on delegation, review requirements and reporting arrangements as outlined in the Treasury Policy Statement and Treasury Strategy.

Implications of Recommended Options

13. **Resources:**

a) Financial Implications - The Strategic Director, Resources and Digital confirms that the financial implications are set out in this report. There are no additional financial implications associated with the report itself.

b) Human Resources Implications - There are no human resources implications arising from this report.

c) Property Implications – There are no property implications arising from this report.

14. **Risk Management Implications**

The Treasury Policy and Treasury Strategy which informs activity in this area were prepared with the primary aim of minimising risk to ensure that the Council's principal sums are safeguarded. Maximising income is considered secondary to this main aim.

15. **Equality and Diversity Implications**

There are no equality and diversity implications arising from this report.

16. **Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

17. **Health Implications**

There are no health implications arising from this report.

18. **Climate Emergency and Sustainability Implications**

There are no climate emergency or sustainability implications arising from this report.

19. **Human Rights Implications**

There are no human rights implications arising from this report.

20. **Ward Implications**

There are no direct area and ward implications arising from this report.

Mid-Year Report - Performance to 30 September 20232

Investment Performance

1. 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.
2. 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

3. 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

4. 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%.
5. 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.
6. 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.
7. 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 3.

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 4 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	Projected Outturn	Variance	Estimate	Projected Outturn	Variance
	£m	£m	£m	£m	£m	£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.

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)

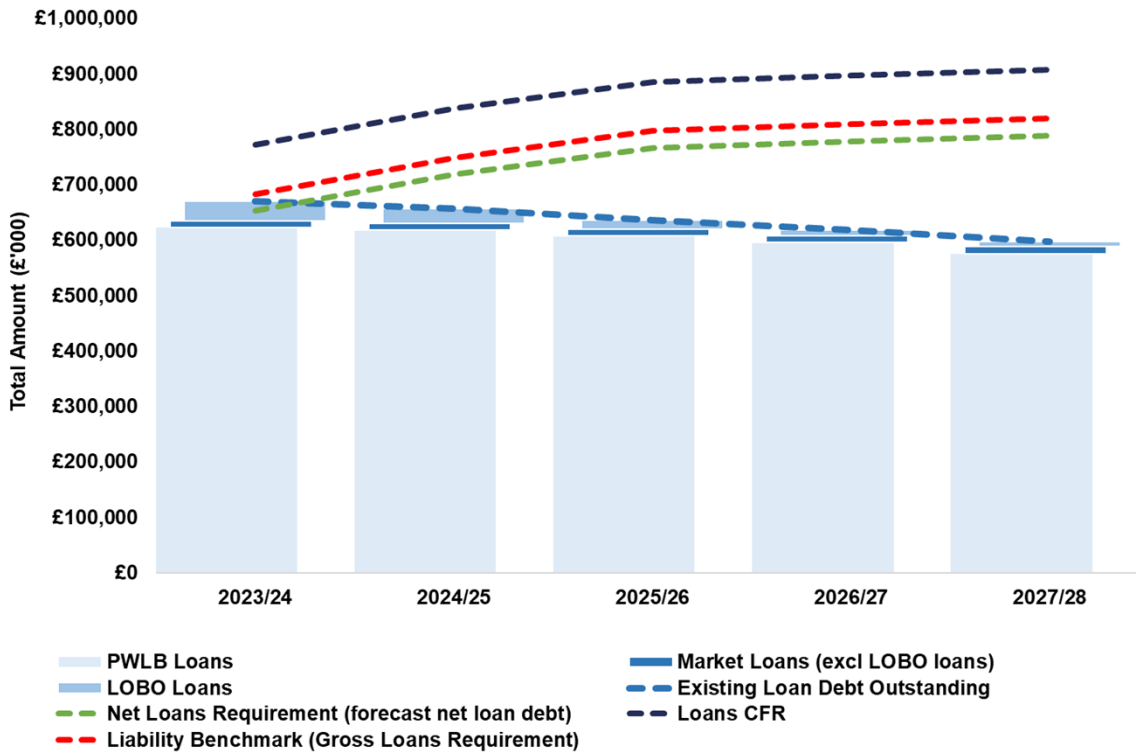
	£m
Operational Limit 2023/24	850.000
Authorised Limit 2023/24	865.000
Actual External Debt Outstanding 30 Sept 2023	684.966
Maximum Debt Outstanding to 30 Sept 2023	684.966

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%

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.