

TITLE OF REPORT: Treasury Management Performance – Third Quarter Review 2023/24

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

Purpose of the Report

1. The purpose of this report is to review Treasury Management 2023/24 performance for the nine months to 31 December 2023, covering investments and borrowing. This is consistent with approved performance management arrangements.

Background

2. The quarterly 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 (TMSS) which was approved by Council on 24 March 2023.
3. 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.
4. 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.

Summary of Treasury Management Performance 2023/24 Quarter 3

5. The Council's investment policy is regularly monitored and reviewed to ensure it has flexibility to take full advantage of any changes in market conditions which will benefit the Council, whilst maintaining the security of funds. Performance in the first nine months of the financial year indicate a strong investment position, with returns exceeding budget expectations.
6. No new borrowing has been taken out to date during 2023/24, interest rates are monitored closely to inform the best timing to take new borrowing in order to minimise the revenue impact of financing the Council's Capital Programme.
7. Treasury Management Prudential Indicators are monitored throughout the year and the Council is within the limits set for all Treasury Management Prudential Indicators.
8. More detailed Treasury Management performance information is included in Appendix 1.

Recommendation

Committee is requested to note the Treasury Management Performance to 31 December 2023.



Treasury Management Performance Report 2023/24 Quarter 3

Investment Performance

1. The latest projection at 31 December 2023 of gross investment income for 2023/24 based on interest earned to date and expected interest to March 2024 is £5.391m, compared to an original estimate of £4.560m.
2. This gross investment interest is adjusted to account for £0.907m interest payable to third parties (budget £0.742m), temporary loans of £0.037m (budget £0.011m) and interest receivable of £1.265m from various third parties (budget £1.273m).
3. This gives a projected net interest to the General Fund 2023/24 of £7.366m 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 and additional income received from Newcastle Airport.

The Economy

4. 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 rates are projected to be static for the remainder of the current financial year.

Rate of Return

5. 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 5.11%, which is an improvement on the original estimate of 3.84%.
6. 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 22 November 2023 the Council achieved a weighted average rate of return of 5.417% on its investments for Quarter 3 2023/24 which is above the groups average return of 5.25% and above the risk adjusted expectations defined in the Benchmarking Report for our Group.
7. As at 31 December 2023, the funds managed by the Council's Treasury Management team have achieved a rate of return on its investments of 5.11%

compared with the benchmark SONIA (Sterling Overnight Index Average) rate of 4.96%. Performance is above the benchmark rate, whilst still adhering to the prudent policy agreed by the Council.

8. The average rate of return is forecast to remain relatively static during the remainder of the financial year as low interest investments mature, investment balances are projected to remain consistent and new deposits placed with slightly higher yielding returns. Interest rates for new investments at 31 December 2023 are around 5.00% for 12 months and 5.30% for 6 months, allowing the Council to maintain existing returns from investing cash balances.

Borrowing

14. The total borrowing for the Council and HRA as at 31 December 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. The position at 31 December 2023 had a lower projected borrowing requirement of £68.922m, with £48.884m relating to the GF and £20.038 to the HRA.
16. Due to the current high long-term borrowing rates 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, pending borrowing rates reducing.
17. No refinancing of debt has been carried out in 2023/2024 during the period as interest rates have not been considered sufficiently favourable. The Council's average interest rate on borrowing is low, currently 3.5%, and, as such, the Council already benefits from this lower cost of borrowing. Based on information from the Council's treasury advisor, performance continues to see the Council's rate of borrowing compare favourably to other authorities.
18. PWLB Borrowing costs have increased and fluctuated in-year. Based on a 50 year loan borrowing peaked in October 2023 with a 5.75% interest rate but have reduced to 4.68% by the end of December 2023. PWLB rates are currently higher than budgeted and will be monitored to ensure any 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.
19. 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	£12.273m	£12.028m
Average rate of interest	3.34%	3.78%

This represents a gross saving of £1.458m on the original estimate, of which £1.318m is a saving for the General Fund and £0.140m additional cost to the HRA.

Compliance with Treasury and Prudential Limits

20. It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. During the period to 31 December 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 2.
21. The statutory limit under section 3 (1) of the Local Government Act 2003, which is required to be reported separately, (also known as the Authorised Borrowing Limit for External Debt) was set at £865.000m for 2023/2024. The Council's maximum external debt during the financial year to 31st December 2023 was £684.966m and is within this limit.
22. 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 31 December 2023.
23. More details of the Treasury Management Prudential Indicators are set out in Appendix 2 for information.

Summary of Mid-Year Performance

24. The projected net impact of investment and borrowing activity on the revenue budget in 2023/24 is an underspend of £3.328m, comprising £3.603m General Fund underspend and £0.365m HRA overspend.

	General Fund			HRA		
	Estimate £m	Projected Outturn £m	Variance £m	Estimate £m	Projected Outturn £m	Variance £m
Investments	(5.080)	(7,366)	(2.286)	(0.555)	(0.050)	0.505
Borrowing	13.591	12.273	(1.318)	12.228	12.088	(0.140)
Premia	0.462	0.463	0.001	0.000	0.000	0.000
Net Position	8.973	5.370	(3.603)	11.673	12.038	0.365

25. Current interest rates for investments at 31 December 2023 are around 5.00% for 12 months and 5.30% for 6 months, allowing the Council to maintain existing returns from investing cash balances.
26. 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 @ 31 December	Max Actual to date
< 1 yr	0%	15%	2.78%	2.78%
1 – 2 yrs	0%	19%	3.02%	3.02%
2 – 5 yrs	0%	22%	7.69%	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 @ 31 December	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)

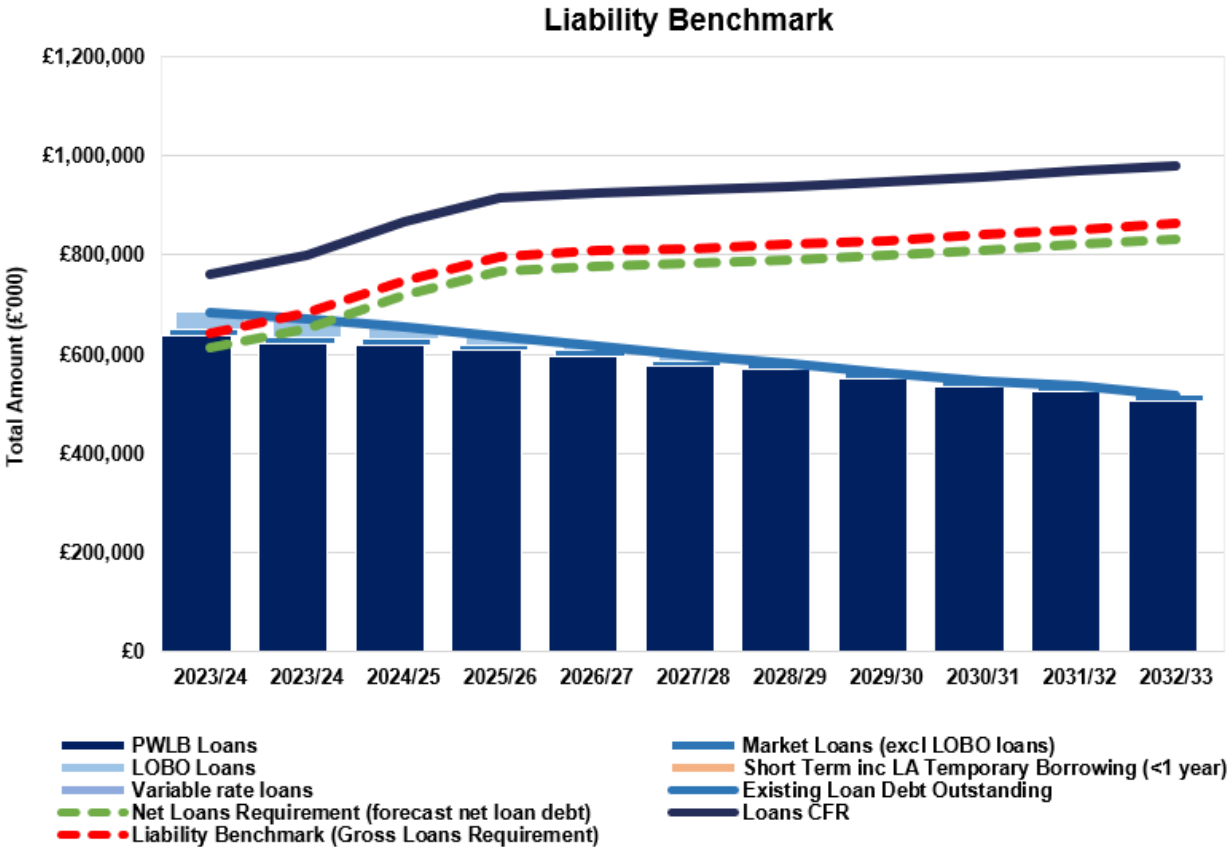
	£m
Operational Limit 2023/24	850.000
Authorised Limit 2023/24	865.000
Actual External Debt Outstanding 31 Dec 2023	684.966
Maximum Debt Outstanding to 31 Dec 2023	684.966

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 31 Dec 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 a liquidity allowance in Treasury Management investments, indicates external debt is below the benchmark.