Chorley Council

Report of	Meeting	Date
Director (Finance)	Governance Committee	Wednesday, 29 November 2023

Treasury Management Mid Year Review 2023/24

Is this report confidential?	No

Is this decision key?	No

Purpose of the Report

1. To report on Treasury Management performance and compliance with Prudential Indicators for the period ended 30th September 2023.

2. To present monitoring figures for the quarter ended 30th September 2023, including updated interest rate forecasts from Link Asset Services.

Recommendations

3. That the report be noted.

Reasons for recommendations

4. Production of a Mid-Year Report is a requirement under the Treasury Management Code of Practice.

Other options considered and rejected

5. Not applicable.

Corporate priorities

6. The report relates to the following corporate priorities:

Housing where residents can live well	**A green and sustainable borough**
An enterprising economy with vibrant local centres in urban and rural areas	**Healthy, safe and engaged communities**

Background to the report

7. At its meeting on 28th February 2023 Council approved the Treasury Management Policy Statement; Prudential Indicators; Investment Strategy; and the Annual Minimum Revenue Provision (MRP) Policy for 2023/24.

8. The Treasury Management Outturn Report for 2022/23 was presented to Governance Committee on 2nd August 2023.

9. The Code of Practice for Treasury Management requires all Councils to review their treasury strategies and activities half yearly. This report satisfies that requirement.

Capital Expenditure and Financing 20223/24

10. The Council undertakes capital expenditure on long-term activities. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts; capital grants; revenue contributions etc), which has no impact on the Council's borrowing need; or

- If sufficient financing is not available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

11. Capital expenditure is monitored monthly and reported to Executive Cabinet every quarter.

12. The report for the quarter ended 30th September 2023 was considered by Executive Cabinet on 9th November 2023 and highlighted a decreased forecast borrowing requirement for the year of £8.816m compared to an original forecast of £15.068m (£11.663m at July 2023).

Table 1 - Forecast Capital Expenditure	Budget 2023/24 Approved at Council Feb 2023 £'000	Budget 2023/24 Approved by Cabinet for the 4 months to July 2023 £'000	Slippage and reprofiling of budget (to)/from future years £'000	Quarter 2 2023/24 Variations £'000	Revised Budget 2023/24 as at 30th September 2023 £'000
COSTS					
An Enterprising Economy With Vibrant Local Centres In Urban and Local Areas	11,415	7,214	(2,913)	-	4,302
Green And Sustainable Borough	2,189	2,322	(1,538)	-	784
Housing Where Residents Live Well	7,499	8,286	-	190	8,476
Healthy, Safe and Engaged Communites	-	369	-	-	369
Total Forecast Expenditure	**21,103**	**18,191**	**(4,450)**	**190**	**13,930**
RESOURCES					
Disabled Facilities Grants	1,109	1,130	-	77	1,207
Brownfield Release Fund	1,100	1,100	(900)	-	200
Homes England	-	-	-	-	-
Rural Prosperity Fund	400	400	(400)	-	-
LEP Grants		-	-	-	-
Other Grants	285	285	(285)	10	10
Total Grants	**2,894**	**2,916**	**(1,585)**	**87**	**1,417**
External Contributions	-	30	-	(10)	20
Capital Receipts	-	101	-	24	125
Community Infrastructure Levy (CIL)	1,070	971	-	-	971
Reserves and Revenue	554	894	-	(3)	891
Section 106	1,517	1,615	(18)	92	1,689
Unsupported Borrowing	15,068	11,663	(2,847)	-	8,816
Total Forecast Resources	**21,103**	**18,191**	**(4,450)**	**190**	**13,930**

Full details are outlined in the report to Executive Cabinet 9th November 2023; 2023/24 Corporate Capital Programme and Balance Sheet Monitoring Report, Position at 30th September 2023.

Capital Financing Requirement 2023/24

13. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. It represents the unfinanced capital expenditure in 2023/24 plus unfinanced capital expenditure from prior years which has not yet been paid for by revenue or other resources.

14. The CFR is not matched in full by external borrowing, as the Council has "under borrowed" by using its own cash balances to finance capital expenditure. There is some loss of interest as a result, but had external loans been taken, then the interest payable would have been at a higher rate. Use of the Council's own cash balances helps to achieve savings in net interest.

15. The Council's underlying borrowing need is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called

the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of the borrowing need.

16. The Council's CFR for the year is shown below and represents a key prudential indicator.

Table 2 – Capital Financing Requirement	2022/23 Outturn £'000	2023/24 Forecast as at 30/9/23 £'000
Opening CFR	98,349	102,335
Increase in borrowing (Table 1)	5,279	8,816
Less MRP	(1,293)	(1,427)
Closing CFR	**102,335**	**109,724**

The CFR and Gross Debt

17. In order to ensure that borrowing levels are prudent over the medium term and are only for capital purposes, the Council ensures that its gross external borrowing does not exceed the total of the CFR.

18. The borrowing position is summarised below, and no additional borrowing has been undertaken to date this financial year. Planned Capital Expenditure will be contained within the Council's overall Treasury position where possible, however further borrowing is likely to be required in the future to fund the planned Capital Programme.

Table 3 – Actual Debt: CFR	2022/23 Actual £'000	2023/24 As at 30/9/23 £'000
Debt < 12 month	11,839	11,667
Debt > 12 month	66,503	65,701
Gross Debt	**78,342**	**77,368**
Capital Financing Requirement (Table 2)	102,335	109,724
Under / (Over) Borrowing	**23,993**	**32,356**

19. A detailed analysis of external borrowing as at 30th September 2023 is presented in ***Appendix A***.

20. **The authorised limit**. This is the "affordable borrowing limit" and is required by Section 3 of the Local Government Act 2003. Once this has been set, it is not possible to borrow above this level unless specific full Council approval is given. The limit set for 2023/24 by the Council on 28th February was £103.673m; actual debt is currently £77.368m.

21. **The operational boundary**. This is the expected borrowing position of the Council during the year. The operational boundary set for 2023/24 was £94.250m and actual debt is currently £77.368m. The Council has remained within its operational boundary throughout the 6 months to 30th September 2023.

Investments

22. The council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council for 2023/24. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, Standard and Poor's, Moody's and Fitch Group, supplemented by additional market data. Link Asset Services, the Council's Treasury Advisors, provide suggested investment durations for the approved counterparties.

23. The approved Counterparties for 2023/24 are outlined at ***Appendix B.***

24. To date, cash has not been invested in term deposits. To manage the Council's cash flow, balances were held only in highly liquid accounts, specifically in call accounts and Money Market Funds (MMFs), so that money can be made available at short notice.

25. Investment returns began recovering at the end of 2022/23 and have continued to do well in the 6 months to 30th September 2023, in line with the rise in interest rates. Yields have given a return to date of 3.765% compared with just 0.820% in 2022/23.

26. Although higher returns on investments are now available, the rates of borrowing have also increased. The Council has continued to achieve budget savings by maintaining a position of 'under borrowing', which means it has used its own day-to-day cash balances to finance capital expenditure rather than taking additional external loans.

27. Average investment performance for the 6 months to September 2023 is summarised below.

Table 4 - Average Investment Yield	Average Daily Investment	Earnings 1/4/23 to 30/9/23	Average Rate
	£	£	%
Debt Management Office	4,516,393	103,629	4.576%
Other Fixed Term Deposits	-	-	0
Notice Accounts	-	-	0
Call Accounts - BPA	1,404,672	17,659	2.000%
Money Market Funds	4,950,000	116,452	4.718%
Total	10,871,065	237,739	3.765%

This compares to a Link "benchmark" yield of 4.74%. Investments from the earliest part of the financial year were made prior to interest rate rises but newer investments have attracted a higher rate of return. It should be noted that investment income is forecast to exceed the amount budgeted for.

28. Actual investments as at 30th September 2023 are summarised below.

Table 5 - Actual Investments as at 30/9/23	Type	Amount £'000	Rate %	Term
Debt Management Office	Term	2,000	5.25%	29-Sep-23
Fixed Term Deposit sub total		**2,000**		
Barclays BPA Deposit Account	Call	3,515	2.00%	On Call
Call Accounts sub total		**3,515**		
Federated	MMF	0		On Call
Aberdeen Standard	MMF	4,950	5.21%	On Call
Blackrock	MMF	0		On Call
Money Market Funds sub total		**4,950**		
Total		**10,465**		

These investments are within the approved Counterparty Limits outlined at ***Appendix B.***

Advice of Link Asset Services

29. Link Asset Services' assessment of the Economy and Interest Rates is presented at ***Appendices C and D.***

30. Latest forecasts show PWLB borrowing rates peaking between December 2023 and June 2024 then gradually reducing, however the volatility of world and domestic markets must be stressed and may impact upon this forecast.

Summary

31. Members are asked to note that the Council has:

- Remained within its Prudential Indicators;
- Adhered to its approved Counterparty Limits;
- Not entered into any further borrowing; however further borrowing is likely;
- Retained its "under borrowed" position;
- Has achieved an increased investment yield of 3.765%.

Climate Change and Air Quality

32. The work noted in this report does not impact the climate change and sustainability targets of the Council's Green Agenda and all environmental considerations are in place.

Equality and Diversity

33. Not applicable.

Risk

34. Regular monitoring and reporting of the Council's Treasury Management position ensure compliance with Prudential Indicators and the Treasury Management Code of Practice.

Comments of the Statutory Finance Officer

35. There are no direct financial implications arising from this report. All financial implications in respect of treasury management activity arise as a result of the annual Treasury Strategy for 2022/23, previously approved by Council. This report presents details of actual performance achieved as a result of implementing the approved strategies.

36. The Council is compliant with its Prudential Indicators, Counterparty limits and the latest PWLB reforms.

Comments of the Monitoring Officer

37. Presentation of this report is required to comply with the CIPFA Code of Practice on Treasury Management

Background Documents

- CIPFA Treasury Management in the Public Services: Code of Practice & Guidance Notes
- Treasury Management Policy Statement 2023/24 to 2025/26 (Council 28th February 2023)
- Treasury Management Outturn Report 2022/23 (Governance Committee 2nd August 2023)
- 2023/24 Corporate Capital Programme and Balance Sheet Monitoring Report Position at 30th September 2023 (executive Cabinet 9th November 2023)

Appendices

Appendix A: External Borrowing as at 30th September 2023

Appendix B: Approved Counterparty limits 2023/24

Appendix C: Link Commentary – Economic Outlook

Appendix D: Link Interest Rate Forecast

Report Author:	Email:	Telephone:	Date:
Jean Waddington (Principal Financial Accountant)	jean.waddington@chorley.gov.uk	01257 515233	7th November 2023

External Borrowing as at 30th September 2022

Type of loan	Loan number	Start date	Maturity date	Interest Rate %	Total £000
PWLB loan - Annuity	502694	29/11/2013	26/11/2063	4.34	1,559
PWLB loan - Annuity	502695	29/11/2013	26/11/2043	4.18	1,565
PWLB loan - Annuity	502696	29/11/2013	26/11/2038	4.02	1,421
PWLB loan - Annuity	502697	29/11/2013	26/05/2033	3.69	1,168
PWLB loan - Annuity	502698	29/11/2013	26/05/2028	3.18	773
PWLB loan - Annuity	502699	29/11/2013	26/05/2023	2.42	0
PWLB loan - Maturity	506764	21/12/2017	21/12/2067	2.31	2,500
PWLB loan - EIP	506766	21/12/2017	21/12/2031	1.76	1,518
PWLB loan - EIP	508381	17/01/2019	17/01/2054	2.51	2,614
PWLB loan - EIP	508382	17/01/2019	17/01/2059	2.58	2,663
PWLB loan - EIP	509178	24/04/2019	24/04/2044	2.23	2,100
PWLB loan - Annuity	509641	09/08/2019	09/08/2059	1.87	29,753
PWLB loan - Annuity	509689	16/08/2019	16/08/2059	1.86	1,860
PWLB loan - EIP	509691	16/08/2019	16/08/2039	1.32	2,400
PWLB loan - EIP	165470	28/02/2020	28/02/2060	2.71	5,475
PWLB loan - Maturity	New	01/03/2022	01/03/2072	2.02	10,000
Public Works Loan Board total					67,368
Local Authorities total					10,000
External Borrowing total					**77,368**

Investment Counterparties 2023/24

Category	Institutions	LAS Colour Code	Maximum Period	Limit per Institution
Banks & Building Societies: Call Accounts /Term Deposits / Certificates of Deposit (CDs)				
Government related/guaranteed entities	DMADF (DMO)	Yellow	6 months	Unlimited
	UK Local Authority	Yellow	1 year 2 years	£3m per LA £2m per LA; £4m in total
UK part-nationalised institutions	Royal Bank of Scotland group	Blue	1 year	£4m per group
UK-incorporated Institutions	UK banks and building societies of high credit quality	Orange Red Green	1 year 6 months 3 months	£5m per group (or institution if independent)
Money Market Funds				
Money Market Funds	MMFs of high credit quality - AAA rated		Instant access	£5m per fund

Yellow	5 years
Purple	2 years
Blue	1 year (only applies to nationalised or semi nationalised UK Banks)
Orange	1 year
Red	6 months
Green	100 days
No colour	Not to be used

Summarised View from Link Treasury Advisors – The Economy and Interest Rates 2023/24

A SUMMARY OVERVIEW OF THE FUTURE PATH OF BANK RATE

• Our central forecast for interest rates was previously updated on 25 September and reflected a view that the MPC would be keen to further demonstrate its anti-inflation credentials by keeping Bank Rate at 5.25% until at least H2 2024. We expect rate cuts to start when both the CPI inflation and wage/employment data are supportive of such a move, and that there is a likelihood of the overall economy enduring at least a mild recession over the coming months, although most recent GDP releases have surprised with their on-going robustness.

• Naturally, timing on this matter will remain one of fine judgment: cut too soon, and inflationary pressures may well build up further; cut too late and any downturn or recession may be prolonged.

• In the upcoming months, our forecasts will be guided not only by economic data releases and clarifications from the MPC over its monetary policies and the Government over its fiscal policies, but also international factors such as policy development in the US and Europe, the provision of fresh support packages to support the faltering recovery in China as well as the on-going conflict between Russia and Ukraine, and Gaza and Israel.

• On the positive side, consumers are still anticipated to be sitting on some excess savings left over from the pandemic, which could cushion some of the impact of the above challenges and may be the reason why the economy is performing somewhat better at this stage of the economic cycle than may have been expected. However, as noted previously, most of those excess savings are held by more affluent households whereas lower income families already spend nearly all their income on essentials such as food, energy and rent/mortgage payments.

PWLB RATES

• Gilt yield curve movements have broadened since our last Newsflash. The short part of the curve has not moved far but the longer-end continues to reflect inflation concerns. At the time of writing there is 60 basis points difference between the 5 and 50 year parts of the curve.

THE BALANCE OF RISKS TO THE UK ECONOMY

• The overall balance of risks to economic growth in the UK is to the downside.

Downside risks to current forecasts for UK gilt yields and PWLB rates include: -

• Labour and supply shortages prove more enduring and disruptive and depress economic activity (accepting that in the near-term this is also an upside risk to inflation and, thus, could keep gilt yields high for longer).

• The Bank of England has increased Bank Rate too fast and too far over recent months, and subsequently brings about a deeper and longer UK recession than we currently anticipate.

• UK / EU trade arrangements – if there was a major impact on trade flows and financial services due to complications or lack of co-operation in sorting out significant remaining issues.

• Geopolitical risks, for example in Ukraine/Russia, the Middle East, China/Taiwan/US, Iran and North Korea, which could lead to increasing safe-haven flows.

Upside risks to current forecasts for UK gilt yields and PWLB rates: -

• Despite the recent tightening to 5.25%, the Bank of England proves too timid in its pace and strength of increases in Bank Rate and, therefore, allows inflationary pressures to remain elevated for a longer period within the UK economy, which then necessitates Bank Rate staying higher for longer than we currently project.

• The pound weakens because of a lack of confidence in the UK Government's pre-election fiscal policies, resulting in investors pricing in a risk premium for holding UK sovereign debt. Longer-term US treasury yields rise strongly if inflation remains more stubborn there than the market currently anticipates, consequently pulling gilt yields up higher. (We saw some movements of this type through October although generally reversed in the last week or so.)
• Projected gilt issuance, inclusive of natural maturities and QT, could be too much for the markets to comfortably digest without higher yields compensating.

Updated Interest Rate Forecasts (as at 7/11/23) supplied by Link Asset Services (%)

Link Group Interest Rate View	07.11.23												
	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
BANK RATE	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5 yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10 yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.50
25 yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50 yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80