

# Treasury Management Update

## 2023/24

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Telford & Wrekin Council

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## Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2023/24 the minimum reporting requirements were that the full Council should receive the following reports:

- an annual treasury strategy in advance of the year,
- a mid-year, (minimum), treasury update report, and
- an annual review following the end of the year describing the activity compared to the strategy.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Audit Committee before they were reported to the full Council. Member training on treasury management issues was undertaken during the year on 24<sup>th</sup> January 2023 and 26<sup>th</sup> July 2023 in order to support members' scrutiny role.

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## Executive Summary

During 2023/24, the Council will need to comply with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	31.3.23 Actual (£'000)	2023/24 Original (£'000)	31.3.24 Projection at 31.5.23 (£'000)
Capital expenditure			
• Total	75,702	180,958	144,543
Capital Financing Requirement:	520,687	649,408	590,963
• Total			
• Less Other Long Term Liabilities	(47,888)	(44,547)	(44,547)
• Loans CFR	472,799	604,861	546,416
Gross borrowing			
• External Debt	347,221	440,200	431,445
Investments			
• Longer than 1 year	0	0	0
• Under 1 year	38,499	15,000	15,000
• Total	38,499	15,000	15,000
Net borrowing			
• Total	308,722	425,200	416,445

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance & HR also confirms that borrowing was only undertaken for a capital purpose and the statutory borrowing limit, (the authorised limit), was not breached.

## Introduction and Background

This report summarises the following:-

- Capital activity during the year to 31<sup>st</sup> May 2023;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

### 1. 2023/24 Treasury Strategy

The strategy for 2023/24 was approved by Full Council on 2<sup>nd</sup> March 2023, following recommendation for approval by this committee on 24<sup>th</sup> January 2023. The strategy is to continue to keep investments as short term, where possible, to reduce the need to borrow thus reducing investment exposure and maximising overall returns to the revenue account. We will review investment opportunities if they arise and also review borrowing opportunities as we progress through the year and look to take advantage of advantageous interest rates where appropriate. The Medium Term Financial Strategy 2023/24 – 2026/27, approved by Full Council on 2<sup>nd</sup> March 2023, will see the Council continue to invest in significant regeneration projects including the growth fund (Property Investment Programme), building homes of home both through NuPlace Ltd, the Council's wholly owned company, and the Housing Investment Programme and highways.

In order to comply with MiFID II the Council will maintain a minimum investment balance of £10m.

### 2. Interest Rates

At its Monetary Policy Committee (MPC) meeting on 21 June 2023, the Bank of England increased the base rate from 4.5% to 5.0%, the thirteenth consecutive time the Bank had increased the base rate as it continued to seek to control increasing inflation which had failed to reduce in line with expectation following a 40 year peak for CPI in October last year. Although the Bank anticipates price pressures to fall significantly in the second half of the year market expectations are for further increases during 2023.

### 3. Prudential Regime

This Council agreed its required indicators at Council on 2<sup>nd</sup> March 2023.

The Council has operated within the Treasury Limits and Prudential Indicators set.

The Council set itself an Operational Limit for external debt of £545.0m for 2023/24 and an Authorised limit of £565.0m. Our total borrowing outstanding as at 31st May

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2023 (external debt) was £340.1m and the latest forecast for 31<sup>st</sup> March 2024 was £431.4m. Both the May actual and latest forecast are within the limits set.

CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the Council's total debt should be lower than its Capital Financing Requirement (CFR) forecast, with total external debt being lower than the Loans CFR. The projected Loans CFR as at 31<sup>st</sup> March 2023 is £546.4m. Both the actual external debt as at 31<sup>st</sup> May 2023, £340.1m, and the project external debt for 31<sup>st</sup> March 2024, £431.m, are below the Loans CFR.

## 4. Borrowing

With the forecast for interest rates to increase throughout 2023 before starting to reduce from Q4 onwards, the Borrowing Strategy for 2023/24 is use internal resources where available or to borrow through the use of short term loans, up to one year. By doing so the Council is able to reduce net borrowing costs and reduce overall treasury risk.

### Treasury Borrowing

As at 31<sup>st</sup> May 2023 –

- No new temporary loans had been raised and £5m of outstanding loans had been repaid on maturity.
- No new PWLB loans had been raised and £2.146m of loans had been repaid. In total £11.1m of PWLB Loans are due to mature during the year.

## 5. Treasury Investments

The Treasury Investment Strategy for the year is to gain maximum benefit at minimum risk whilst aiming to achieve as a minimum, the 7 day SONIA rate which averages 4.4% to 31<sup>st</sup> May 2023.

For the period to 31<sup>st</sup> May 2023 some £2,717m worth of investments have been made, in total at an average of £44.7m per day, across the Debt Management Office (DMO), Lloyds Bank and Money Market Funds. Rates have ranged from an average of 4.05% to 4.40%

The Council holds investments in money market funds which gives increased diversification of counter-party risk and slightly higher yield whilst retaining a high degree of liquidity. These investment are held in one diversified fund.

The Council can place up to £15.0m with any Counterparty, with the exception of Treasury's DMO facility which is Government backed and therefore considered to be very secure so no limit is placed on investments with the DMO. At 31<sup>st</sup> May 2023 the greatest exposure with a single counterparty was £27.2m (77.9% of the portfolio) with the DMO and the Council has complied with the £15m limit with other counterparties.

<b>INVESTMENT PORTFOLIO</b>	<b>31.5.23 Actual £000</b>	<b>31.5.23 Actual %</b>
<b>Treasury investments</b>		
Banks (Lloyds Bank)	2,740	7.8
Debt Management Office (H.M. Treasury)	27,200	77.9
Money Market Funds	4,980	14.3
<b>Total managed in house</b>	<b>34,920</b>	<b>100.0%</b>
<b>Total managed externally</b>	<b>0</b>	
<b>TOTAL TREASURY INVESTMENTS</b>	<b>34,920</b>	<b>100.0%</b>

<b>Credit risk indicator</b>	<b>2023/24 Target</b>	<b>31.5.23 Actual</b>
Portfolio average credit score	6 or lower	1.31

## 6. Projected Performance 2023/24

Senior Finance Officers are closely monitoring the Treasury position, particularly with the likelihood of the continuing interest rate rises. The financial monitoring report presented to Cabinet on 13<sup>th</sup> July 2023 included a projected benefit of £0.25m from treasury management activities. Updates will be provided in future financial monitoring reports taken to Cabinet.

## 7. MRP Update

In November 2021 the Department for Levelling Up, Housing and Communities (DLUHC) sought views on proposed changes to regulations in relation to the duty of local authorities to make prudent Minimum Revenue Provision each year. It is anticipated that the Statutory Guidance on Minimum Revenue Provision will be released for consultation imminently by DLUHC. The proposed changes will take effect from the 2024/25 financial year and the Council will prepare the budget for 2024/25 and later years on the revised basis once known.

## ABBREVIATIONS USED IN THIS REPORT

**CFR:** capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

**CIPFA:** Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

**CPI:** consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

**DLUHC:** the Department for Levelling Up, Housing and Communities – the Government department responsible for Local Government

**MPC:** the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

**MRP:** minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

**PWLB:** Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

**SONIA:** the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

**TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full council before the start of each financial year.

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