



# Borough of Telford and Wrekin

## AUDIT COMMITTEE

31 JANUARY 2024

### 2023/24 Treasury Management Update Report and 2024/25 Treasury Management Strategy

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<b>Cabinet Member:</b>	Cllr Nathan England - Cabinet Member: Finance, Customer Services & Governance
<b>Lead Director:</b>	Michelle Brockway - Interim Director: Finance & Human Resources
<b>Service Area:</b>	Finance & Human Resources
<b>Report Author:</b>	Edward Rushton - Group Accountant
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<b>Wards Affected:</b>	All wards
<b>Key Decision:</b>	Not Key Decision
<b>Forward Plan:</b>	20 <sup>th</sup> November 2023
<b>Report considered by:</b>	SMT – 16 January 2024 Business Briefing – 25 January 2024 Audit Committee – 31 January 2024 Cabinet – 15 February 2024 Full Council – 29 February 2024

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#### 1.0 Recommendations for decision/noting:

Audit Committee Members are asked to recommend that Full Council:

- 1.1 Note the treasury management activities to 31<sup>st</sup> December 2023 (Appendix A);
- 1.2 By way of vote, recommend that Full Council approves the Treasury Strategy 2024/25 (Appendix B), including the Annual Investment Strategy, together with the Minimum Revenue Provision Statement (Appendix B para 3.0, which will apply

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from 2023/24 onwards and Treasury Management Prudential Indicators (Appendix Bii); and

1.3 Note the Treasury Management Policy Statement (Appendix B para 4.0).

### **2.0 Purpose of Report**

2.1 During the financial year the minimum reporting requirements, as required by regulations issued under the Local Government Act 2003, are 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.

This report updates members on Treasury Management activities during 2023/24 (mid year treasury update report) and details the Treasury Management Strategy recommended to be adopted for 2024/25 (annual treasury strategy). The 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).

### **3.0 Background**

3.1 The strategy in 2023/24 and recent years has been to limit investments in third parties, which reduces the Council's exposure to counterparty risk, and where possible and appropriate to take advantage of lowest interest rates for borrowing. Maintaining high levels of very cheap temporary financing has generated surplus treasury management returns of more than £30m since 2015/16 which has reduced the impact of Government cuts to the Council's grants and therefore helped to protect front line services.

The Council's Medium Term Financial Strategy for 2023/24 and the Cabinet's proposals issued for consultation in January 2024 for 2024/25 to 2027/28 include an allowance for interest rates based on advice from the Council's independent treasury management advisors which ensures that the Council's budget in relation to Treasury Management is as robust as possible. The Council will continue to receive regular advice from independent expert advisors specialising in all aspects of local government treasury management and we will act in accordance with the advice received.

The report also sets out expected external financing requirements. We have an excellent track record of complying with all the prudential indicators and limits agreed by Council and are operating well within the overall approved credit ceiling.

The proportion of the Council's net revenue budget used to service loan repayment at the time of the MTFS Strategy 2023/24 was 8.9% in the current financial year. This compares to 10.3% for the average unitary authority. At the 31 December 2023

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the projected figure for 2023/24 had fallen to 7.25% which reflects capital programme reprofiling during the year.

The Council has increased its external financing requirements in recent years to include investment in NuPlace which provides high quality homes for rent from a reliable landlord, mainly at market rent levels and has enabled brownfield sites to be brought back in to use. The council has also expanded the Property Investment Portfolio (the PIP) to attract and retain jobs for local people and to provide other regeneration benefits for our residents. An ancillary consequence of these investments is that it is anticipated they will bring long term capital growth which will strengthen the Council's balance sheet as well as generating revenue returns well in excess of the associated loan repayment charges. They will also bring other direct and indirect financial and other benefits to the residents of the Borough including additional income from council tax, business rates and new homes bonus which will be used to help support front line services such as Adult Social Care, as well as protecting and creating jobs for local people. The Council's solar farm generates an index linked surplus after covering all associated costs including debt charges each year which is also used to help support front line services. The net surplus in the current year is expected to be around £0.7m.

This report, and the Prudential Indicators report which will be considered by Cabinet on 15 February 2024 and Full Council on 29 February 2024, sets out our overall approach to treasury management and the controls that are put in place to ensure that council taxpayers' interests are protected and risks are managed as effectively as possible.

### 4.0 Summary of main proposals

#### 4.1 Treasury Management Update 2023/24

The full report is included an Appendix A

#### Treasury Management Portfolio at 31 December 2023

	31.03.2023 £m	31.12.2023 £m	Movement £m
Borrowing (excl. PFI)	347.2	350.7	3.5
Investments (excl. NuPlace)	(38.5)	(29.6)	8.9
<b>Net indebtedness</b>	<b>308.7</b>	<b>321.1</b>	<b>12.4</b>

The strategy for 2023/24 remains consistent with that outlined in the 2023/24 Treasury Strategy which was agreed for approval at Full Council on 2 March 2023 and by this committee on 24 January 2023. The Strategy is also a continuation of that used in recent years which has provided considerable benefits to the Council, i.e. to:-

- take new borrowing within shorter maturities before gradually lengthening maturities, and
- take advantage of longer term loans when opportunities arise.

Latest financial monitoring projections indicate a benefit of £0.5m from treasury management during 2023/24 which is supporting the provision of front line services and the Council's overall financial position.

### **Borrowing**

To date in 2023/24 part of our Equal Instalment of Principal (EIP) and Annuity PWLB loans have matured and 1 new PWLB loan for £5m has been taken (see Appendix A para. 3.1) Alongside this, short term borrowing has been used to fund short term cash flow requirements.

As referred to in para. 3.1 above, a large part of the Council's total existing borrowing and planned further borrowings relates to funding projects which will deliver important and significant housing and regeneration benefits as well as generating some income. These are budgeted to generate returns in excess of the annual loan repayment charges and other operating costs.

### **Investments**

The overall investment strategy for 2023/24 is to gain maximum benefit but with security of the principal sum invested being the primary consideration. Overall the weighted average return on all internal investments for the year to date was 4.82%; with the paramount aim being to maintain security of principal investments have generally been placed with the Government's Debt Management Office. This return compares to a benchmark return for the period of 4.85% based on the average overnight rate with the Debt Management Office (DMO).

A schedule of short-term investments as at 31 December 2023 is shown at Appendix A, Section 4.0.

The Markets in Financial Instruments Directive II (MIFID II) came into place on 3 January 2018 and the Council has opted to be categorised as a professional client which allows access to financial services and advice it may otherwise be unable to obtain (such as advice from our treasury advisors). As part of the regulations, the authority must hold a minimum investment balance which is currently set at £10m.

### **Treasury Management Advisor**

The Authority uses Link Group, Link Treasury Services Limited as its external treasury management advisors. Link currently provide treasury advisory services to over 400 public sector clients in the UK and are experienced and well-resourced to support our treasury function.

### **Economic Data (provided by Link)**

The third quarter saw:

- A 0.3% m/m decline in real GDP in October, potentially partly due to unseasonably wet weather, but also due to the ongoing drag from higher interest rates. Growth for the second quarter, ending 30th September, was

revised downwards to -0.1% and growth on an annual basis was also revised downwards, to 0.3%;

- A sharp fall in wage growth, with the headline 3myy rate declining from 8.0% in September to 7.2% in October, although the ONS “experimental” rate of unemployment has remained low at 4.2%;
- CPI inflation continuing on its downward trajectory, from 8.7% in April to 4.6% in October, then again to 3.9% in November;
- Core CPI inflation decreasing from April and May’s 31 years’ high of 7.1% to 5.1% in November, the lowest rate since January 2022;
- The Bank of England holding Bank Rate at 5.25% in November and December;
- A steady fall in 10-year gilt yields as investors revised their interest rate expectations lower.

## 4.2 Treasury Management Strategy 2024/25

The Council’s Treasury Management Strategy is set within the parameters of the relevant statute, guidance and accounting standards which include the Chartered Institute of Public Finance and Accountancy’s (CIPFA) Code of Practice for Treasury Management in Public Services (2021) and the Prudential Code (2021). The Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The Council is currently expected to need to borrow an additional £117.9m in 2024/25 based on the current capital programme plans and will adopt a flexible approach to borrowing. In consultation with its treasury management advisors consideration will be given to affordability, maturity profile of existing external financing, interest rate and refinancing risk as well as borrowing source, which is usually expected to be other Local Authorities or the Public Works Loan Board, but may also include Municipal Investment Loans, the LGA Municipal Bonds Agency, European Investment Bank or commercial sources, and any new opportunities which may arise, in accordance with the approved sources of borrowing.

The strategy for any investments will generally be to minimise investments in order to reduce counter-party risk and to reduce net interest costs as longer-term borrowing rates will tend to be greater than we are able to earn on new investments, but we will look to lengthen investment periods, where cash flow permits, to achieve higher interest rates within acceptable risk parameters. We would generally anticipate holding investments equal to the requirements set out under MIFID II, currently £10m. Maximum investment levels with counterparties will be set to ensure prudent diversification is achieved whilst recognising that the strict investment criteria that the Council applies severely reduces the number of suitable available counterparties and therefore sums with individual counterparties may be up to £15m at any one time.

The full report is included at Appendix B and also includes:

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- the Council's Minimum Revenue Provision Statement 2024/25
- the Council's Treasury Management Policy Statement 2024/25, and
- the Treasury Management Prudential Indicators for 2024/25.

### **5.0 Alternative Options**

5.1 The Council must ensure that it manages its finance in accordance with Legislation and the CIPFA code of practice. The recommendations in this report support that aim and are based on consideration of a range of factors.

### **6.0 Key Risks**

6.1 The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

### **7.0 Council Priorities**

7.1 Effective management of the Council's Treasury portfolio helps support the Council's overall financial position through minimising borrowing costs and optimising investment income whilst following the principles of Security, Liquidity and Yield; and therefore supports the delivery of all Council priorities.

### **8.0 Financial Implications**

8.1 These are detailed in the body of the report and the appendices.

### **9.0 Legal and HR Implications**

9.1 The Council's Treasury Strategy has to comply with the relevant statute, codes and guidance which are set out both in the main body of this report and its appendices. This report demonstrates that the Council has had regard to the CIPFA guidance as required by the Local Government Act 2003.

9.2 The Interim Director: Finance & Human Resources (Section 151 Officer) has responsibility for the administration of the financial affairs of the Council. In providing this report the Interim Director: Finance & Human Resources is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief Financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee." This requirement within the Constitution reflects the requirements of the Local Government Finance

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act 1988 to appoint an officer who is responsible for the good financial administration of an authority.

- 9.3 The Local Government Finance Act 1992 requires authorities to set a balanced budget; the proposals in this report, together with other budget-related reports, demonstrates that the Council meets this requirement.

### **10.0 Ward Implications**

- 10.1 There are no impacts on specific wards in this report.

### **11.0 Health, Social and Economic Implications**

- 11.1 The Economic Climate has direct relevance to Treasury Management and is covered in detail in the report and accompanying appendices.

### **12.0 Equality and Diversity Implications**

- 12.1 The Council will not knowingly directly invest in organisations whose activities include practices which directly pose a risk of serious harm to individuals or groups, or whose activities are inconsistent with the mission and values of the Council. At the same time the Council will take full responsibility for proper management of risk and safeguarding its investments by ensuring that they are diversified and made with organisations that are suitably credit assessed.

### **13.0 Climate Change and Environmental Implications**

- 13.1 Part of the Councils Treasury portfolio includes a Municipal Investment Loan on the Abundance Platform: the Telford & Wrekin Climate Action Investment which supports the Councils climate change agenda.

### **14.0 Background Papers**

- 1 CIPFA Treasury Management in the Public Services – Code of Practice and cross-sectional guidance notes (2021 edition)
- 2 CIPFA The Prudential Code for Capital Finance in Local Authorities (2021 edition)
- 3 Local Government Act 2003
- 4 Treasury Management Strategy Statement (TMSS) Template provided by Link Treasury Services

### **15.0 Appendices**

- A 2023/24 Treasury Management update Report
- B 2024/25 Treasury Management Strategy

### **16.0 Report Sign Off**

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<b>Signed off by</b>	<b>Date sent</b>	<b>Date signed off</b>	<b>Initials</b>
Finance	17/01/2024	19/01/2024	MLB
Legal	18/01/2024	23/01/2024	RP
Director	17/01/2024	19/01/2024	MLB