DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
CHIEF FINANCIAL OFFICER	COUNCIL	18 DECEMBER 2023	8
MID YEAR PRUDENTIAL INDICATORS AND TREASURY MANAGEMENT MONITORING REPORT 2023/24			

PUBLIC ITEM
This item is for consideration in the public part of the meeting.

RELEVANT LEAD MEMBER

This item is within the remit of Lead Member for Finance and Resources (Councillor Ellie Gaunt).

PURPOSE OF THE REPORT

This report is a mid-year Prudential Indicators and Treasury Management monitoring report which has been prepared in line with the recommendations of CIPFA's (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management 2021. This report was also considered by the Audit and Governance at its meeting of 30th November 2023.

RECOVERABILITY

This decision is not recoverable because it relates to a recommendation to the council.

RECOMMENDATIONS

The Audit and Governance Committee considered the Mid-Year Prudential Indicators and Treasury Management monitoring report at its meeting on the 30th November 2023, and recommends to Council:

- That the Prudential Indicators and the Investment Limits as shown at Appendix B of this report be approved.

Report

Background

Fylde Borough Council defines its Treasury Management activities as:

- The management of the organisation's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.

  The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation, and any financial instruments entered into to manage these risks.

The Council acknowledges that effective treasury management will provide support towards the achievement of its corporate and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of effective risk management.

Reporting of Treasury Management Activities

The Code of Practice on Treasury Management (updated 2021) requires the Council to receive a Mid-Year Treasury Review Report, in addition to the forward-looking Annual Treasury Strategy, Capital Strategy, Investment Strategy and backward-looking Annual Treasury Report.

The Mid-Year Treasury Review report has been prepared in compliance with the Code of Practice. The Prudential Indicators and Treasury Management Strategy for 2023/24 were originally approved by Council on 2nd March 2023.

To assist with the terminology and explanations that are included within this report Appendix A sets out a Glossary of Treasury. Appendix B sets out the latest Treasury Management position compared to the forecast Prudential Indicators.

1. **Economic Update**

1.1 Economic Background

In order to try to bring inflation down to its 2% target level, the Bank of England began raising interest rates from the historically low level of 0.1% in December 2021 by incremental increases in the intervening period to the current level of 5.25%. Further increases are possible but are reportedly becoming less likely following the latest inflation report for October 2023, which detailed a fall in the annual rate of increase in CPI of 4.6%, down from 6.7% for both August and September 2023.

1.2 Economic Outlook

Inflation is expected to fall sharply over the next 12 months. The services and core inflation rates are the focus for the Monetary Policy Committee (MPC) as it seeks to avoid high inflation persisting into the medium term.

1.3 Interest Rate Forecast

Following the September MPC meeting, Arlingclose, the Council's external treasury advisers, revised its interest forecast to reflect the view that 5.25% is likely to be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining time horizon of the forecast the risks are to the downside from economic activity weakening more than expected. The following table shows the interest rate forecast provided by Arlingclose:

Table 1: Interest Rate Forecast from Arlingclose

Quarter Ending	Bank Rate %	Investment Rates %		Borrowing Rates %		
		3 month	5 year	5 year	20 year	50 year
Dec 2023	5.25	5.40	4.50	5.30	5.45	5.05
Mar 2024	5.25	5.40	4.50	5.30	5.40	5.00
Jun 2024	5.25	5.30	4.40	5.20	5.35	4.95
Sep 2024	5.00	5.15	4.25	5.05	5.25	4.90
Dec 2024	4.75	4.80	4.00	4.80	5.15	4.90
Mar 2025	4.25	4.30	3.75	4.55	5.05	4.90
Jun 2025	4.00	4.10	3.50	4.30	5.00	4.90
Sep 2025	3.75	3.80	3.40	4.20	5.00	4.90
Dec 2025	3.50	3.50	3.30	4.10	5.00	4.90
Mar 2026	3.25	3.25	3.30	4.10	5.00	4.90
Jun 2026	3.00	3.05	3.30	4.10	5.00	4.90
Sep 2026	3.00	3.05	3.35	4.15	5.00	4.90

2. Debt Management and Financing of Capital Expenditure

2.1 The Council currently holds no external debt, and the authority remains debt free.

2.2 The Capital Financing Requirement (CFR) is a key component of an authority's capital strategy. It quantifies the amount of capital spending that has not been financed by capital receipts, capital grants or contributions from revenue income or reserves. It measures the "underlying need to borrow" for a capital purpose, although this borrowing may not necessarily take place externally. For 2023/24 the Council has a CFR of £4.1m based on past and current capital expenditure plans that have been approved as part of the Capital Programme (See Appendix B Table 2). A large proportion of the CFR relates to the acquisition of vehicles which are used to deliver operational services including waste management and parks.

2.3 The Council's Capital Financing Requirement is currently being financed by "internal borrowing", a common practice whereby a local authority utilises its internal resources which are not required in the short to medium-term (comprising working capital and reserves), rather than external borrowing, to finance expenditure. Using internal borrowing continues to be the most cost-effective means of funding capital expenditure as it allows the council to lower the overall treasury risk by reducing both external debt and temporary investments, and to minimise interest costs. It is expected that internal borrowing will continue to be used for the rest of the financial year, and in the medium term, in line with advice from the Council's treasury advisers. However, this position may not be sustainable over the longer term. Consequently, external borrowing options and the timing of such borrowing will continue to be assessed in consultation with the Council's treasury advisers.

2.4 The Public Works Loan Board (PWLB) is a UK Government facility that provides loans to public bodies, including local authorities. The PWLB lending facility is operated by the UK Debt Management Office (DMO) on behalf of HM Treasury. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, and preventative action. PWLB loans are no longer available to local authorities who plan to buy investments primarily for yield. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. The Council does not intend to borrow to invest primarily for commercial return.

3. Investments

<u>Treasury Investment Activity</u>

3.1 The revised CIPFA Treasury Management Code defines treasury management investments as those which arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances which need to be invested until the cash is required for business use.

3.2 The Council holds significant invested funds, representing income received in advance of expenditure, monies held on behalf of the Council Tax and Business Rates Collection Fund (Lancashire County Council, the Police and Crime Commissioner for Lancashire and Lancashire Combined Fire Authority) plus balances and reserves held.

3.3 The Council's cash flow has continued to remain high with £25.4m of cash and investments being held as at 30th September 2023. This balance of funds is likely to reduce during the remainder of the financial year.

The balance of the Council's own bank account will ideally be kept below £2m to ensure sufficient liquidity for all the financial transactions undertaken by the Council. Due to cash flow fluctuations this limit may be exceeded on occasion and if the limit is exceeded for more than three working days the Section 151 Officer or Deputy Section 151 Officer will review the position.

3.4 Both the CIPFA Code and government guidance require the Authority to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

3.5 Given the risk from short-term unsecured bank investments, the Authority has continued to invest with other Local Authorities, to date with a maximum duration of 365 days.

3.6 The security of capital has remained the Council's main investment objective. This has been maintained by following the Council's counterparty policy as set out in the Investment Strategy for 2023/24 approved by Council on 2nd March 2023.

3.7 The Council defines "high credit quality" organisations as:

- those having a credit rating of A- or higher and that are domiciled in the UK for deposits of up to one year,
- those domiciled in a foreign country those with a sovereign rating of AA+ or higher for deposits of up to one year.

These criteria are specified within table 4 (Approved Investment Counterparties and limits) of the Treasury Management Strategy as approved by the Council on 2nd March 2023.

3.8 Internally managed cash flow of £25.7m (average for the period to 30th September 2023) have been invested in deposit accounts, call accounts, Local Authorities and the Debt Management Office during the first half of the year.

3.9 The return on the council's investments is **4.78%** for the year. This return compares very favourably with other Arlingclose clients, both for District Councils (whose average return is **3.47%**) and for all authorities together (whose average return is **3.65%**), whilst both the average credit score and average credit rating of our investment counterparties is also higher than both other groups. Further details can be found in Table 10 at para 1.10 of Appendix B.

Financial market conditions were volatile during the period. Global bond yields rose and remained elevated as it became apparent that policymakers were looking to keep rates high for some time amid persistently higher core inflation and tight labour markets. This had a positive impact on the Council's investments as maturing investments are replaced by higher yielding ones.

3.10 The Council's original estimate for investment income for 2023/24 was £375k. Income received up to the 30th September 2023 was £415k. Income from investments is higher than the forecast amount due to upward returns driven by the increase in Bank base rate combined with higher than anticipated levels of funds available for investment. Consequently, this income budget has been reviewed and will be increased to £1.120m to reflect the latest estimated level of income, representing an increase in forecast interest earnings for the current year of £745k. This change will be updated in the financial forecast included within the Council's Medium term Financial Strategy report, together with updated estimates for future years.

3.11 The Council has adhered to the security, liquidity and yield indicators that were presented as part of the Treasury Management Strategy for 2023/24.

4. Compliance

4.1 The Chief Financial Officer reports that all treasury management activities undertaken during the half year complied fully with the CIPFA Code of Practice and the Authority's approved Treasury Management Strategy.

4.2 Details of the Prudential Indicators can be found in Appendix B. As changes arise during the year some of the Prudential Indicators and Limits need to be revised.

5. Risk Assessment

5.1 Scrutiny of the revised Prudential Indicators and Limits and the subsequent recommendation of approval to the revisions by Audit and Governance Committee to Council helps to protect the Council from the risk of not having adequate liquidity or funding for the Council's capital plans.

5.2 Additionally, if this scrutiny process was absent the Council would not be compliant with the Council's approved Treasury Management Practices (as detailed in the Council Constitution) or CIPFA's Code of Practice on Treasury Management.

6. Conclusion

6.1 In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during the first half of 2023/24. As indicated in this report, all treasury limits have been adhered to and a prudent approach has been taken in relation to investment activity with priority being given to security and liquidity over yield. That said, the council has achieved an investment return in excess of the average of other Arlingclose clients which has generated additional interest income to support the council's base revenue budget.

CORPORATE PRIORITIES	
Economy – To create a vibrant and healthy economy	√
Environment – To deliver services customers expect	√
Efficiency – By spending money in the most efficient way	√
Tourism – To create a great place to live and visit	√

IMPLICATIONS	
Finance	Financial implications are contained within the body of the report.
Legal	This report secures the continued compliance with the Council's approved Treasury Management Practices (as detailed in the Council Constitution) and CIPFA's Code of Practice on Treasury Management.
Community Safety	None
Human Rights and Equalities	None
Sustainability and Environmental Impact	None
Health & Safety and Risk Management	None

SUMMARY OF PREVIOUS DECISIONS
Council approved the 2023/24 to 2026/27 Capital Strategy, which incorporated the Prudential Indicators, at its meeting on 2nd March 2023.

BACKGROUND PAPERS REVELANT TO THIS ITEM		
Name of document	Date	Where available for inspection
Medium Term Financial Strategy Update Including General Fund, Capital Programme & Treasury 2023/24 – 2026/27	Council Meeting 2nd March 2023	www.fylde.gov.uk

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	01253 658566	November 2023

Attached documents:

1. Appendix A - Glossary of Treasury Management Terms
2. Appendix B – Prudential Indicators

Appendix A

Glossary of Treasury Terms

Term	**Description**
Counterparty	The other party to an agreement.
Credit rating	A measure of the credit-worthiness of an institution, corporation, or a country. Credit ratings are calculated from financial history and current assets and liabilities. Typically, a credit rating tells a lender or investor the probability of the counterparty being able to pay back a loan.
Capital Financing Requirement (CFR)	The Capital Financing Requirement (CFR) is a key component of an authority's capital strategy, it quantifies the amount of capital spending that has not been financed by capital receipts, capital grants or contributions from revenue income or reserves. It measures the "underlying need to borrow" for a capital purpose, although this borrowing may not necessarily take place externally.
Liquidity	As assessment of how readily available an investment is. It is safer to invest in liquid assets because it is easier for an investor to get their money out of the investment.
Minimum Revenue Provision (MRP)	Minimum Revenue Provision (MRP) is an annual provision that the Council is statutorily required to make as a charge to its revenue account to cover the Capital Financing Requirement. The aim of the MRP provision is to reflect the cost to the revenue account of the acquisition of assets that have not been funded from capital grants, capital receipts or reserves.
Security	As assessment of the creditworthiness of a counterparty.
Treasury adviser	External consultancy firms that provide information to local authorities, including information regarding counterparty creditworthiness, investment and borrowing strategies.
Prudential Borrowing	Prudential borrowing is the set of rules governing local authority borrowing in the UK. Under prudential borrowing, the amount of debt and other liabilities most local authorities can incur is no longer capped by an upper limit. Instead borrowing must conform to the Prudential Code which (among other things) requires that borrowing be affordable and prudent (i.e. affordable).

Appendix B

Prudential Indicators

1.1 Capital Expenditure

Table 1 shows the revised forecast capital expenditure as reported in the latest Capital Programme Monitoring Report as at 30th September 2023 as compared to the capital expenditure originally approved by Council.

Table 1: Forecast Capital Expenditure

Forecast Capital Expenditure	2023/24 Original Indicator £M	2023/24 Latest Estimate £M
Total	21.8	16.5

The above table shows the forecast capital expenditure for 2023/24 as set out in the council's capital programme. The reduction in the latest estimate of capital spend for the year is a consequence of a number of in-year changes to the capital programme including the removal of the St. Annes Sea Wall Project and the impact of slippage from 2022/23 into 2023/24.

1.2 Capital Financing Requirement (CFR)

Table 2 shows the council's CFR for the current year. The CFR is a key component of an authority's capital strategy, it quantifies the amount of capital spending that has not been financed by capital receipts, capital grants or contributions from revenue income or reserves. It measures the "underlying need to borrow" for a capital purpose. Whilst the CFR is normally funded by external borrowing, it is currently being funded by the Council's internal cash resources, i.e. internal borrowing, and it is expected that internal borrowing will continue to be used for the rest of the financial year in line with advice from the Council's Treasury advisers. Further details are provided in section 2 of the report.

Table 2: Capital Financing Requirement (CFR)

	2023/24 Original Indicator £M	2023/24 Latest Estimate £M
Total CFR	4.4	4.1

The latest estimate of the CFR is in line with the original approved indicator.

1.3 Gross Debt and Capital Finance Requirement

The Council needs to ensure that its total capital borrowing does not, except in the short term, exceed the total of the CFR. Table 3 below shows that the Council will be able to comply with this requirement.

There are no difficulties anticipated in keeping the long term capital borrowing below the CFR.

Table 3: Gross Debt and Capital Finance Requirement

As at 31/03/2024	2023/24 Original Indicator £M	2023/24 Latest Estimate £M
Estimated Long Term Borrowing	0	0
Capital Financing Requirement	4.4	4.1

The Council is forecast to be able to fund the capital borrowing requirement with internal borrowing and does not expect to require new external borrowing during 2023/24, in line with advice from Treasury advisers.

1.4 Authorised Limit and Operational Boundary for External Debt

Affordable Borrowing Limit: The Council is legally obliged to set an affordable borrowing limit (also termed 'Authorised Limit' for external debt) each year. In line with statutory guidance, a lower 'Operational Boundary' is also required to be set as a warning level should debt approach the limit. This is detailed in table 4. The Operational Boundary is based on the maximum external debt during the course of the year. It is not a limit and therefore may be exceeded on occasion.

The Authorised Limit for external debt represents the limit beyond which borrowing is prohibited and is set and revised by Council. It reflects the level of borrowing which, in extreme circumstances, could be afforded in the short term. This is a statutory limit which should not be breached.

There were no breaches to the Authorised Limit and the Operational Boundary to 30th September 2023.

Table 4: Authorised Limit and Operational Boundary for External Debt

	2023/24 Original Indicator £M	2023/24 Latest Estimate £M
Authorised Limit for external debt	8.0	8.0
Operational boundary	2.0	2.0

Note

1. The Council is able to fund the capital borrowing requirement from internal borrowing and does not expect to require any external borrowing during 2023/24.

2. The Authorised Limit includes £6.0m for 'contingency' which is an amount that has been estimated to provide scope to undertake short-term borrowing in the event of a service delivery failure or a significant emergency, such as a failure to be able to collect council tax income.

1.5 Forecast Treasury Position

Table 5 shows the expected balances for investments and debt at 31st March 2023.

Table 5: Forecast Treasury Position

Forecast 31st March 2024	2023/24 Original Estimate £M	2023/24 Latest Estimate £M
Capital Financing Requirement	4.4	4.1
Less: Long Term Borrowing	0	0
Cumulative Borrowing Requirement	**4.4**	**4.1**
Useable Reserves/Working Capital	17.1	14.2
Less: Internal Borrowing	(4.4)	(4.1)
Cash available for Investment	**12.7**	**10.1**

The Council has not undertaken any new external long-term borrowing as it is funding capital expenditure with internal borrowing (see Section 2 of the report).

The forecast investments position has been updated to reflect the latest changes to the movements in reserves, provisions and capital expenditure. The decrease in the estimated level of investments at the 31st March 2024 from £12.7m to £10.1m is a consequence of the forecast timing of daily cash flows.

1.6 Forecast Interest

Table 6: Forecast Interest

Revenue Budget	2023/24 Actual to 30.09.23 £M	2023/24 Original Estimate £M	2023/24 Latest Estimate £M
Interest payable on Borrowing	0	0	0
Investment Income	0.415	0.375	1.120

Income from investments is higher than the forecast amount due to upward returns driven by the increase in Bank base rate combined with higher than anticipated levels of funds available for investment.

1.7 Ratio of Financing Costs to Net Revenue Stream

This indicator identifies the trend in the financing costs (Minimum Revenue Provision (MRP) plus interest payable) as a percentage of the net revenue stream as shown in Table 6.

Table 7: Ratio of Financing Costs to Net Revenue Stream

	2023/24 Original Estimate £M	2023/24 Latest Estimate £M
Financing costs (£m)	0.352	0.639
Proportion of net revenue stream	2.9%	5.3%

The latest estimate of net financing costs is higher than the original estimate, which is predominantly due to the updated definition in the Prudential Code for 'financing costs' which has changed the calculation methodology for this indicator. The previous definition deducted investment income from the total financing costs, therefore reducing the financing cost estimate.

1.8 Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of borrowing will be as shown in Table 8.

Table 8: Maturity Structure of Debt

	Lower Limit	Upper Limit
Under 12 months	0%	100%
12 months to 2 years	0%	100%
2 years to 5 years	0%	100%
5 years to 10 years	0%	100%
10 years and above	0%	100%

No lower limit is set in order to allow flexibility when managing the debt portfolio in the current economic conditions. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

The Council does not hold any debt or plan to borrow, however, if funding is required for cash flow purposes this is all likely to have a maturity date of less than one year.

1.9 Liability/Asset Benchmark

This new indicator compares the Authority's actual existing borrowing against a liability/asset benchmark that has been calculated to show the lowest risk level of borrowing. The liability/asset benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

Table 9: Liability/Asset Benchmark

	2023/24 Original Estimate £M	2023/24 Latest Forecast £M
CFR	4.4	4.1
Less: Useable Reserves & Provisions Balance Sheet Resources	(20.6)	(14.2)
Net Loans Requirement	**(16.2)**	**(10.1)**
Plus: Liquidity Allowance	10.00	10.00
Asset Benchmark	**(6.2)**	**(0.1)**

The benchmark suggests that there are sufficient cash resources to fund the existing capital programme by internal borrowing. There is no requirement for external borrowing in the forecast if the Council's spending proceeds as planned.

1.10 Credit Risk, Liquidity and Investment Benchmarking

The Council manages its exposures to counterparty credit risks by aiming for an average credit rating of A- for the investment portfolio. Credit scores are calculated as AAA = 1, AA+ =2, etc.

The Council's treasury advisers Arlingclose have analysed the Council's credit, liquidity, market risk and investment return (yield) score compared to all other Arlingclose local authority clients of a similar type and Arlingclose authority clients as a whole and the results are shown in Table 10 below. **The table shows that Fylde's total investment return of 4.78% compares very favourably with other Arlingclose clients, both for District Councils (whose average return is 3.47%) and for all authorities together (whose average return is 3.65%), whilst both the average credit score and average credit rating of Fylde investment counterparties is also higher than both other groups.**

Table 10: Investment Benchmarking by Arlingclose

arlingclose

Investment Benchmarking
30 September 2023

	Fylde	44 English Non-Met Districts Average	125 LAs Average
Internal Investments	£25.4m	£31.1m	£66.5m
Cash Plus & Short Bond Funds	£0.0m	£1.4m	£0.9m
Strategic Pooled Funds	£0.0m	£13.1m	£11.3m
TOTAL INVESTMENTS	**£25.4m**	**£45.5m**	**£78.5m**
Security			
Average Credit Score	4.63	4.43	4.47
Average Credit Rating	A+	AA-	AA-
Average Credit Score (time-weighted)	4.76	4.29	4.33
Average Credit Rating (time-weighted)	A+	AA-	AA-
Number of Counterparties / Funds	10	12	13
Proportion Exposed to Bail-in	5%	56%	59%
Liquidity			
Proportion Available within 7 days	25%	41%	50%
Proportion Available within 100 days	53%	59%	70%
Average Days to Maturity	134	63	13
Market Risks			
Average Days to Next Rate Reset	134	79	50
Strategic Fund Volatility	-	4.8%	6.5%
Yield			
Internal Investment Return	4.78%	4.95%	4.92%
Cash Plus Funds - Income Return	-	2.55%	2.66%
Strategic Funds - Income Return	-	4.45%	4.35%
Total Investments - Income Return	**4.78%**	**4.71%**	**4.79%**
Cash Plus Funds - Capital Gain/Loss	-	2.19%	2.22%
Strategic Funds - Capital Gain/Loss	-	-7.24%	-8.89%
Total Investments - Total Return	**4.78%**	**3.47%**	**3.65%**