DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
CHIEF FINANCIAL OFFICER	AUDIT AND GOVERNANCE COMMITTEE	1 FEBRUARY 2024	8
TREASURY MANAGEMENT REPORT ON PERFORMANCE FOR 3RD QUARTER 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 the Treasury Management report on performance for the 3rd Quarter of 2023/24 and has been prepared in accordance with the recommendations of CIPFA's (Chartered Institute of Public Finance and Accountancy) Code of Practice on Treasury Management 2021. It covers Treasury Management activities to the period ending 31st December 2023.

RECOVERABILITY

This decision is recoverable under section 5 of part 3 of the constitution.

RECOMMENDATIONS

The committee are recommended to:

1. Scrutinise and note the Treasury Management report on performance for the 3rd Quarter of 2023/24.

Report

Background

The CIPFA (the Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members should be updated on treasury management activities regularly. This report therefore ensures that the Council is implementing best practice in accordance with the Code.

The Prudential Indicators and Treasury Management Strategy for 2023/24 were approved at the Budget Council meeting on 2nd March 2023 and changes to the indicators were approved as part of the Mid-Year Treasury Management Monitoring Report 2023/24 to Council on 18th December 2023. Performance during the third quarter of 2023/24 is reported in Appendix A.

1. **Economic Update**

Economic Background

Downward revisions to the UK economy have meant Gross Domestic Product (GDP) fell slightly, rather than being flat, in the December Q3 results and previous quarters also weren't as strong as first estimated. The underlying resilience in the UK economy appears to be continuing to wane. Falling consumer spending suggests interest rate rises may be starting to bite further. Other indicators are pointing to a weak Q4 and with the drop in monthly GDP in October to -0.3%, this increases the likelihood of a technical recession (two consecutive quarters of negative growth), albeit a mild one.

Economic Outlook

The impact on the UK from higher interest rates and inflation, a weakening economic outlook, an uncertain political climate due to an upcoming general election, together with war in Ukraine and the Middle East, are major influences on the economic position.

Interest Rate Forecast

Although UK inflation and wage growth remain elevated, the Authority's treasury management adviser Arlingclose forecasts that the Bank Base Rate has peaked at 5.25%. The Bank of England's Monetary Policy Committee will start reducing rates in 2024 to stimulate the UK economy but will be reluctant to do so until it is sure there will be no lingering second-round effects. Arlingclose sees rate cuts from Q3 2024 to a low of around 3% by early-mid 2026.

Table 1: UK Interest Rates

Quarter	Base Rate			Long Term PWLB Rates (20 years)		
	Mid Year Estimate %	Latest Forecast %	Actual %	Mid Year Estimate %	Latest Forecast %	Actual %
April – June	n/a	n/a	5.00	n/a	n/a	5.56
July – Sep	n/a	n/a	5.25	n/a	n/a	5.64
Oct - Dec	5.25	5.25	5.25	5.45	4.90	4.90
Jan - Mar	5.25	5.25		5.40	5.00	

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 council's Capital Programme. 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

Treasury Investment Activity

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 Internally managed cash flow of £31m on average has been invested in call accounts, Local Authorities, Money Market Funds and the government backed Debt Management Office during the quarter. The Council's cash flow has continued to remain at a high level.

3.4 The current rate of return on investments is 5.10% (see Appendix A Table 3). 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 interest 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.

3.5 Interest earned on internally managed investments to 31st December is £947k against a revised full-year budget of £1.12m.

4. Compliance

The Prudential Indicators were originally approved by Council on 3rd March 2023 and revised indicators were approved by Council on 18th December 2023. The actual position at the end of Quarter 3 is shown in Appendix A.

During Quarter 3, the Council complied with all Prudential limits detailed in Appendix A.

5. Risk Assessment

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.

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

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 period to 31st December 2023. 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 which is consistent with the average of other Arlingclose clients and 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
Medium Term Financial Strategy – Financial Forecast Update (Including Revenue, Capital & Treasury Management) 2023/24 – 2027/28	Council Meeting 18th December 2023	www.fylde.gov.uk
Mid Year Prudential Indicators & Treasury Management Monitoring Report 2023/24	Council Meeting 18th December 2023	www.fylde.gov.uk

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	www.fylde.gov.uk	January 2024

Attached documents:
Appendix A – Prudential Indicators

Appendix A

Prudential Indicators

Table 1 below compares the actual figure achieved for the period April to December 2023 to the Prudential Indicator agreed by Council.

<u>Table 1</u>

Prudential Indicators	Latest Indicator 2023/24	Quarter 3 Position	Note
Investments	£10.1m	£31.4m	1
Authorised limit for external debt	£8.0m	£0m	2
Operational boundary for external debt	£2.0m	£0m	3
Investments over 364 days	£4.0m	£2.0m	4
Ratio of Financing Costs to Net Revenue Stream	5.3%	5.3%	
Estimated Capital Expenditure for 2023/24	£16.5m	£19.4m	5
Capital Financing Requirement	£4.1m	£4.1m	
Investment Interest Received	£1.12m	£0.947m	

<u>Table 1 Notes</u>

1. The level of investments fluctuates on a daily basis and the figure reported is the actual position at 31st December 2023. The Prudential Indicator is the forecast level of investments expected at 31st March 2024.
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 and becomes the Council's statutory limit.
3. The Operational Boundary of £2.0m includes provision for short-term borrowing for unexpected cash flow movements.
4. Investments over 364 days comprises of one investment to another Local Authority of £2.0m.
5. The estimated capital expenditure has increased due to the addition of new capital schemes being approved onto the capital programme during the year to date. These include Local Authority Housing Fund - Phase 2, Empty Homes Strategy and cremator engineering repairs.

<u>Table 2</u>

The Liability Benchmark below is a new indicator that compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. 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 to manage day to day cash flow.

The Table below shows that the Council expects to have 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 cash flow proceeds as planned.

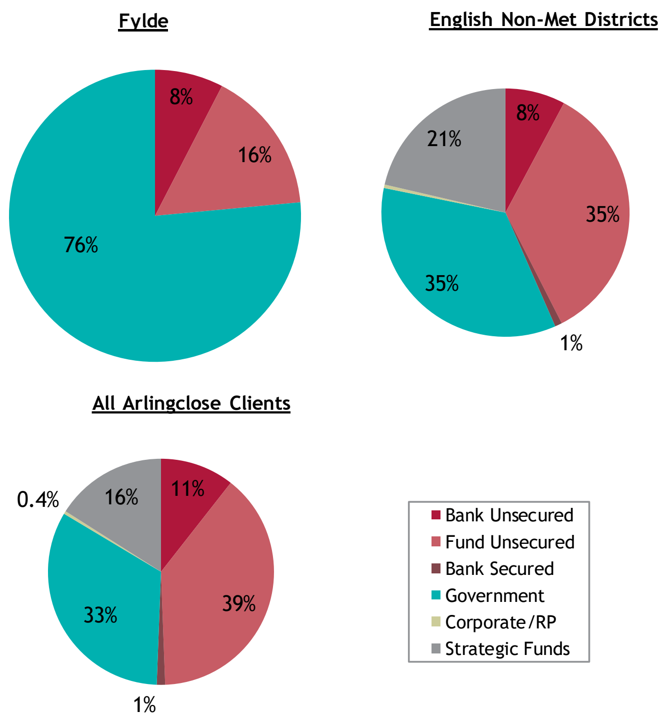
	31.03.24 Revised Estimate £m	31.03.24 Latest Forecast £m
CFR	4.1	4.1
Less: Usable Reserves & Working Capital	(14.2)	(14.5)
Net loans requirement	**(10.1)**	**(10.4)**
Plus: Liquidity allowance	10.0	10.0
Liability/(Asset) benchmark	**(0.1)**	**(0.4)**

Table 3: Investment Benchmarking by Arlingclose

arlingclose

Investment Benchmarking
31 December 2023

	Fylde	46 English Non-Met Districts Average	127 LAs Average
Internal Investments	£31.4m	£39.1m	£61.6m
Cash Plus & Short Bond Funds	£0.0m	£0.9m	£0.6m
Strategic Pooled Funds	£0.0m	£11.8m	£10.6m
TOTAL INVESTMENTS	**£31.4m**	**£51.8m**	**£72.8m**
Security			
Average Credit Score	5.20	4.81	4.80
Average Credit Rating	A+	A+	A+
Average Credit Score (time-weighted)	5.66	4.73	4.77
Average Credit Rating (time-weighted)	A	A+	A+
Number of Counterparties / Funds	13	14	13
Proportion Exposed to Bail-in	24%	57%	60%
Liquidity			
Proportion Available within 7 days	43%	44%	52%
Proportion Available within 100 days	68%	66%	72%
Average Days to Maturity	108	54	11
Market Risks			
Average Days to Next Rate Reset	117	73	51
Strategic Fund Volatility	-	2.9%	3.7%
Yield			
Internal Investment Return	5.10%	5.09%	5.08%
Cash Plus Funds - Income Return	-	3.25%	3.41%
Strategic Funds - Income Return	-	4.90%	4.86%
Total Investments - Income Return	**5.10%**	**5.00%**	**5.04%**
Cash Plus Funds - Capital Gain/Loss	-	1.69%	1.66%
Strategic Funds - Capital Gain/Loss	-	-0.85%	-1.59%
Total Investments - Total Return	**5.10%**	**5.12%**	**4.95%**



Notes

• Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.

• Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.

• Pooled fund returns are 1-year to the end of the quarter.

• Credit scores are calculated as AAA = 1, AA+ = 2, etc.