
Report To:	Policy & Resources Committee	Date:	21 November 2023
Report By:	Chief Financial Officer	Report No:	FIN/71/23/AP/KJ
Contact Officer:	Alan Puckrin	Contact No:	01475 712223
Subject:	Treasury Management – Mid-Year Report 2023/24		

1.0 PURPOSE AND SUMMARY

1.1 For Decision For Information/Noting

1.2 The purpose of this report is:

- a. To advise the Committee of the operation of the treasury function and its activities for the first six months of 2023/24 as required under the terms of Treasury Management Practice 6 (“TMP6”) on “Reporting Requirements and Management Information Arrangements”.
- b. To request that the Committee remits the report to the Full Council for their approval.

1.3 As at 30 September 2023 the Council had gross external debt (including PPP) of £227,214,873 and investments (cash balances managed in house) of £27,734,104. This compares to gross external debt (including PPP) of £239,408,384 and investments of £26,127,010 at 31 March 2023.

1.3 Since August 2023, the Council has repaid 3 long-term Market Loans totalling £29,900,000 and funded those repayments from new PWLB borrowing of £20,000,000 and from Deposit Account balances. The loan repayments were made following contractual requests from a lender for the interest rate to be increased on 2 loans (or the Council could instead repay the loans) and an offer from another lender for the Council to repay the loan that the Council had from them. No premiums were paid on repaying these 3 loans.

1.4 The Council operated within the required treasury limits and Prudential Indicators for the year set out in the Council’s Treasury Policy Statement, annual Treasury Strategy Statement, and the Treasury Management Practices.

2.0 RECOMMENDATIONS

2.1 It is recommended that the Committee notes the contents of the Mid-Year Report on Treasury Management for 2023/24 and the ongoing work to seek to ensure the delivery of financial benefits for the Council during the current uncertainty and beyond.

2.2 It is recommended that the Committee notes the early repayment of three Market Loans totalling £29.9m and that Officers believe this will generate savings for the Council in the medium to long term.

2.3 It is requested that the Committee remits the report to the Full Council for approval.

Alan Puckrin
Chief Financial Officer

3.0 BACKGROUND AND CONTEXT

- 3.1 The Council is required by the revised CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities to produce a mid-year treasury management review of activities and prudential and treasury indicators for 2023/24.
- 3.2 Treasury Management in this context is defined as: “The management of the local authority’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.”
- 3.3 The treasury management issues arising since the start of 2023/24 were:
- a. The Council’s debt (including PPP) has reduced during the period by £12,193,511 due largely to the early repayment of a £10,000,000 Market Loan plus regular monthly repayments on the PPP contract.
 - b. The Council’s investments have increased by £1,607,094 due to net cash flows into the Council.
 - c. As at 31 March 2023 the Council had under borrowed against its capital financing requirement by £62,030,000. The latest projection is for the under borrowing to increase to £65,649,000 as at 31 March 2024. Under borrowing means that the Council is using funds it currently has to cash flow capital expenditure rather than bringing in funds from borrowing. The projected level of under borrowing is considered manageable but the position is kept under review in light of Council capital financing and other funding requirements.
 - d. There remains considerable financial market volatility and economic uncertainty in the UK and around the world largely caused by the impact of inflation, increased interest rates, commodity prices and supplies, and the conflict in Ukraine.
 - e. The forecast in February 2023 was for the Bank Rate to rise to 4.50% by June 2023 and then start falling to reach 4.00% by the end of March 2024, 2.75% by the end of March 2025 and 2.50% by the end of March 2026. The forecast in September 2023 is for rates to remain at 5.25% until September 2024 then fall to 4.00% by the end of March 2025 and to 2.75% by the end of March 2026.
 - f. PWLB rates for new borrowing had been expected to fall slightly through to March 2024 but rates have instead increased by between 0.90% and 1.03%. The volatility during the 6-month period resulted in spreads between the high and low rates for some loan periods of up to 1.87% (e.g. borrowing rates for 3 years of 4.35% in April were 6.22% in July and at 5.43% in late September).
 - g. The Council’s treasury advisers expect PWLB rates to fall with most rates below 4.50% by the fourth quarter of 2024 but the extent and speed of any changes to rates will depend on the economic and other factors affecting the UK and global markets.
 - h. The Market Loans that the Council has includes some LOBO loans. The term “LOBO” relates to “Lender Option Borrower Option” loans in which the interest rate is fixed but the lender can seek to increase the interest rate on the loan at fixed dates during the loan period. Where this happens, the borrower (the Council) can either accept the new interest rate or, if not, repay the loan without any premium costs. In August 2023, Commerzbank proposed to increase the interest rate on a £10,000,000 LOBO loan from 4.88% to 6.35%. The Council did not accept the new rate and has instead repaid the loan from Deposit Account balances.
 - i. In October 2023, Commerzbank proposed an increase on their other LOBO loan for £4,900,000 from 4.99% to 5.89% and Bayerische Landesbank, with whom the Council had a £15,000,000 LOBO loan at 4.99%, offered the Council the opportunity to repay the loan. The Council did not accept the new Commerzbank loan rate and accepted Bayerische’s offer and so has repaid both loans without paying any premiums. The loan repayments have been funded from £20,000,000 of new PWLB borrowing (£12,500,000 for 1 year and £7,500,000 for 1½ years, both loans at 5.65%). The PWLB borrowing has been done for short periods to allow the Council to repay the LOBO loans now and refinance at a time when PWLB borrowing rates are forecast to have fallen well below current levels.
 - j. The Council did not undertake any other debt restructuring during the first six months of 2023/24 and remained within its Prudential Indicator and Treasury Management limits.

- k. The Bank Rate increased during the period from 4.25% to 5.25% and many interest rates available for new investments are above the current Bank Rate.
- l. The Council's investments earned a rate of return of 4.46% during the period. This was 0.02% higher than the SONIA benchmark.
- m. All investments were in accordance with the Council's investment policy and no institutions with which investments were made had any difficulty in repaying those investments and interest in full during the period.
- n. The Council's investments were with counterparties that have high creditworthiness (the Bank of Scotland, Santander UK, and NatWest Bank PLC and in accordance with the Council's investment strategy).

3.4 The Council's debt position was as follows:

	At 31 March 2023	At 30 September 2023
	£	£
Total Excluding PPP	184,132,384	174,146,873
PPP Debt	55,276,000	53,068,000
Total Including PPP	239,408,384	227,214,873

Further detail is given in the following table:

	At 31 March 2023		At 30 September 2023		Movement In Period
	Principal	Rate	Principal	Rate	Principal
	£000		£000		£000
Fixed Rate Funding:					
- PWLB	79,414		79,414		0
- Market *	40,000		56,000		16,000
- Temporary	5,000		5,000		0
	124,414	3.67%	140,414	3.84%	16,000
Variable Rate Funding:					
- PWLB	0		0		0
- Market *	59,400		33,400		(26,000)
- Temporary #	318		333		15
	59,718	4.90%	33,733	4.96%	(25,985)
Total Debt (Excl PPP)	184,132	4.07%	174,147	4.06%	(9,985)
PPP Debt	55,276		53,068		(2,208)
Total Debt (Incl PPP)	239,408		227,215		(12,193)

* - Market Loans are shown as variable when they have less than 1 year to go until their next call date. The total value of Market Loans has not changed during the period, just the split between fixed and variable.

- Temporary Loans are funds held by the Council on behalf of the Common Good and Trust Funds that are treated as borrowing for Treasury Management purposes.

3.5 The Council's investment position was as follows:

	At 31 March 2023		At 30 September 2023		Movement In Period
	Principal	Return	Principal	Return	Principal
	£		£000		£000
Investments:					
- Fixed Term Deposits	22,000,000	3.21%	10,000,000	5.39%	(12,000,000)
- Notice Accounts	50,399	3.74%	51,486	4.74%	1,087
- Deposit Accounts	4,076,611	4.15%	17,682,618	5.15%	13,606,007
Totals	26,127,010	3.36%	27,734,104	5.24%	1,607,094

Maximum level of investments in period: £44,239,097 on 15 August 2023

Minimum level of investments in period: £18,058,871 on 27 April 2023

Daily average for the period: £30,491,948

An analysis of the above investments is shown in Appendix 1.

In addition to the above cash balances managed in-house, the Council has other transactions/balances required to be treated as investments under Investment Regulation 31. Appendix 2 includes these transactions/balances along with estimates for 2023/24.

3.6 2023/24 Latest Projection Compared to Estimates in 2023/24 Strategy

The latest 2023/24 projection compared to the estimates in the 2023/24 strategy:

	2023/24 Estimate	2023/24 Latest Projection
<u>Borrowing Requirement</u>	£000	£000
New borrowing	0	0
Alternative financing requirements	0	0
Replacement borrowing	5,000	30,000
TOTAL	5,000	30,000
<u>Prudential/Treasury Management Indicators</u>		
Capital financing requirement (As at 31 March 2023)	£000 286,890	£000 292,907
Gross external debt including PPP (As at 31 March 2023)	224,860	227,258
(Under)/over borrowing against CFR	(62,030)	(65,649)
Gross Capital Expenditure (Excl. Levelling Up)	£000 21,569	£000 19,457
Ratio of financing costs (including PPP) to net revenue stream	9.54%	9.81%
Ratio of net debt (debt and PPP less investments) to net revenue stream	88.5%	92.5%

3.7 2023/24 Mid-Year Position Compared to Limits in 2023/24 Strategy

The 2023/24 mid-year position compared to limits in the 2023/24 strategy:

Prudential/Treasury Management Indicators

Authorised limit for external debt

- Borrowing
- Other long-term liabilities

Operational boundary for external debt

- Borrowing
- Other long-term liabilities

Upper limit on sums invested for periods longer than 365 days (Actual is maximum in period)

Upper limits on Fixed/Variable borrowing maturing in each period (LOBOs included based on call dates and not maturity dates) at end of period

- Under 12 months
- 12 months and within 24 months
- 24 months and within 5 years
- 5 years and within 10 years
- 10 years and within 30 years
- 30 years and within 50 years
- 50 years and within 70 years

Council Policy Limits

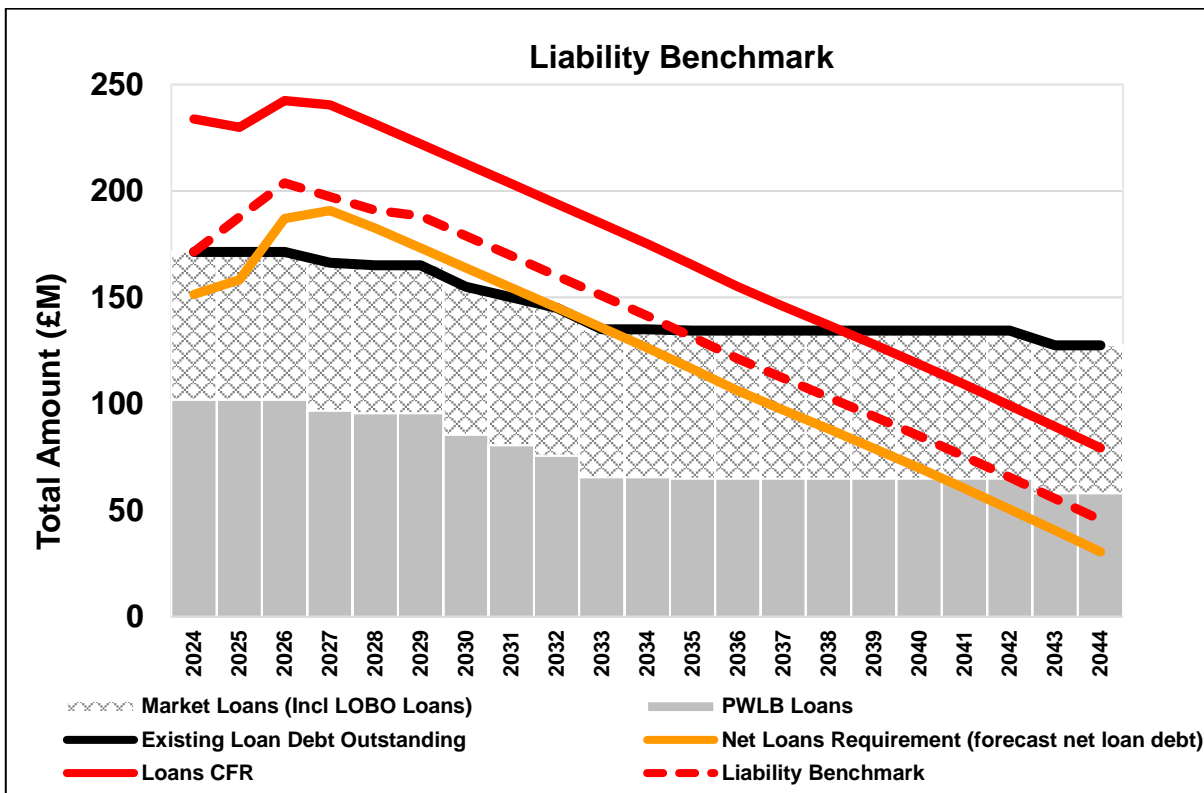
Maximum Percentage of Debt Repayable in Year

Maximum Proportion of Debt at Variable Rates

Maximum Percentage of Debt Restructured in Year

2023/24 Limits		2023/24 Mid-Year Actual Position	
£000		£000	
222,000		174,147	
56,000		53,068	
278,000		227,215	
£000		£000	
207,000		174,147	
56,000		53,068	
263,000		227,215	
£000		£000	
10,000		0	
Fixed	Var.	Fixed	Var.
45%	35%	7.2%	19.4%
45%	35%	0.0%	-
45%	35%	9.9%	-
45%	35%	14.3%	-
45%	35%	4.4%	-
45%	35%	21.8%	-
45%	35%	23.0%	-
25%		23.0%	
45%		19.4%	
30%		5.4%	

3.8 The Liability Benchmark is a requirement in the Treasury Management Code. It is calculated from the Council's treasury management debt less investments plus an amount for cash flow/liquidity requirements and is shown in the graph below (the dashed line) with the existing loan debt (PWLB and Market Loans), the Loans CFR (Capital Financing Requirement excluding PPP), and the forecast net loan debt position.



The following points should be noted:

- The graph shows the current Liability Benchmark for 2023/24 plus 20 years (longer than the minimum recommended by CIPFA) but the Council's treasury management debt runs beyond that period.
- The graph includes the impact of the current position plus the approved capital programme (including prudential borrowing) which covers the years up to 2026/27. It does not include any projected additional borrowing or requirement beyond that (albeit that borrowing may well be required depending on plans at the time).
- Where loans outstanding are currently projected to be less than the Liability Benchmark above, this indicates a borrowing requirement (where the Council is underborrowed and exposed to interest rate, liquidity and refinancing risks). Where loans outstanding are projected to be greater than the Liability Benchmark, this indicates that the Council would be overborrowed and exposed to credit and reinvestment risks and a possible cost of carry due to different debt and investment interest rates.

3.9 The forecasts from the Treasury Advisors for the Bank Rate as at 31 March each year are:

	Forecast Per 2023/24 Strategy (February 2023)	Latest Forecast (September 2023)
2023/24	4.00%	5.25%
2024/25	2.75%	4.00%
2025/26	2.50%	2.75%

3.10 The Council's investment policy for the year is governed by Scottish Government Investment Regulations and was included in the annual investment strategy approved by the Council. This policy sets out the approach for choosing investment categories and counterparties, and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data such as rating outlooks, credit default swaps, bank share prices etc.

3.11 All investments were in accordance with the policy and no institutions with which investments were made had any difficulty in repaying investments and interest in full during the period.

The result of the investment strategy undertaken by the Council in the first six months of 2023/24 is as follows:

Average Investment	Rate of Return (gross of fees)	Benchmark Return (3-month SONIA compounded)
£30,491,948	4.46%	4.44%

The Council's return was higher than the benchmark by 0.02%.

4.0 PROPOSALS

4.1 It is proposed that the Committee consider the contents of Section 3 of the report, seek any assurances from Officers, and thereafter remit the Mid-Year Report to the Council for approval.

5.0 IMPLICATIONS

5.1 The table below shows whether risks and implications apply if the recommendations are agreed:

SUBJECT	YES	NO
Financial		X
Legal/Risk		X
Human Resources		X
Strategic (Partnership Plan/Council Plan)		X
Equalities, Fairer Scotland Duty & Children/Young People's Rights & Wellbeing		X
Environmental & Sustainability		X
Data Protection		X

5.2 Finance

One off Costs

Cost Centre	Budget Heading	Budget Years	Proposed Spend this Report	Virement From	Other Comments
N/A					

Annually Recurring Costs/ (Savings)

Cost Centre	Budget Heading	With Effect from	Annual Net Impact	Virement From (If Applicable)	Other Comments
N/A					

The Council utilises Treasury Management as part of the overall Financial Strategy. Officers will continue to investigate borrowing and investment opportunities to bring financial benefits to the Council, all within the Treasury Management Policy.

5.3 Legal/Risk

None. Any borrowing or lending is done under the Council's legal powers.

5.4 Human Resources

None.

5.5 **Strategic**

None.

6.0 **CONSULTATION**

6.1 This report includes the latest advice from the Council's treasury consultants (Link Treasury Services Limited).

7.0 **BACKGROUND PAPERS**

7.1 CIPFA - Treasury Management in the Public Services – Code of Practice and Cross-Sectoral Guidance Notes – 2021 Edition
Inverclyde Council – Treasury Management Strategy Statement and Annual Investment Strategy 2023/24-2026/27.

**CASH BALANCES MANAGED IN-HOUSE
ACTUAL AS AT 31 MARCH 2023 AND 30 SEPTEMBER 2023**

The following is an analysis of cash balances managed in-house as at 31 March 2023 and at 30 September 2023:

	As At 31 March 2023	As At 30 September 2023
	£	£
<u>Fixed Term Deposits</u>		
Bank of Scotland	12,000,000	0
NatWest Bank PLC	10,000,000	10,000,000
	22,000,000	10,000,000
Average Interest Rate	3.21%	5.39%
<u>Notice Accounts</u>		
Bank of Scotland	0	0
Santander UK	50,399	51,486
	50,399	51,486
Average Interest Rate	3.74%	4.74%
<u>Deposit Accounts</u>		
Bank of Scotland	4,076,100	17,682,100
Santander UK	511	518
	4,076,611	17,682,618
Average Interest Rate	4.15%	5.15%
TOTAL	26,127,010	27,734,104
Average Interest Rate	3.36%	5.24%

Since 30 September 2023, the Council has repaid £19.9m of LOBO debt (£4.9m Commerzbank at 4.99% and £15m Bayerische Landesbank at 4.99%), all with no premium for the early repayment. The Council has borrowed from the PWLB to fund the repayments, £12.5m for 1 year and £7.5m for 1½ years, both loans at 5.65% and to be refinanced later at borrowing rates forecast to be below 5%.

**FORECAST OF INVESTMENT BALANCES
ESTIMATE FOR 2023/24 AND ACTUAL AT 30 SEPTEMBER 2023**

Investment Regulation 31 requires the Council to provide forecasts for the level of investments. The estimate for 2023/24 and the actual as at 30 September 2023 are:

	2023/24 Estimate For Year	2023/24 Actual For 1 April 2023 To 30 September 2023
	£000	£000
Cash balances managed in-house		
- At Start of Year	30,000	26,127
- At End of Year/Period	15,355	15,355
- Change in Year/Period	(14,645)	(10,772)
- Average daily cash balances	22,678	30,492
Holdings of shares, bonds, units (includes local authority owned company)		
- At Start of Year	2	2
- Purchases	0	0
- Sales	0	0
- At End of Year/Period	2	2
Loans to local authority company or other entity to deliver services		
- At Start of Year	297	252
- Advances	0	0
- Repayments	47	24
- At End of Year/Period	250	228
Loans made to third parties		
- At Start of Year	100	109
- Advances	0	0
- Repayments	23	10
- At End of Year/Period	77	99
Total of all investments		
- At Start of Year	30,399	26,490
- At End of Year/Period	15,684	15,684
- Change in Year/Period	(14,715)	(10,806)

The loans made to third parties includes a £50,000 loan to Shared Interest Society Limited ("Shared Interest") as approved by the Policy & Resources Committee in August 2017. Shared Interest is a company that uses funds invested by individuals and organisations to allow it to provide loans to fair trade businesses around the world.