FOR PUBLICATION

DERBYSHIRE COUNTY COUNCIL

CABINET

7 December 2023

Report of the Director of Finance & ICT

Treasury Management Mid-Year Report 2023-24
(Corporate Services and Budget)

1. Divisions Affected

1.1 County-wide.

2. Key Decision

2.1 This is not a Key Decision.

3. Purpose

3.1 To provide Cabinet with details of Treasury Management activities during the first half of 2023-24 and to indicate the Council's compliance with the prudential indicators set by Council at its meeting of 15 February 2023, in accordance with the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2021 Edition*" (the CIPFA Code).

4. Information and Analysis

<u>Introduction</u>

4.1 The Council's Treasury Management Strategy for 2023-24 was approved at the Council Meeting of 15 February 2023 as part of the

Capital Programme Approvals, Treasury Management and Capital Strategies for 2023-24 Report. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks, including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

4.2 Treasury risk management at the Council is conducted within the framework of the CIPFA Code, which requires the Council to approve a treasury management strategy before the start of each financial year and a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code by producing a semi-annual treasury report. This report includes the new requirement in the 2021 Code, mandatory from 1st April 2023, of quarterly reporting of the treasury management prudential indicators

External Context

Economic background

4.3 UK inflation remained stubbornly high over much of the period April to September 2023, compared to the US and Eurozone, maintaining expectations of further increases in the Bank of England (BoE) official Bank Rate. However, inflation data published in the latter part of the period was lower than expected, causing financial markets to reassess and adjust their forecasts of the peak in the Bank Rate, from 6% to 5.5%. Soon after, in September 2023, the BoE Monetary Policy Committee (MPC) voted to maintain the Bank Rate at 5.25%. It was 4.25% in March 2023, before the start of the period. By the end of the period, financial markets had further adjusted their expectations of the peak in the Bank Rate, from 5.5% to 5.25%, meaning that they expected that the peak in the rate had been reached.

4.4 Economic growth in the UK remained relatively weak over the period. In Q1 2023-24, the economy expanded by 0.1% and in Q2 2023-24 it expanded by 0.2%. The housing market stalled, with the monetary tightening cycle starting to cause recessionary, or at the very least stagnating, economic conditions.

4.5 In data published in October 2023, the June to August 2023 UK unemployment rate increased by 0.2% to 4.2%. Pay growth was 7.8% for regular pay and 1.1% in real terms, after adjusting for inflation.

4.6 UK inflation continued to fall from its peak, as the annual headline Consumer Price Index (CPI) measure of inflation decreased to 6.7% in September 2023. However, the rate of decrease was not as great as expected, due to increased fuel prices. CPI inflation was 10.1% in March 2023, before the start of the period.

4.7 The lagged effect of monetary policy together with staggered fixed term mortgage maturities over the next 12-24 months means that the full impact from Bank Rate rises is still yet to be felt by UK households.

4.8 The US Federal Reserve increased its policy rates to a range of 5.25%-5.5% over the period, from 4.75%-5% in March 2023. Having fallen throughout 2023, annual US inflation started to increase again in Q2 2023-24, rising from 3% in June 2023 to 3.7% in August 2023, due to increasing oil prices. US Gross Domestic Product (GDP) growth was relatively strong, registering 2% in Q1 2023-24 and 2.1% in Q2 2023-24.

4.9 The European Central Bank (ECB) increased its key deposit and main refinancing interest rates to 4% and 4.5%, respectively, in September 2023. At March 2023, its deposit facility rate was 3% and its main refinancing rate was 3.5%. The ECB hinted that these levels may represent the peak in rates but also emphasised that rates would stay high for as long as required to bring inflation down to target. Although Eurozone inflation continued to decline steadily, inflation did not decline as quickly as expected. Eurozone annual headline CPI fell to 5.2% in August 2023. Eurozone GDP growth remained weak, with recent data showing the region expanded by only 0.1% in Q1 2023-24.

Financial markets

4.10 Financial market sentiment and bond yields remained volatile during Q1 and Q2 2023-24, with bond yields generally decreasing as there were signs that inflation, while still high, was stabilising and that interest rates had peaked. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield increased from 3.30% to peak at 4.91% in July 2023, before trending downwards to 4.29%, whilst the 10-year gilt yield increased from 3.43% to 4.75% in August 2023, before reducing to 4.45%, and the 20-year yield increased from 3.75% to 4.97% in August 2023 and then fell back to 4.84% by the end of Q2 2023-24. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

Credit background

4.11 The Council's Treasury Management Advisor completed a review of its credit advice on unsecured deposits at UK and non-UK banks, following concerns of a wider financial crisis after the collapse of Silicon Valley Bank purchase of Credit Suisse by UBS, as well as other well-publicised banking sector issues. The reduced maximum duration limit for all banks on its recommended counterparty list was maintained at 35 days throughout the period.

4.12 Following the issue of a Section 114 notice, in September 2023 the Council's Treasury Management Advisor advised against undertaking new lending to Birmingham City Council, and later in the month cut its recommended duration on Warrington Borough Council to a maximum of 100 days.

Local Context

4.13 On 31 March 2023, the Council had net borrowing of £111.358m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m	**31.3.24 Forecast £m**
General Fund CFR	594.275	709.387
Less: Other debt liabilities*	-55.178	-49.675
Borrowing CFR	**539.097**	**659.712**
Less: Usable reserves	-376.838	- 189.058
Less: Working capital	-50.901	-50.901
Net borrowing requirement	**111.358**	**419.753**
Borrowing CFR is comprised:		
External borrowing	490.079	400.174
Internal borrowing	49.018	259.538
	539.097	**659.712**

* Finance leases, PFI liabilities and transferred debt that form part of the Council's total debt.

4.14 The Council pursued its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position at 30 September 2023 and the change during the year are shown in Table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	New £m	Repaid £m	Change in Market Value £m	Movement £m	30.9.23 Balance £m	30.9.23 Rate %
Long-term borrowing	265.579	10.000	-11.405	0	-1.405	264.174	4.40
Short-term borrowing	224.500	202.000	-152.000	0	50.000	274.500	4.54
Total borrowing	**490.079**	**212.000**	**-163.405**	**0.000**	**48.595**	**538.674**	**4.47**
Long-term strategic pooled funds	64.631	0	0	-1.257	-1.257	63.374	4.89
Long-term investments*	10.000	0	0	0	0	10.000	0.80
Short-term investments	238.004	142.553	-168.004	0	-25.451	212.463	3.40
Cash and cash equivalents	66.086	290.847	-246.364	0	44.483	110.569	5.19
Total investments	**378.721**	**433.400**	**-414.368**	**-1.257**	**17.775**	**396.496**	**4.02**
Net borrowing	**111.358**	**-221.400**	**250.963**	**1.257**	**30.820**	**142.178**	

*Excludes Non-Treasury Loans

Borrowing Activity

4.15 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

4.16 The Council held £63.374m in externally managed pooled funds at 30 September 2023, which are now classed as commercial investments. These were purchased prior to the change in the CIPFA Prudential Code when strategic pooled funds were re-categorised as commercial investments. Before undertaking further additional borrowing the Council will review the options for exiting these investments. Further detail on the Council's pooled funds is given at paragraphs 4.39 to 4.48.

4.17 At 30 September 2023, the Council held £538.674m of loans, an increase of £48.595m from 31 March 2023, as part of its strategy for funding previous and current years' capital programmes. The year-end external borrowing position and the year-on-year change is shown in Table 3.1 below.

Table 3.1: External Borrowing Position

	31.3.23 Balance £m	New £m	Repaid £m	Movement £m	30.9.23 Balance £m	30.9.23 Interest Rate %	30.9.23 WAM* Years
Public Works Loan Board	250.579	0	-6.405	-6.405	244.174	4.37	16
Banks (LOBO)	5.000	0	-5.000	-5.000	0	n/a	n/a
Banks (fixed-term)	10.000	0	0	0	10.000	4.69	20
Local authorities (long-term)	0	10.000	0	10.000	10.000	4.85	2
Local authorities (short-term)	224.500	202.000	-152.000	50.000	274.500	4.54	1
External Borrowing	**490.079**	**212.000**	**-163.405**	**48.595**	**538.674**	**4.55**	**15**

*WAM – Weighted Average Maturity

4.18 As outlined in the Council's Treasury Management Strategy for 2023-24, the Council's chief objective when borrowing was to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

4.19 The Council's borrowing strategy continued to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing. The Council continued to use internal resources or borrowed rolling temporary/short-term loans in first half of 2023-24. The net movement in temporary/short-term loans is shown in Table 3.1 above.

4.20 The Council has an increasing CFR because of its capital programme. The estimated borrowing requirement is determined by a Liability Benchmark, which also takes into account usable reserves and working capital.

4.21 There was a substantial rise in the cost of both short- and long-term borrowing over the last 18 months. The BoE official Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% at the end of September 2023. By the end of the period the BoE official Bank Rate was 2% higher than at the end of September 2022.

4.22 UK gilt yields were volatile over the period, following signs that UK growth had been more resilient, that inflation had not decreased as quickly as expected, and that the BoE saw persistently higher rates through 2023-24 as key to dampening domestic demand. Gilt yields, and consequently Public Works Loan Board (PWLB) borrowing rates, rose and broadly remained at elevated levels. On 30 September 2023, the PWLB certainty rates for maturity loans were 5.26% for 10-year loans, 5.64% for 20-year loans and 5.43% for 50-year loans. Their equivalents on 31 March 2023 were 4.33%, 4.70% and 4.41% respectively.

4.23 The Council's Treasury Management Advisors expect that interest rates will fall in the medium-term, therefore it is the Council's strategy to finance the Council's borrowing, be it at higher rates, in the short-term, before 'locking in' to longer-term borrowing once rates are more favourable.

4.24 The Council's short-term borrowing costs have continued to increase with the rise in the BoE official Bank Rate and short-dated market rates. The average rate on the Council's short-term loans at 30 September 2023 of £274.500m was 4.54%, compared with £149.500m at 0.53% 12 months ago.

4.25 The Council's borrowing decisions are not predicated on any one outcome for interest rates and a balanced portfolio of short- and long-term borrowing was maintained. Table 3.2 below show the Council's external long-dated loans borrowed from other local authorities.

Table 3.2: External Long-dated Loans Borrowed From Other Local Authorities

	Amount £m	Rate %	Period (Years)
Oxfordshire	5.000	4.90	2
Oxfordshire	5.000	4.80	3
Total borrowing	**10.000**	**4.85**	**3**

4.26 Forward starting loans: To enable certainty of cost to be achieved without suffering a cost of carry in the intervening period, the Council arranged £35.000m of forward starting loans with details of which are shown in Table 3.3 below.

Table 3.3: External Forward Starting Loans

	Amount £m	Rate %	Loan Period (Years)	Forward Period (Months)
Warwickshire	10.000	5.60	1	8
West Midlands Combined	10.000	5.70	1	8
West Midlands Combined	10.000	5.85	1	8
Crawley	5.000	5.57	1	10
Total borrowing	**35.000**	**5.70**	**1**	**9**

4.27 There remains a strong argument for diversifying funding sources, particularly if rates can be achieved on alternatives which are below gilt yields + 0.80%. The Council will evaluate and pursue these lower cost solutions and opportunities with its Treasury Management Advisor.

4.28 The UK Infrastructure Bank is one alternative source of funding which offers funding at gilt yields + 0.40% (0.40% below the PWLB certainty rate) and the possibility of more flexible funding structures than the PWLB. Funding from UKIB is generally only available for certain types of projects that meet its criteria of green energy, transport, digital, water and waste. The minimum loan size is £5.000m.

4.29 At the start of the period, the Council continued to hold a £5.000m LOBO (Lender's Option Borrower's Option) loan, where the lender, Dexia, had the option to propose an increase in the interest rate at set dates (known as a call option), following which the Council had the option whether to either accept the new rate or to repay the loan at no additional cost.

4.30 As market interest rates increased, there was an increased probability of the call option on the LOBO being exercised by the lender. On 16 August 2023, Dexia exercised its call option on the LOBO. The Council declined the new interest rate and repaid the loan. The details are shown in Table 3.4 below.

Table 3.4: LOBO Repayment

LOBO Lender	Amount £m	Interest Rate %	Final Maturity	New Interest Rate Proposed %	Council Action Taken
Dexia	5.000	4.50	16/8/2039	5.14	Repaid at nominal amount from cash resources
Total	**5.000**	**4.50**		**5.14**	

Other Debt Activity

4.31 There were no repayments of prior years' Private Finance Initiative/ finance leases/transferred debt liabilities in the six month period to 30 September 2023. Total debt other than borrowing stood at £55.178m on 30 September 2023, taking total debt to £593.852m.

Treasury Investment Activity

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

4.33 The Council holds a significant but reducing level of invested funds, representing income received in advance of expenditure plus balances and reserves held. During the first half of 2023-24, the Council's investment balance ranged between £385.141m and £494.740m because of timing differences between income and expenditure. The investment position is shown in Table 4 below.

Table 4: Investment Position (Treasury Investments)

	31.3.23 Balance £m	New £m	Repaid £m	Change in Market Value £m	Movement £m	30.9.23 Balance £m	30.9.23 Income Return %	30.9.23 WAM* days
Banks and building societies (unsecured)	85.590	7.983	-53.003	0	-45.020	40.570	5.02	1
Money Market Funds	0	100.000	-70.000	0	30.000	30.000	5.35	1
Government (UK & Supra-national)	0	77.917	-38.365	0	39.552	39.552	4.68	45
Local Authorities	218.500	247.500	-253.000	0	-5.500	213.000	3.38	107
Registered Social Providers	10.000	0	0	0	0.000	10.000	1.65	155
Pooled Funds –Strategic Bond Funds	4.539	0	0	-0.014	-0.014	4.525	4.16	N/A
Pooled Funds –Equity Income Funds	14.608	0	0	-0.458	-0.458	14.150	6.09	N/A
Pooled Funds –Property Funds	23.013	0	0	-0.300	-0.300	22.713	4.66	N/A
Pooled Funds – Multi Asset Income Funds	22.471	0	0	-0.485	-0.485	21.986	4.51	N/A
Total Investments	**378.721**	**433.400**	**-414.368**	**-1.257**	**17.775**	**396.496**	**4.02**	**79**

**WAM - Weighted average maturity applies to the first five categories above.*

4.34 Both the CIPFA Code and Government guidance require the Council 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 Council'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.

4.35 The Council expects to be a long-term borrower and new treasury investments are therefore primarily made to manage day-to-day cash flows using short-term low risk investment instruments. The existing portfolio of strategic pooled funds will be maintained to diversify risk into different asset classes and boost investment income.

4.36 The BoE official Bank Rate increased by 1.00%, from 4.25% at the beginning of April 2023 to 5.25% by the end of September 2023. Short-dated cash investment rates increased as a result, with 12-month rates rising to nearly 6%. The rates on Debt Management Account Deposit Facility (DMADF) deposits also increased, ranging between 5.17% and 5.29%, with overnight Money Market Rates at 5.35%, by the end of September 2023.

4.37 Given the risk of short-term unsecured bank investments, the Council maintained its diversification into higher yielding asset classes as shown in Table 4 above. The Council previously identified £70.000m of funds available for longer-term investment and invested in pooled property/bond/equity/multi-asset funds. In the first half of 2023-24, the Council has maintained this sum invested, although is considering some divestment at the right time.

4.38 The progression of credit risk and return metrics are shown in benchmarking extracts the Council's Treasury Management Adviser (Arlingclose) in Table 5 below.

<u>Table 5: Investment Benchmarking – Treasury Investments Managed In-house</u>

	Credit Score	Credit Rating	Bail-in Exposure	Weighted Average Maturity (days)	Total Return %
Derbyshire - 30.09.2023	4.67	A+	25%	79	3.20
Similar Local Authorities	4.38	AA-	36%	2080	3.59
All Local Authorities	4.47	AA-	50%	13	3.65

Externally Managed Pooled Funds

4.39 At 30 September 2023, the value of the Council's investments in externally managed pooled strategic bond, equity, multi-asset and property funds amounted to £63.374m (£70.000m nominal value). The value of these investments at 31 March 2023 was £64.631m and at 31 March 2022 was £71.765m. The Council holds these funds with the aim of receiving regular revenue income and because over the long-term their prices are relatively stable, although short-term prices are less stable. Holding these pooled funds allows the Council to diversify into asset classes other than cash without the need to own and manage the underlying investments.

4.40 The change in the Council's funds' capital values and % Income Return during Q1 and Q2 of 2023-24 is shown in Table 4. These funds are currently forecast to generate an average total return of £1.822m in 2023-24, comprising a £3.094m income return (shown as a % Income Return for each pooled fund in Table 4), which is being used to support services in 2023-24, and a £1.272m unrealised capital loss, which is the movement in the market value of these investments from the start to the end of the year. Income returns are currently at 4.89% against a budget of 4.42%. Paragraphs 4.41 to 4.44 consider the market movements which impacted on the value of these externally managed pooled strategic bond, equity, property and multi-asset funds and resulted in an unrealised capital loss for the first half of 2023-24. Paragraphs 4.45 to 4.48 consider the Council's holding in these pooled funds and highlights that pooled fund capital losses did not impact on the Council's General Reserve position at 30 September 2023 because of current statutory accounting arrangements which are in place. These arrangements are due to come to an end in 2024-25. Any unrealised capital losses compared to the £70.000m total nominal value of these funds will first impact on the Council's General Reserve position on 31 March 2026. To plan for this, the Council previously transferred revenue savings to an investment losses contingency earmarked reserve. This reserve balance was £2.500m at

30 September 2023. Corresponding total unrealised capital losses at that date were £6.626m.

4.41 Financial market conditions were volatile during the six-month period to 30 September 2023. Global bond yields increased 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.

4.42 The UK, Eurozone area and US equity markets were initially helped by resilient growth data and diminishing talk of recession. A weaker currency and better-than-expected indicators were broadly supportive for UK equities. Much of the US stock market's performance was driven by a small number of large stocks and enthusiasm over artificial intelligence. However the global outlook was clouded by a slowdown in China. On a sectoral level, the energy sector was supported by higher oil prices and expectation of decreasing supply due to an agreement on production cuts. The FTSE All Share index was marginally lower at the end of the 6-month period than it had been at the start. The MSCI All Countries World Index was also marginally higher by the end of the period.

4.43 For existing longer-term investors in fixed income securities (bonds), the prospect of a higher-for-longer rate environment weighed on market expectations. Bond yields increased in Q2 2023-24, on the expectation that central banks would continue increasing rates but fell in August 2023, as investors grew confident that policy rates were close to their peak. However, they then increased again in September 2023, as oil prices climbed. There was also some effect from quantitative tightening by the BoE. This affected capital values of the Council's bond fund during the six-month period to 30 September 2023 and, to a lesser extent, the multi-asset funds, where there was some offset from equity performance.

4.44 Investor sentiment for UK commercial property was more settled than in Q3 and Q4 of 2022-23, when the sharp rise in bond yields resulted in a big fall in property valuations. There were signs of returning investor interest, occupier resilience and a perception that the downturn in commercial real estate may be ending. It helped rental income and led to some stabilisation in capital values. However, the combination of high interest rates and bond yields, higher funding costs and the prospect of sluggish economic growth constrained the outlook for commercial property.

4.45 The combination of the above factors set out in paragraphs 4.41 to 4.44 had a marginal effect (-1.9%) on the combined value of the Council's strategic funds from the start of the period in April 2023 to September 2023. Income from the Council's bond funds has improved as maturing securities are replaced by higher yielding securities in these funds.

4.46 Although these funds have no defined maturity date, cash is available for withdrawal after a short notice period (except for the Property Fund which is a minimum of 6 months' notice). The performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three- to five-year period total returns should exceed cash interest rates. Table 6 below summarises the current value of each investment, alongside the cumulative income since the date of the investment.

Table 6

Fund	**Investment**	**Date**	**Current Value**	**Cumulative Income**
Aegon (Kames)	10,000,000	20/09/2018	8,759,899.38	2,820,836
CCLA LAMIT	25,000,000	30/06/2015	22,712,511.00	6,861,672
CCLA DIF	5,000,000	12/09/2017	4,602,441.10	999,907
M&G - Bond	5,000,000	25/05/2018	4,525,264.83	881,306
M&G - Global Equity	5,000,000	25/05/2018	6,254,750.13	1,042,549
Ninety One (Investec)	10,000,000	27/11/2017	8,623,853.50	2,360,919
Schroders	10,000,000	12/06/2018	7,895,057.18	3,390,995
TOTAL	**70,000,000**		**63,373,777.12**	**18,358,184**

Capital Loss	**-6,626,222.88**
Total Return	**11,731,961.02**

4.47 In light of their performance over the medium-term, investment in these funds has been maintained. The Council is using the alternative fair value through profit and loss (FVPL) accounting method to account for them, which means that if there are any long term unrealised losses in the funds' fair values there will not be an immediate impact on the Council's General Reserve balance. The date for this impact was to be 2023-24 at the earliest. The Department for Levelling Up, Housing and Communities (DLUHC) published a consultation on the 'IFRS 9 pooled investment fund statutory override for English authorities for fair value gains and losses on pooled investment funds', which was due to expire with effect from 2023-24. The options under evaluation were to allow the override to lapse, to extend it, or to make it permanent. Following this consultation, DLUHC extended the override for a further two years and the earliest impact of any unrealised losses on the Council's General Reserve balance will now be in 2025-26.

Net Investment Income

4.49 Overall, during 2023-24, the Council forecasts that it will receive £3.439m of net investment income from its investments (£12.582m investment income less £9.143m short-term borrowing costs) against a budget of £4.663m. This includes £2.3m of interest costs relating to the increased need to borrow because of the Derby and Derbyshire Waste Treatment Centre legal settlement in July 2023.

Other Non-Treasury Holdings and Activity

4.50 The definition of investments in CIPFA's Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) and or for commercial purposes (made primarily for financial return). Investment Guidance issued by the Department for Levelling Up Housing and Communities (DLUHC) also includes within the definition of investments all such assets held partially or wholly for financial return. At 30 September 2023, the Council held £13.944m of Non-Treasury investments.

4.51 Of the total balance of £13.944m of the Council's other non-treasury holdings at 30 September 2023, £13.480m is in respect of a regeneration loan to a local business, Buxton Crescent Hotel Ltd. This has increased £0.427m since 31 March 2023 as a result of the capitalisation of interest until loan repayments commence.

4.52 The other loan of £0.464m is to Chesterfield Football Club Community Trust. The loan was agreed to continue their sports and community programmes with schools and community groups in the greater Chesterfield area. Capital repayments commenced during the period to 30 September 2023.

Treasury Performance

4.53 The Council measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in Table 7 below.

Table 7: Performance

	Forecast 2023-24 £m	**Budget (CFR) £m**	**Over/ (Under) £m**	**Interest Actual %**	**Interest Other LA (Counties) Benchmark %**	**Interest Over/ (Under) %**
Interest paid on long-term and short-term borrowing	19.928	16.258	-3.670	4.47	No data held	N/A
Interest received on treasury investments	12.582	4.663	+7.919	4.02	4.49	-0.47

Compliance Report

4.54 The Director of Finance & ICT reports that all treasury management activities undertaken during the first half of 2023-24, to 30 September 2023, complied fully with the principles of the Treasury Management Code and the Council's approved Treasury Management Strategy.

4.55 Compliance with the authorised limit and operational boundary for external debt is demonstrated in Table 8 below and compliance with specific investment limits is demonstrated in Table 9 below.

Table 8: Debt Limits

	2023-24	**30 Sept**	**2023-24**	**2023-24**

	Maximum £m	2023 Actual £m	Operational Boundary £m	Authorised Limit £m	Complied
Total debt	593.852	593.852	776.000	813.000	✓

Table 9: Investment Limits

	2023-24 Maximum * £m	2023-24 Limit £m	30 Sept 2023 Actual £m	Complied
Any single organisation, except UK Government and Main Bank	30.000	30.000	30.000	✓
Main Bank (Lloyds)	59.134	60.000	39.569	✓
Any group of organisations under the same ownership	30.000	30.000	30.000	✓
Any group of pooled funds under the same management	30.000 nominal	30.000 nominal	30.000 nominal	✓
Registered providers and registered social landlords	10.000 individual 10.000 total	10.000 individual 50.000 total	5.000 individual 10.000 total	✓
Negotiable instruments held in a broker's nominee account	43.379	100.000 per broker	39.553	✓
Limit per country (ex UK)	23.004	30.000 each	0	✓

*Maximum held at any one time.

Treasury Management Indicators

4.56 As required by the 2021 CIPFA Treasury Management Code, the Council monitors, measures and manages its exposures to treasury management risks using the following treasury management prudential indicators.

4.57 **Liability Benchmark:** This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability 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 10 – Liability Benchmark

	31.3.23 Actual	**31.3.24 Forecast**	**31.3.25 Forecast**	**31.3.26 Forecast**
Loans CFR	539.097	659.712	659.712	659.712
Less: Balance sheet resources	-427.739	-239.959	-239.959	-239.959
Net loans requirement	**111.358**	**419.753**	**419.753**	**419.753**
Plus: Liquidity allowance	10.000	10.000	10.000	10.000
Liability benchmark	**121.358**	**429.753**	**429.753**	**429.753**
Existing/forecast borrowing	**490.079**	**400.174**	**261.429**	**256.429**

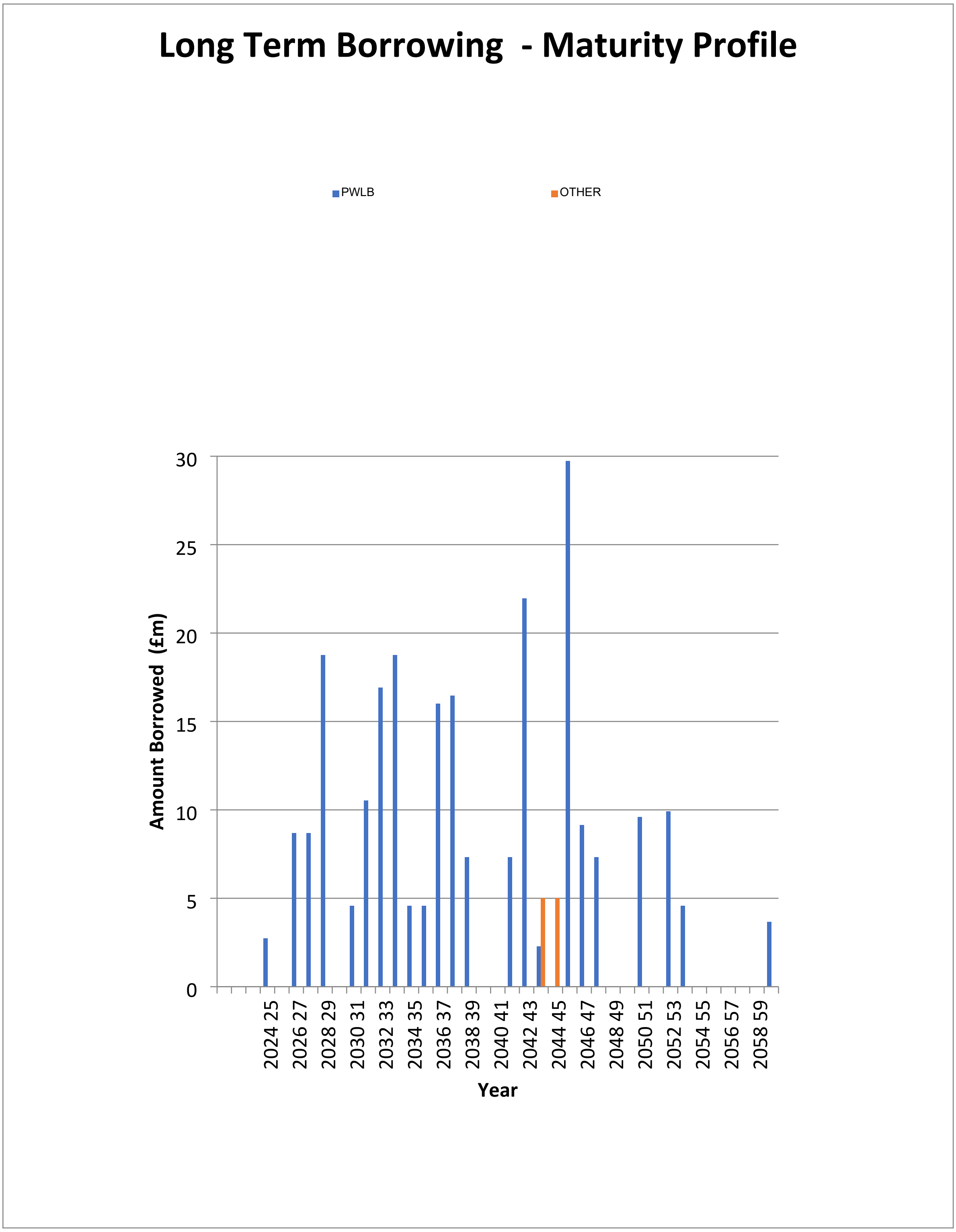
4.58 **Maturity Structure of Borrowing:** This indicator is set to control the Council's exposure to refinancing risk. Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The upper and lower limits on the maturity structure of all borrowing were:

Table 11: Maturity Structure of Borrowing

	30 Sept 2023 Actual %	Upper Limit %	Lower Limit %	Complied
Under 12 months	50	60	0	✓
12 - 24 months	1	20	0	✓
24 months - 5 years	9	20	0	✓
5 - 10 years	9	20	0	✓
10 - 20 years	17	40	10	✓
20 - 30 years	13	40	10	✓
Over 30 years	1	40	0	✓
Total	**100**			

4.59 The Council's long term maturity repayment profile at 30 September 2023 is shown in the Chart below. A good spread of maturities is desirable. The average long term (loans over 1 year in duration) redemption is £6.976m per year over the next 35 years. The maximum redemption is £29.738m in 2045-46. The average duration of all the Council's loans is approximately 15 years. Any new borrowing would be targeted for maturity in years with nil/low repayments.

Chart: Maturity Profile of Long-Term Borrowing



4.60 **Long-Term Treasury Management Investments:** The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The prudential limits on the long-term treasury management limits are:

<u>Table 12 – Long Term Treasury Management Investments</u>

Loans Maturing =>	Beyond 31 March 2024 £m	Beyond 31 March 2025 £m	Beyond 31 March 2026 £m
Actual principal invested beyond the year end	63.374	63.374	63.374
Limit on principal invested beyond the year end	150.000	125.000	100.000
Complied?	✓	✓	✓

Long-term investments with no fixed maturity date include strategic pooled funds but exclude money market funds and bank accounts with no fixed maturity date as these are considered short-term.

Additional indicators

4.61 **Security:** The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

Table 13: Security

	30 Sept 2023 Actual	2023-24 Target	Complied
Portfolio average credit rating	A+	A	✓

4.62 **Liquidity:** The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of either cash available to meet unexpected payments within a rolling three-month period, without additional borrowing, or the amount it can borrow each period without giving prior notice.

Table 14: Liquidity

	30 Sept 2023 Actual £m	2023-24 Target £m	Complied
Total cash available within 1 month **OR**	128.067	10.000	✓
Total sum borrowed in past 3 months without prior notice	132.000	30.000	✓

4.63 **Interest Rate Exposures:** This indicator is set to control the Council's exposure to interest rate risk. The BoE official Bank Rate increased by 1.25% from 4.25% on 1 April 2023 to 5.25% by 30 September 2023.

Table 15: Interest Rate Exposures

	30 Sept 2023 Actual £m	2023-24 Limit £m	Complied
Upper limit on one-year revenue impact of a 1% rise in interest rates.	1.120	1.477	✓
Upper limit on one-year revenue impact of a 1% fall in interest rates	N/A	-1.508	✓

4.64 The impact of a change in interest rates is calculated on the assumption that maturing investments and short-term borrowing will be replaced at current rates.

Other

4.65 **IFRS 16**: The implementation of the new IFRS 16 Leases accounting standard was due to come into force for local authorities from 1 April 2022. Following a consultation, CIFPA/LASAAC announced an optional two-year delay to the implementation of this standard, a decision which was confirmed by the Financial Reporting Advisory Board in early April 2022. The Council will adopt the new standard on 1 April 2024.

5 Consultation

5.1 No consultation is required.

6 Alternative Options Considered

6.1 N/A - the Council is required to have a Treasury Management Strategy each year, to monitor against it and to produce a Treasury Management Annual and Semi-Annual Report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code by producing a semi-annual treasury report. If the Council chose not to prepare this semi-annual Report it would be in contravention of the Council's Financial Regulations and other legislation and statutory guidance.

7 Implications

7.1 Appendix 1 sets out the relevant implications considered in the preparation of the report.

8 Background Papers

8.1 None identified.

9 Appendices

9.1 Appendix 1 - Implications.

10 Recommendation

10.1 That Cabinet notes the report on Treasury Management activities during first half of 2023-24, to 30 September 2023, and the Council's compliance with the prudential indicators set by Council at its meeting of 15 February 2023, in accordance with the the CIPFA Code.

11 Reasons for Recommendation

11.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations.

11.2 Treasury Risk Management at the Council is conducted within the framework of CIPFA's "*Treasury Management in the Public Services: Code of Practice 2021 Edition"* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year, quarterly reports and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code by producing a half year report for 2023-24 and also assists with the requirements in the Council's Financial Regulations, which require that the borrowing and investments of the Council should be arranged in such a manner so as to comply with the CIPFA Code of Practice on Treasury Management.

11.3 The report on treasury management activities for the first half of 2023-24 highlights the borrowing strategy and investments position of the Council during the first six months of 2023-24. It also highlights the Council's performance and compliance with targets agreed as part of the Treasury Management Strategy 2023-24.

12 Is it necessary to waive the call-in period?

12.1 No

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Appendix 1

Implications

Financial

1.1 The Treasury Management Half Year Report 2023-24 sets out in paragraphs 4.03 to 4.12 external factors impacting on Treasury Management in the first half of 2023-24, to 30 September 2023. This covers economic background, financial markets and credit background. The report then details in paragraphs 4.13 to 4.49 the Council's Treasury Management activity and position during the first half of 2023-24. This highlights the borrowing and investments positions of the Council during the first half of 2023-24. Other non-Treasury holdings and activity are referred to in paragraphs 4.50 to 4.52 and Treasury performance in paragraph 4.53. Finally, the report considers in paragraphs 4.54 to 4.64 the Council's compliance with prudential indicators and targets agreed as part of the Treasury Management Strategy 2023-24.

1.2 On 30 September 2023, the Council had net borrowing of £142.178m arising from its revenue and capital income and expenditure, as shown in Table 2, at paragraph 4.14. The Council held a significant level of invested funds in the first half of 2023-24, representing income received in advance of expenditure plus balances and reserves held. In 2023-24, the Council continued to pursue its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The Council has an increasing Capital Financing Requirement because of its capital programme.

1.3 At 30 September 2023, the Council is forecasting interest payments on capital and temporary borrowing of £19.928m against a budget of £16.258m and interest receipts on treasury investments of £12.582m against a budget of £4.663m, as shown in Table 6, at paragraph 4.53.

1.4 The Compliance Report confirms that the Council complied with the prudential indicators set by Council at its meeting of 15 February 2023, in accordance with the Chartered Institute of Public Finance and Accountancy's "*Treasury Management in the Public Services: Code of Practice 2021 Edition"* (the CIPFA Code).

Legal

2.1 The Treasury Management function for borrowing and investment forms part of the prudential funding structure established by the Local Government Act 2003. Local authorities are required to have regard to a range of guidance when exercising these powers.

2.2 Treasury Risk Management at the Council is conducted within the framework of CIPFA's "*Treasury Management in the Public Services: Code of Practice 2021 Edition"* (the CIPFA Code) which requires the Council to approve a Treasury Management Strategy before the start of each financial year and a semi-annual and annual treasury outturn report. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to the CIPFA Code, by reporting on the first half year for 2023-24, and also assists with the requirements in the Council's Financial Regulations, which require that the borrowing and investments of the Council should be arranged in such a manner so as to comply with the CIPFA Code of Practice on Treasury Management.

Human Resources

3.1 None

Information Technology

4.1 None

Equalities Impact

5.1 None

Corporate objectives and priorities for change

6.1 The Council is committed to ensuring good financial management and compliance with applicable laws and regulations. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's Treasury Management Strategy.

Other (for example, Health and Safety, Environmental Sustainability, Property and Asset Management, Risk Management and Safeguarding)

7.1 None