EXECUTIVE BOARD DECISION

REPORT OF :	Executive Member for Finance and Governance
LEAD OFFICER:	Strategic Director of Finance and Resources
DATE:	9th November 2023

PORTFOLIO/S AFFECTED:	All
WARD/S AFFECTED:	All
KEY DECISION:	**YES** ☒ **NO** ☐

SUBJECT: TREASURY MANAGEMENT QUARTER 2 MONITORING REPORT AND MID-YEAR STRATEGY REVIEW FOR 2023/24

1. EXECUTIVE SUMMARY

1.1. To allow scrutiny of the Treasury Management function.

1.2. To update Members with regard to the Treasury Management position to date, and the proposed Strategy for the remainder of 2023/24.

2. RECOMMENDATIONS

It is recommended that the Executive Board:

2.1. Notes the Treasury Management position for the last quarter and the year to date, and approves the proposed Strategy for the remainder of the year

2.2. Approves that there are no changes to the existing Treasury and Prudential Indicators for 2023/24, as set at Executive Board on 9th March 2023.

3. BACKGROUND

3.1 Treasury Management is the management of the Council's cash flows, borrowing and investments, and the associated risks. The Council borrows and invests 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 financial risk is therefore central to the Council's prudent financial management.

3.2 In March 2023 the Executive Board approved a Treasury Management Strategy for 2023/24. It is necessary to review and consider updating the Strategy, if required.

3.3 The Treasury Management Strategy for 2023/24 complies with the CIPFA Code and with Ministry for Housing Communities and Local Government (MHCLG) Guidance on Investments.

3.4 CIPFA published a revised Prudential Code for Capital Finance and Treasury Management Code on 20th December 2021. The key changes in the two codes are around permitted reasons to borrow, knowledge and skills, and the management of non-treasury investments, and there is a change in reporting requirements that requires Treasury Management Prudential Indicators to be reported quarterly.

3.5 The principles of the Prudential Code took immediate effect although local authorities could defer introducing the revised reporting requirements until the 2023/24 financial year if they wished. The Council took advantage of the option to defer introducing the revised reporting requirements until the 2023/24 year.

3.6 This report:
   (a) satisfies the requirement to review the Treasury Management Strategy at the mid-point of the financial year
   (b) satisfies the reporting requirements included in the 2021 Prudential Code and also summarises the interest rate environment for the second quarter of the year, and the borrowing and lending transactions undertaken, together with the Council's overall debt position.

3.7 A glossary of Treasury Management terms is appended to this paper.

4. EXTERNAL CONTEXT

4.1. Economic background

4.1.1. UK inflation remained stubbornly high over much the period compared to the US and euro zone, keeping expectations elevated of how much further the Bank of England (BoE) would hike rates compared to the regions. However, inflation data published in the latter part of the period undershot expectations, causing financial markets to reassess the peak in BoE Bank Rate. This was followed very soon after by the BoE deciding to keep Bank Rate on hold at 5.25% in September, against expectation for another 0.25% rise.

4.1.2. Economic growth in the UK remained relatively weak over the period. In calendar Q2 2023, the economy expanded by 0.4%, beating expectations of a 0.2% increase. However, monthly GDP data showed a 0.5% contraction in July, the largest fall to date in 2023 and worse than the 0.2% decline predicted which could be an indication the monetary tightening cycle is starting to cause recessionary or at the very least stagnating economic conditions.

4.1.3. July data showed the unemployment rate increased to 4.3% (3mth/year) while the employment rate rose to 75.5%. Pay growth was 8.5% for total pay (including bonuses) and 7.8% for regular pay, which for the latter was the highest recorded annual growth rate. Adjusting for inflation, pay growth in real terms were positive at 1.2% and 0.6% for total pay and regular pay respectively.

4.1.4. Inflation continued to fall from its peak as annual headline CPI declined to 6.7% in July 2023 from 6.8% in the previous month against expectations for a tick back up to 7.0%. The largest downward contribution came from food prices. The core rate also surprised on the downside, falling to 6.2% from 6.9% compared to predictions for it to only edge down to 6.8%.

4.1.5. The Bank of England's Monetary Policy Committee continued tightening monetary policy over most of the period, taking Bank Rate to 5.25% in August. Against expectations of a further hike in September, the Committee voted 5-4 to maintain Bank Rate at 5.25%. Each of the four dissenters were in favour of another 0.25% increase.

4.1.6. Financial market Bank Rate expectations moderated over the period as falling inflation and weakening data gave some indication that higher interest rates were working. Expectations fell from predicting a peak of over 6% in June to 5.5% just ahead of the September MPC meeting, and to then expecting 5.25% to be the peak by the end of the period.

4.1.7. Following the September MPC meeting, Arlingclose, the authority's treasury adviser, modestly revised its interest forecast to reflect the central view that 5.25% will now be the peak in Bank Rate. In the short term the risks are to the upside if inflation increases again, but over the remaining part of the time horizon the risks are to the downside from economic activity weakening more than expected.

4.1.8. The lagged effect of monetary policy together with the staggered fixed term mortgage maturities over the next 12-24 months means the full impact from Bank Rate rises are still yet to be felt by households. As such, while consumer confidence continued to improve over the period, the GfK measure hit -21 in September, it is likely this will reverse at some point. Higher rates will also impact business and according to S&P/CIPS survey data, the UK manufacturing and services sector contracted during the quarter with all measures scoring under 50, indicating contraction in the sectors.

4.1.9. The US Federal Reserve increased its key interest rate to 5.25-5.50% over the period, pausing in September following a 0.25% rise the month before, and indicating that it may have not quite completed its monetary tightening cycle.

4.1.10. Having fallen throughout 2023, annual US inflation started to pick up again in July 2023, rising from 3% in June, which represented the lowest level since March 2021, to 3.2% in July and then jumping again to 3.7% in August, beating expectations for a rise to 3.6%. Rising oil prices were the main cause of the increase. US GDP growth registered 2.1% annualised in the second calendar quarter of 2023, down from the initial estimate of 2.4% but above the 2% expansion seen in the first quarter.

4.1.11. The European Central Bank increased its key deposit, main refinancing, and marginal lending interest rates to 4.00%, 4.50% and 4.75% respectively in September, and hinted these levels may represent the peak in rates but also emphasising rates would stay high for as long as required to bring inflation down to target.

4.1.12. Although continuing to decline steadily, inflation has been sticky, Eurozone annual headline CPI fell to 5.2% in August while annual core inflation eased to 5.3% having stuck at 5.5% in the previous two months. GDP growth remains weak, with recent data showing the region expanded by only 0.1% in the three months to June 2023, the rate as the previous quarter.

4.2. Financial markets

4.2.1. Financial market sentiment and bond yields remained volatile, with the latter generally trending downwards as there were signs inflation, while still high, was moderating and interest rates were at a peak.

4.2.2. Gilt yields fell towards the end of the period. The 5-year UK benchmark gilt yield rose from 3.30% to peak at 4.91% in July before trending downwards to 4.29%, the 10-year gilt yield rose from 3.43% to 4.75% in August before declining to 4.45%, and the 20-year yield from 3.75% to 4.97% in August and then fell back to 4.84%. The Sterling Overnight Rate (SONIA) averaged 4.73% over the period.

4.3. Credit review

4.3.1. Having 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, in March our advisors Arlingclose reduced the advised maximum duration limit for all banks on its recommended counterparty list to 35 days. This stance continued to be maintained at the end of the period.

4.3.2. Having put the US sovereign rating on Rating Watch Negative earlier in the period, Fitch took further action in August, downgrading the long-term rating to AA+, partly around ongoing debt ceiling concerns but also an expected fiscal deterioration over the next couple of years.

4.3.3. Following the issue of a Section 114 notice, in September Arlingclose 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.

4.3.4. Arlingclose continued to monitor and assess credit default swap levels for signs of ongoing credit stress and although no changes were made to recommended durations over the period, Northern Trust Corporation was added to the counterparty list.

4.3.5. Heightened market volatility is expected to remain a feature, at least in the near term and, as ever, the institutions and durations on the Authority's counterparty list recommended by Arlingclose remains under constant review.

5. KEY ISSUES QUARTER 2

5.1. Investments Made and Interest Earned

5.1.1. The graph in Appendix 1 shows the weekly movement in the totals available for investment, both actuals to date and projections for the rest of the year (adjusted for anticipated borrowing where applicable). These balances have been fairly stable across the period, ranging between £90M and £105M. Investment balances continued to be unusually high during this period, largely due to funds received from central government and grants received in advance of spend being incurred, including Darwen Town Deal funding of £8.1M and Levelling Up funding of £3.825M. It is intended that investment balances will ultimately reduce in future to between £10M and £20M.

5.1.2. Investments made in the period were mainly in "liquid" (instant access) deposits, either bank "call accounts" or Money Market Funds (MMFs). Returns on MMF holdings remained high over the period, following the Bank Rate increases, averaging around 5.07% throughout the period. Bank deposit account rates have also increased during the period, paying 5.14% by the end of September.

5.1.3. For limited periods, funds were also placed with the Government's Debt Management Account Deposit Facility (at 4.880% – 5.250%). The other fixed term investments made were:

Start Date	End Date	Counterparty	Amount £	Rate
03-Jul-23	03-Jan-24	Lancashire County Council	5,000,000	4.75%
02-Aug-23	02-Nov-23	Blackpool Council	5,000,000	4.50%
05-Jul-23	05-Oct-23	Eastleigh Borough Council	5,000,000	4.55%
19-Jul-23	20-Nov-23	Kirklees Council	5,000,000	4.58%
28-Jul-23	29-Jan-24	Barking & Dagenham	5,000,000	5.50%
02-Aug-23	02-May-24	London Borough of Newham	5,000,000	5.80%
27-Sep-23	27-Mar-24	Doncaster MBC	5,000,000	5.55%
30-Aug-23	30-Nov-23	Cheshire East Council	5,000,000	5.28%
15-Aug-23	15-Feb-24	Cornwall Council	5,000,000	5.35%
21-Aug-23	21-Feb-24	West Dunbartonshire Council	5,000,000	5.55%

5.1.4. At 30th September, the Council had approximately £89.7M invested, compared to £85.5M at the start of the period. Appendix 2 shows the breakdown of the closing investment balance. The Council's investment return over the period was approximately 4.681%. For comparison, as mentioned above, the Sterling Over Night Rate (SONIA) increased over the period, averaging 4.73%.

5.2. Borrowing Rates

5.2.1. The cost of long-term borrowing through the PWLB (Public Works Loan Board) is linked to central government's own borrowing costs.

5.2.2. The cost of short-term borrowing, based on loans from other councils, has risen during the period, following the Bank Rate rises. Interest rates on loans from 3 months out to a year were priced at rates between 5.40% to 6.00% by the end of the period.

5.2.3. Due to the high level of cash balances, the Council has not been required to use short-term borrowing during the period. Should the need arise we will review the options available.

5.3. Current Debt Outstanding

	30th June 2023		30th September 2023	
	£'000	£'000	£'000	£'000
TEMPORARY DEBT				
Less than 3 months	0		0	
Greater than 3 months (full duration)	0		0	
		0		0
LONGER TERM DEBT				
Bonds	18,000		18,000	
PWLB	119,980		118,206	
Stock & Other Minor Loans	22		22	
		138,002		136,228
Lancashire Council County – Transferred Debt		12,360		12,224
Recognition of Debt re PFI Arrangements		56,941		56,356
TOTAL DEBT		**207,303**		**204,808**
LESS: TEMPORARY LENDING				
Fixed Term		(62,200)		(65,000)
Instant Access		(23,267)		(24,867)
NET DEBT		**121,836**		**114,941**

5.3.1. The key elements of long term borrowing set out above are:

(a) £18M classed as bonds, borrowed from the money markets, largely in the form of "LOBO" (Lender Option, Borrower Option) debt. The individual loans remaining range from 4.35% to 4.75%, at an average of around 4.48%.

(b) £118.2M borrowed from the PWLB at fixed rates, at an overall average rate of around 3.87%. Loans repayable on maturity range from 3.06% to 7.875%, and EIP (Equal Instalment of Principal) loans from 1.73% to 3.35%.

(c) Debt managed by Lancashire County Council after Local Government Reorganisation, which is repaid in quarterly instalments across the year, charged provisionally at 4.00%.

(d) Debt recognised on the balance sheet as a result of accounting adjustments in respect of bringing into use school buildings financed through Public Finance Initiative (PFI) arrangements. The Council's effective control over, and use of these assets is thereby shown "on balance sheet", with corresponding adjustments to the debt. This does not add to the costs faced by the Council Tax Payer as these payments made to the PFI contractor are largely offset by PFI grant funding from the Government.

5.4. Capital Financing Requirement

5.4.1. The Council's CFR (Capital Financing Requirement) is the key measure of the Council's borrowing **need** in the long term. It is

(c) the accumulated need to borrow **to finance capital spend** (not funded from grants, etc.) ***less***
(d) the accumulated Minimum Revenue Provision (MRP) charges already made - councils must make a prudent MRP charge in their accounts each year, to finance their debt - ***less***
(e) any capital receipts applied to finance outstanding debt.

and therefore tends to increase if capital spend financed from borrowing exceeds MRP.

5.4.2. The Council's actual long-term debt is significantly below the CFR – the gap has widened as long-term debt has been repaid. We have been using "internal borrowing" from available revenue cash balances to partly cover this gap which, despite the foregone investment income, has resulted in net interest savings. The position is summarised in the table below.

	2022/23 Actual £M	31 Mar 2024 Forecast £M
General Fund CFR	281.2	283.3
Less: CFR re Debt -		
Managed by Lancashire County Council (LCC)	(14.8)	(14.5)
Re Private Finance Initiative (PFI) Arrangements	(68.9)	(68.7)
Loans/Borrowing CFR	**197.5**	**203.1**
Less: Usable Reserves and Working Capital	(110.3)	(119.9)
Net Borrowing (excludes LCC and PFI debt)	**87.2**	**83.2**

5.4.3. 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.

5.4.4. Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. These changes align the CIPFA Prudential Code with the PWLB lending rules.

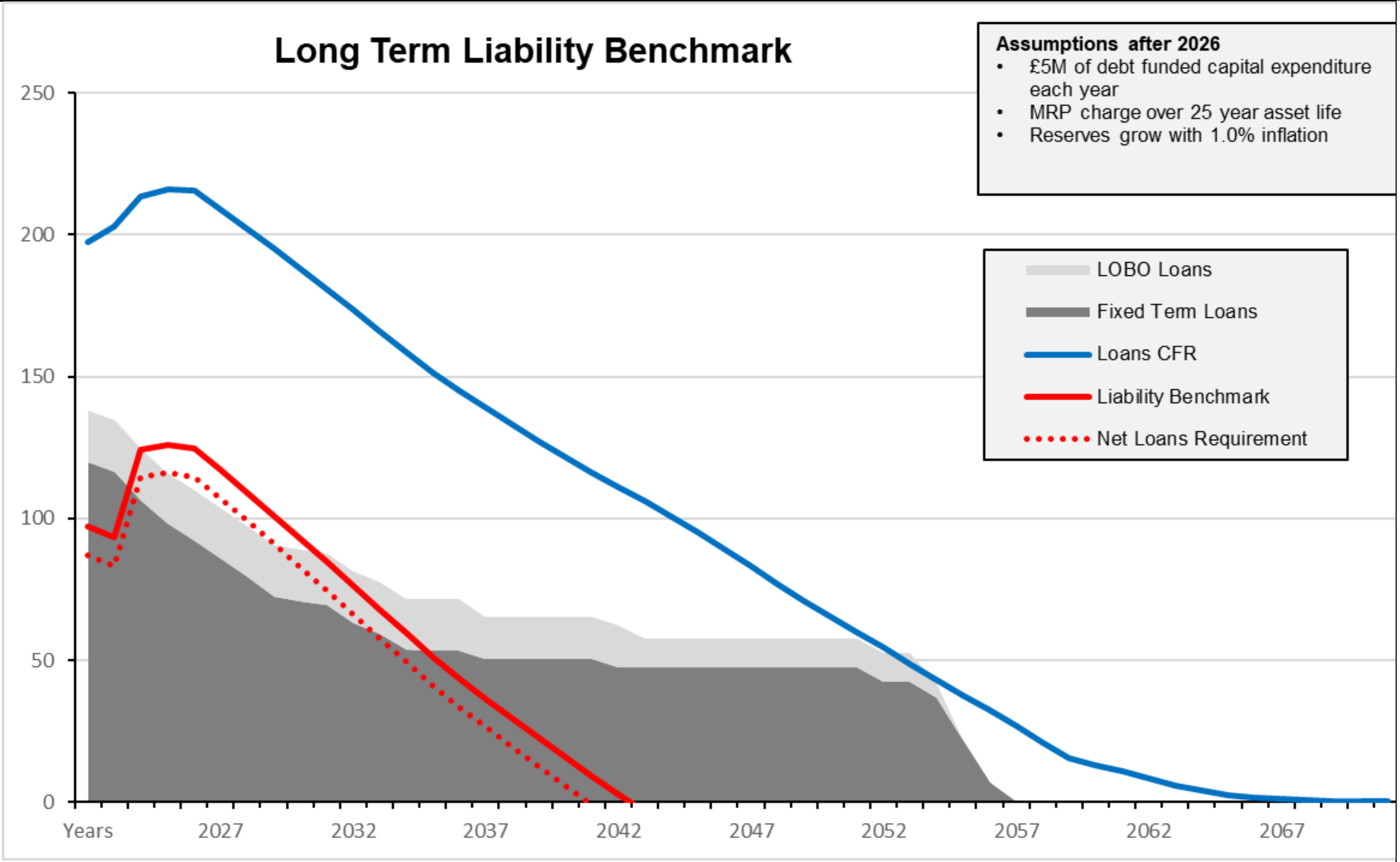
5.4.5. The Authority has not invested in assets primarily for financial return or that are not primarily related to the functions of the Authority, and has no plans to do so in future.

5.5. Liability Benchmark

5.5.1. The liability benchmark compares the Authority'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.

	31.3.23 **Actual**	**31.3.24** **Forecast**	**31.3.25** **Forecast**	**31.3.26** **Forecast**
Loans CFR	197.5	203.1	213.4	216.1
Less: Balance sheet resources	(110.3)	(119.9)	(99.0)	(100.0)
Net loans requirement	87.2	83.2	114.4	116.1
Plus: Liquidity allowance	10.0	10.0	10.0	10.0
Liability benchmark	**97.2**	**93.2**	**124.4**	**126.2**
Existing borrowing	**138.0**	**134.6**	**124.4**	**116.2**

5.5.2. Following on from the medium-term forecast above, the long-term liability benchmark assumes capital expenditure funded by borrowing of £5m a year, minimum revenue provision on new capital expenditure based on a 25 year asset life and income, and expenditure and reserves all increasing by inflation of 1% p.a. This is shown in the chart below together with the maturity profile of the Authority's existing borrowing.



5.6. <u>Performance against Prudential and Treasury Indicators</u>

5.6.1. Appendix 3 shows the current position against the Treasury and Prudential Indicators set by the Council for the current year.

5.6.2. With regard to the movement in the key indicator, Total Borrowing against the Authorised Borrowing Limit, this is shown as the first graph in Appendix 4. Total borrowing at 30st Sept 2023 was £204.8M, which is below both our Operational Boundary (£301.8M) and our Authorised Borrowing Limit (£311.8M) for 2023/24.

5.6.3. During the period we have remained **within** both our Operational Boundary – which is set for management guidance – and the (higher) Authorised Borrowing Limit. The Authorised Limit is the key Prudential Indicator – any borrowing cannot be taken if this Limit is (or would be caused to be) breached.

5.6.4. This total debt includes the impact on the balance sheet of the recognition of assets that have been financed through PFI. The accounting adjustments are designed to show our effective long-term control over the assets concerned, and the "indebtedness" arising from financing the cost of them. They do not add to the "bottom line" cost met by the Council Tax Payer.

5.6.5. While the Council currently has no short-term borrowings, it may in the future hold part of its debt portfolio in loans of less than a year's duration, as short-term loans can still represent a relatively cheap way to fund marginal changes in the Council's debt requirements. This remains under review, with regular updates from the Council's treasury management advisors, Arlingclose.

Interest Risk Exposures

5.6.6. Our **Variable Interest Rate Exposure** (see second graph at Appendix 4) ended the period at -£76.9M, against the **limit** set for this year of £92.8M.

5.6.7. This indicator exists to ensure that the Council does not become over-exposed to changes in interest rates impacting adversely on its revenue budget. The limit is set to allow for short as well as long term borrowing, and takes:
(a) all variable elements of borrowing (including short term borrowing – up to 364 days – and any LOBO debt at risk of being called in the year), which is then offset by
(b) any lending (up to 364 days).

5.6.8. The Variable Interest Rate Exposure is negative (£-76.9M) as our variable rate lending is currently higher than our variable rate borrowing.

5.6.9. Our **Fixed Interest Rate Exposure** was around £123.2M, against the **limit** of £212.1M. This indicator effectively mirrors the previous indicator, tracking the Council's position in terms of how much of the debt will not vary as interest rates move. The historically low interest rates prevailing over recent decades led the Council to hold a large part of its debt in this way.

5.6.10. This limit was set to allow for the possibility of much higher levels of new long-term, fixed rate borrowing.

Other Indicators

5.6.11. Forecast Capital Expenditure is detailed in the Quarterly Corporate Capital Budget and Balance Sheet Monitoring Report to Executive Board, which is also on the agenda for this meeting, and includes an analysis of all movements since the Capital Programme was approved by Finance Council on 27th February 2023.

5.6.12. Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP repayments are charged to revenue. The net annual charge is known as the Financing Cost; within the Prudential Indicators, this is compared to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

5.6.13. A new indicator was added to the Prudential Code for 2023/24, which compares net income from commercial and service investments to the net revenue stream i.e. the amount funded from Council Tax, business rates and general government grants.

6. TREASURY MANAGEMENT STRATEGY FOR THE REMAINDER OF THE YEAR

6.1. The 2023/24 Strategy sought to minimise borrowing costs, in the context of the Council's long-term debt being considerably lower than its accumulated Capital Financing Requirement (CFR), with the difference being covered by the use of any available balances.

6.2. When the Strategy was written, it was expected that both short and long-term interest rates would rise throughout the financial year, and it was therefore likely to be more cost effective to maximise the use of internal resources in order to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. This position remains unchanged.

Investment

6.3. Both the CIPFA Code and government guidance require that funds be invested prudently, and with regard to security and liquidity, 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.

6.4. The Council's Investment Criteria allow investment in a range of other organisations and structures, but as there are limited opportunities for straightforward trading in Secured Deposits, and as priority is given to maintaining liquidity, short-dated and simpler options are mainly used. Investments are made in: fixed term deposits and instant access accounts with banks and building societies; instant access Money Market Funds; and fixed term deposits with local authorities and the UK Government's Debt Management Office. It is expected that these will continue to be the main investment options taken up across the remainder of the year.

6.5. It is proposed that there be no changes to the existing Investment Criteria and Investment Counterparty Limits.

Borrowing

6.6. The Council's key objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans, should long-term plans change is a further, secondary objective.

6.7. In keeping with these objectives, no new borrowing was undertaken in the first half of the year. This strategy enabled the Authority to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

6.8. It is proposed that the Borrowing Strategy remain unchanged, with the Council looking to take new borrowing as determined by cash flow requirements and by reference to movements in actual and projected long-term interest rates.

Risk Management

6.9. The Council's main objective for the management of its investments is to give priority to the security and liquidity of its funds before seeking the best rate of return. Therefore, most surplus cash is held in short-term investments with government bodies, and with highly rated banks and pooled funds. In addition, the Council can hold investments that entail a slightly higher level of risk, but such risks are mitigated by limiting the amount and duration of exposure.

6.10. The Council's main objective for the management of its debt is to ensure its long-term affordability. The largest portion of its loans are from the PWLB at long-term fixed rates of interest.

6.11. Another significant element of the Council's long-term debt is £18M of loans from banks and other institutions. £13M worth are "lender's option, borrower's option" (LOBO) loans, under which the Lender can, at pre-determined times, exercise an Option to increase the rate payable on the debt, and the Borrower has the Option to either accept the proposed increase or repay the whole loan.

These loans have interest rates fixed at levels that were relatively low when they began, but if the Lender Option is exercised, the Borrower would have to deal with whatever interest rates are at a later date. This exposes the Council to some risk of rising long-term interest rates, but that is mitigated by the fact that £5M of this debt (forming a large part of the lowest interest rate elements) can only be "called" once in every five years. Recent movements in interest rates have increased the likelihood of the options on these loans being exercised. The Council holds £8M of LOBO loans with option dates within the next 6 months. The Council continues to review these loans and the opportunities available, should the options be exercised.

6.12. A combination of short duration investments and long duration debt exposes the Council to the risk of falling investment income during periods of low interest rates. This is not a concern in the current financial year because interest rates are high, however, even if interest rates were to fall, the risk of low investment returns is viewed as lower priority compared to the benefits of optimising the security and liquidity of investments, and the savings made on borrowing costs.

Indicators

6.13. The previously approved Indicators were set at cautious levels and can remain unchanged.

6.14. The Council has complied with the Limits and Indicators it has set, and expects to do so over the remainder of the year.

7. POLICY IMPLICATIONS

None

8. FINANCIAL IMPLICATIONS

The financial implications arising from Treasury Management activities are reflected in the Council's overall Budget Strategy, and in ongoing budget monitoring throughout the year.

9. LEGAL IMPLICATIONS

The report is in accordance with the CIPFA code and therefore is in accordance with the Financial Procedure Rules under the Council's Constitution.

10. RESOURCE IMPLICATIONS
None

11. CONSULTATIONS
None

12. STATEMENT OF COMPLIANCE
The recommendations are made further to advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation and an equality analysis and impact assessment has been considered. The recommendations reflect the core principles of good governance set out in the Council's Code of Corporate Governance.

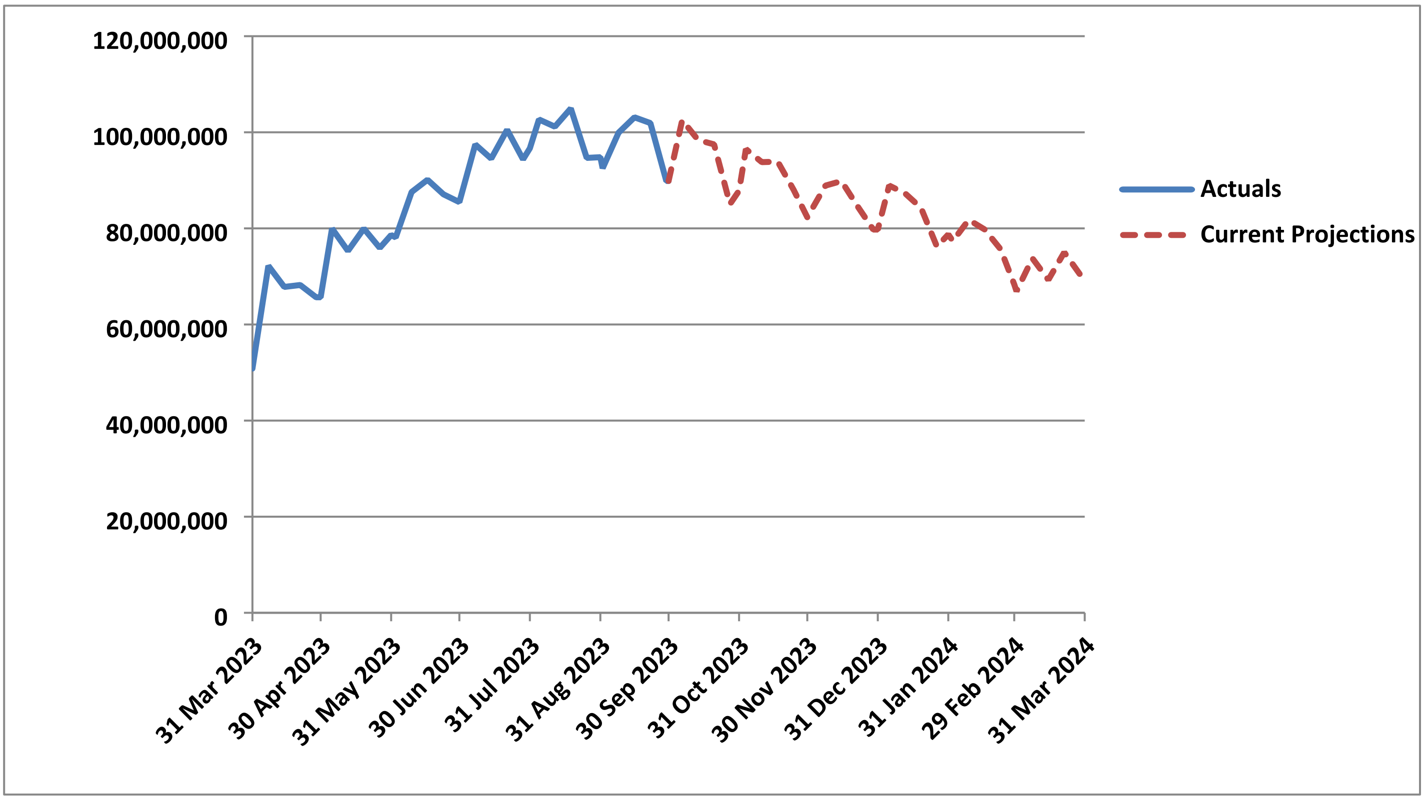
VERSION:	**0.01**

CONTACT OFFICER:	Nikki Bell – Finance Manager – extn 267680 Jenny Bradley – Senior Finance Manager – extn 267681 Simon Ross – Head of Finance – extn 585569
	Oct 2023
BACKGROUND PAPERS:	CIPFA Guidance - CLG Investment Guidance - Council Prudential Indicators for 2023/24 approved by Council 27th February 2023 - Council Treasury Management Strategy for 2023/24 approved by Executive Board 9th March 2023

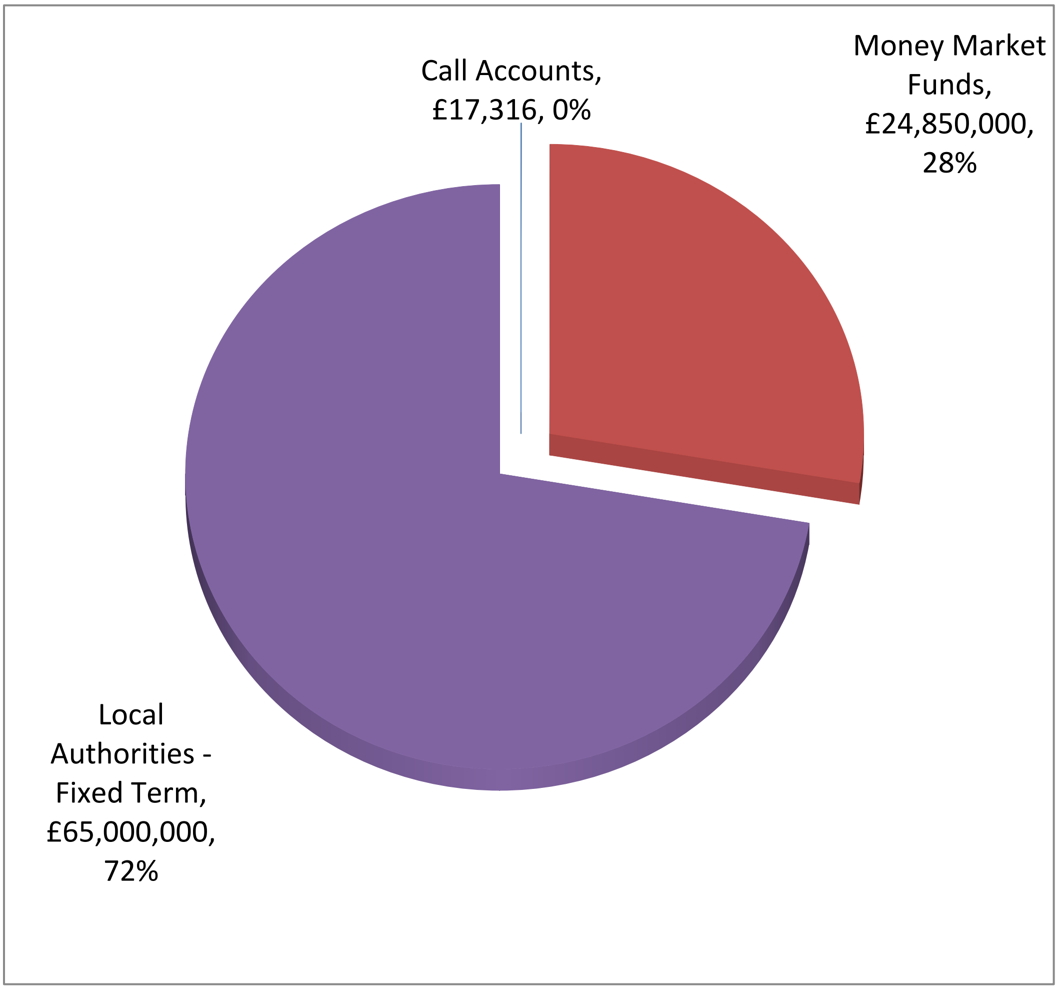
Weekly Investment Balances

Appendix 1

2023/24 (April 2023 to September 2023)



Investments at 30th September 2023



Performance against Treasury & Prudential Indicators 2023/24 (approved by Council 27th February 2023 / Executive Board 9th March 2023) **Appendix 3**

	Indicator 2023/24	As Approved Mar 23	Current Monitoring	Commentary
	Estimated Capital Expenditure	£42.3M	£59.2M	Current monitoring includes slippage from 2022/23 and new schemes approved in the first two quarters of the year, as detailed in the Corporate Capital Budget and Balance Sheet Monitoring Report.
	Estimated Total Capital Financing Requirement at End of Year	£291.8M (incl projections re LCC debt £14.5M, PFI debt £68.7M)	£286.3M (incl projections re LCC debt £14.6M, PFI debt £68.7M)	
	Estimated Ratio of Financing Costs to Net Revenue Stream	10.6%	8.7%	
	Proportion of Net income from Commercial and Service Investments to Net Revenue Stream	0.3%	1.0%	
	Outturn External Debt Prudential Indicators	LCC Debt 14.8M PFI Elements (no lease) 68.9M Remaining Elements 218.1M **Operational Boundary 301.8M** **Authorised Borrowing Limit 311.8M**	**Borrowing to Date £M** LCC Debt 12.2 PFI Elements 56.4 BwD 136.2 **Total 204.8**	Operational boundary and authorised borrowing limit have not been breached during the year.
	Variable Interest Rate Exposure	£92.8M	Exposure to Date -£76.9M	Limit not breached during the year.
	Fixed Interest Rate Exposure	£212.1M	Exposure to Date £123.2M	Limit not breached during the year.

<table>
<tr><td></td><td>Prudential Limits for Maturity Structure of Borrowing</td><td>

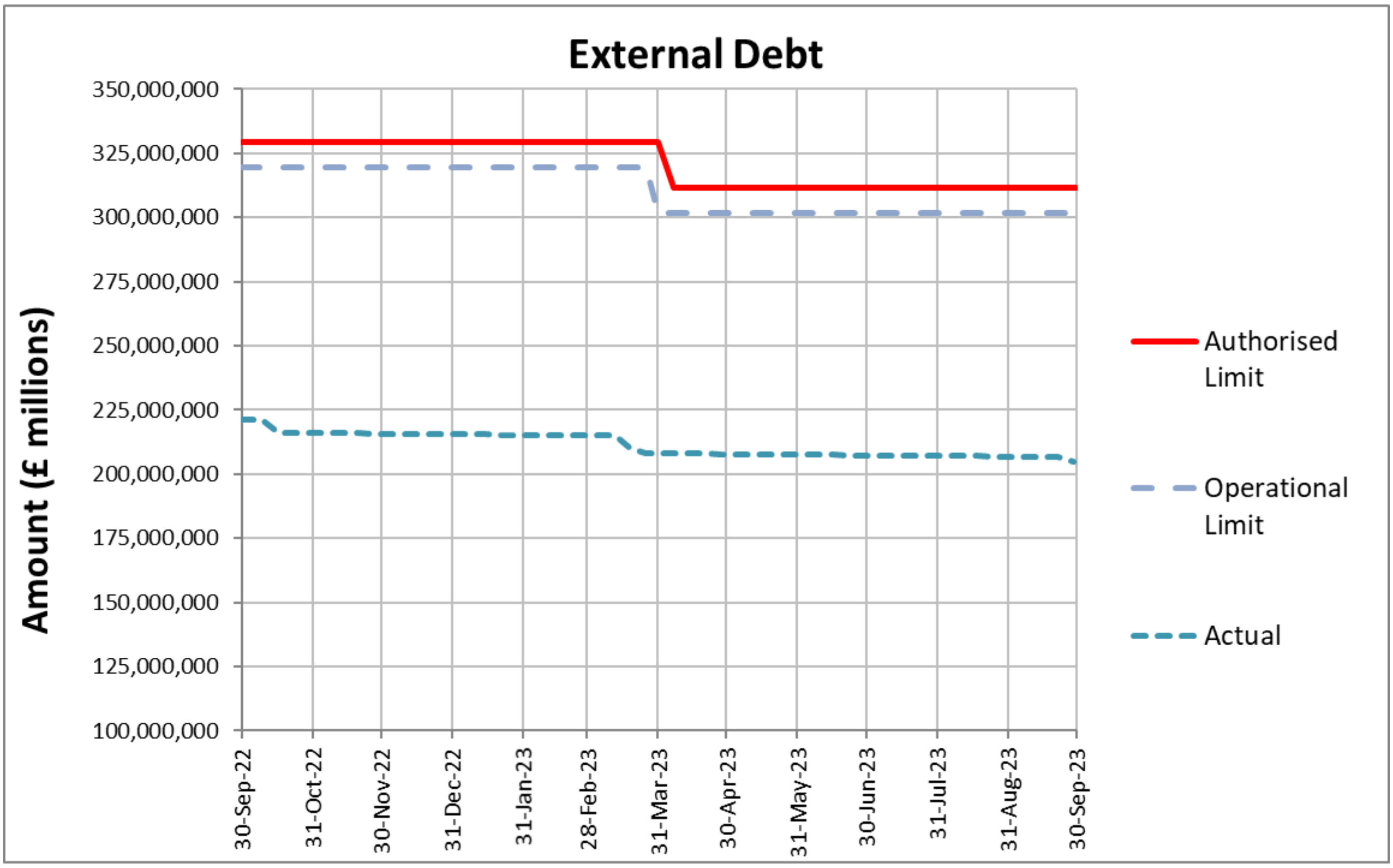
Lower Limit	Upper Limit	Period (Years)
0%	50%	<1
0%	30%	1-2
0%	30%	2-5
0%	30%	5-10
20%	95%	>10

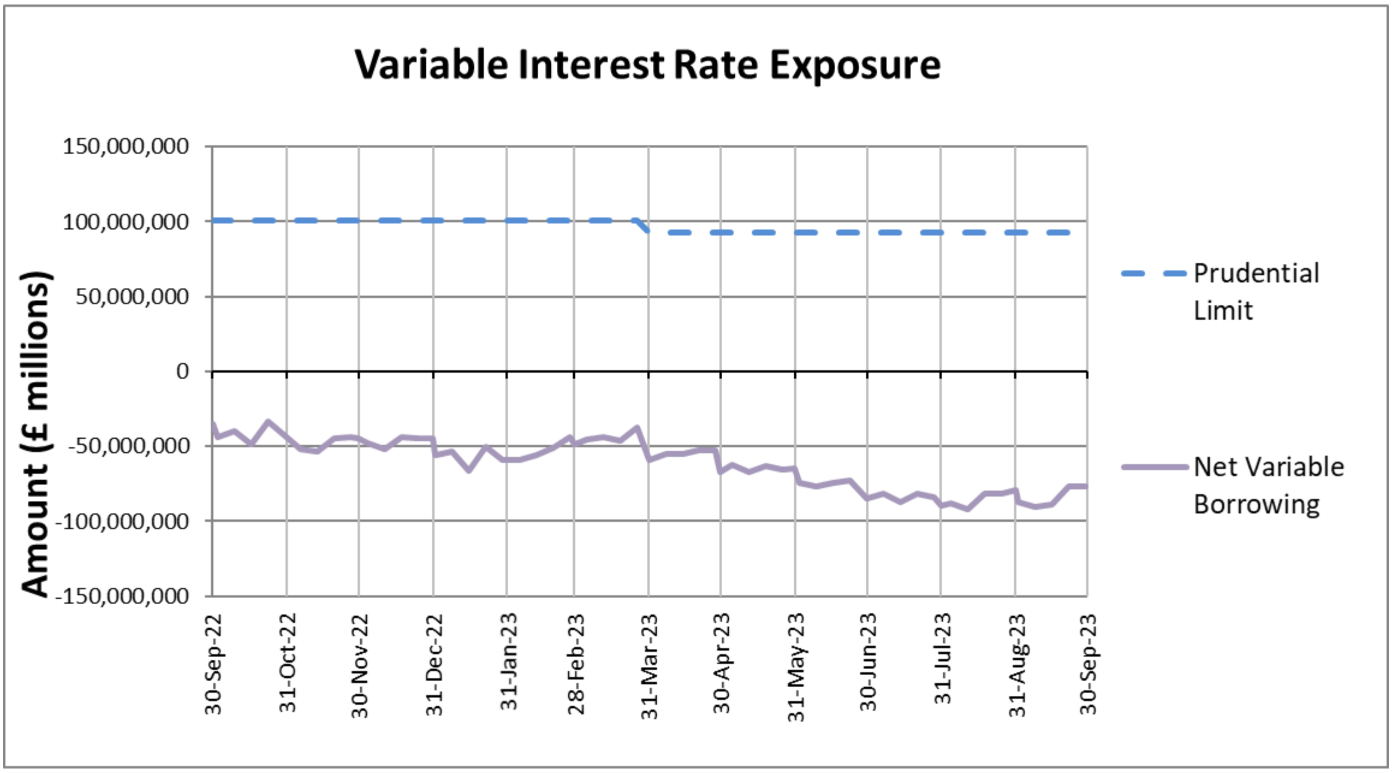
</td><td>

Actual Maturity Structure to Date		
Period (Years)	£M	%
<1	21.2	15.6%
1-2	10.2	7.5%
2-5	19.6	14.4%
5-10	17.7	13.0%
>10	67.6	49.6%
Total	**136.2**	**100%**

</td><td>No limits breached during the year.</td></tr>
<tr><td></td><td>Total Investments for Longer than 364 Days</td><td>£7M</td><td>No Long Term Investments Made</td><td></td></tr>
</table>

Movements in Prudential Indicators – Total Debt and Variable Interest Exposure
Year to 30th September 2023





<u>Investment Rates</u>
The interest rates for durations of less than a year are represented by LIBID (London Interbank Bid Rate), a reference rate measuring levels at which major banks are prepared to borrow from one another. This is a potential benchmark for the return on the Council's investments, though the rates actually available are constrained by the Council's investment criteria and largely short term investment horizon, designed to ensure cash is available when required.

<u>Borrowing Rates</u>
To indicate the potential costs of borrowing to fund the Council's capital programme, the reference point is Public Works Loans Board (PWLB) borrowing rates. The benchmark used is for "Certainty Rate" borrowing of "Maturity" Loans (loans of fixed lump sums, at fixed rates, over periods from 1 to 50 years).
The PWLB is the statutory body which lends to public bodies from Government resources – the Government has declared that it will be abolished at some point in the future, but that the facility for lending at good value will be continued - no date has been proposed for the change.

PWLB Loans - Fixed rate loans are repayable by one of three methods:
(a) **Maturity**: half-yearly payments of interest only, with a single repayment of principal at the end of the term.
(b) **Annuity**: fixed half-yearly payments to include principal and interest or
(c) **EIP (Equal Instalments of Principal)**: equal half-yearly instalments of principal together with interest on the balance outstanding at the time.

Certainty Rates - a discount - currently 0.20% - is available on new PWLB borrowing to local authorities completing an information request on borrowing intentions to Central Government.

Current PWLB rates have no impact so long as no new longer term borrowing is taken, as all the Council's existing long term debt is at fixed rates.

LOBO - LOBO stands for Lender Option, Borrower Option. It means that the lender can increase the interest rate, which gives the borrower the option to repay the loan in full without penalty fees. Public bodies used to be only able to borrow money through government Public Works Loan Board (PWLB) loans, however borrowing from banks in the form of LOBOs was permitted from the early 2000s. LOBOs were made available with low rates (cheaper than then available PWLB rates) so they appeared to be an attractive alternative.

LOBOs have provoked criticism because of high initial profits to the lender from day one, and high subsequent interest rates. It is difficult to exit LOBO loans early unless the lender is in agreement, so they are less flexible, and there is a risk that if/when they are "called", the borrower may find itself having to refinance debt at high rates.
This Council always limited the scale of LOBO borrowing taken, so that it formed part of an overall balanced debt portfolio, while bringing the advantage of initial lower rates.

PFI - The private finance initiative is a way of creating "public–private partnerships" (PPPs) by funding public infrastructure projects with private capital.

BSF - Building Schools for the Future (BSF) was the name given to Central Government's investment programme in secondary school buildings in England in the 2000s. In Blackburn with Darwen, the schools funded through this scheme are Witton Park High School, Blackburn Central High School and Pleckgate High School.

Prudential Indicators

Prudential Indicators are established mainly to allow members to be informed of the impact of capital investment decisions and to establish that the proposals are affordable, prudent and sustainable. In addressing the debt taken on by the Council, the indicators also deal with treasury issues, in particular the absolute level of debt being taken on (through the Authorised and Operational Borrowing Limits).

It should be noted that a "breach" of a prudential indicator is not necessarily a problem for the Council. Some indicators are more crucial that others, particularly in terms of their impact. If we spend more on the capital programme in total, that is not necessarily a problem if it has no adverse revenue consequences, for instance. Similarly, if we breach the indicator relating to variable interest rate exposure, this can just point to the balance of different types of debt taken up (between at fixed or variable interest rates) being significantly different from that anticipated when the indictor was set.

On the other hand, the Council's ability to borrow from the PWLB is constrained by needing to remain within the Authorised Borrowing Limit the Council has set for itself. If it became necessary to re-shape the Council's overall capital spending and borrowing strategy to the extent that the original Authorised Borrowing Limits were at risk of being breached, it would be necessary to obtain authority from full Council to change the borrowing limits.

Money Market Fund

A Money Market Fund is a type of fund investing in a diversified portfolio of short term, high quality debt instruments - provides benefit of pooled investment - assets are actively managed with very specific guidelines to offer safety of principal, liquidity and competitive returns - such funds “ring-fenced”, kept fully separate from the remainder of funds managed by the investment house running the fund.

Council only uses highly rated funds - **policy** is to limit to those with long-term credit ratings no lower than A-, but current **practice** is to only use AAA rated with daily access (like instant access bank accounts).