LONDON BOROUGH OF HARROW

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| **Report for:** | **Cabinet** |
| **Date of Meeting:** | 19 December 2023 |
| **Subject:** | Treasury Management Mid-Year Report 2023/24 |
| **Key Decision:** | No |
| **Responsible Officer:** | Sharon Daniels – Interim Director of Finance and Assurance |
| **Portfolio Holder:** | Councillor David Ashton - Portfolio Holder for Finance and Human Resources |
| **Exempt:** | No |
| **Decision subject to Call-in:** | No, as it is for noting only |
| **Wards affected:** | All wards |
| **Enclosures:** | Appendix 1 – Reference from Governance, Audit, Risk Management and Standards Committee, 29 November 2023 |

# Section 1 – Summary and Recommendations

This report provides a Mid-Year Update of the Council's Treasury Management activities in 2023/24 in compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice.

## Recommendations:

Cabinet is requested to:

1. Note the Treasury Management Mid-Year Position for 2023/24.

## Reason: (for recommendations)

a) To promote effective financial management and comply with regulations issued under the Local Government Act 2003, the CIPFA Code of Practice on Treasury Management, and the CIPFA Prudential Code for Capital Finance, along with meeting the requirements of the Council's Financial Regulations.

b) To keep Members informed of Treasury Management activities and performance to date for 2023/24.

# Section 2 – Report

## 1.0. Introduction

1.1. The purpose of this report is to update Members with the Council's Treasury Management activity in 2023/24, presenting performance to 30th September 2023 in accordance with the Council's Treasury Management Practices and in compliance with the CIPFA Treasury Management Code of Practice.

1.2. Treasury management comprises:

- Managing the Council's borrowing to ensure funding of the Council's current and future Capital Programme is at optimal cost;
- Investing surplus cash balances arising from the day-to-day operations of the Council to obtain an optimal return while ensuring security of capital and liquidity.

1.3. The annual revenue budget includes the revenue costs that flow from capital financing decisions. Under the CIPFA Treasury Management Code of Practice and the CIPFA Prudential Code, increases in capital expenditure should be limited to levels whereby increases in interest charges and running costs are affordable within the Council's revenue account.

1.4. The Council regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its treasury management activities will be measured. Accordingly, the analysis and reporting of treasury management activities will focus on their risk implications for the organisation to ensure the security and liquidity of the Council's treasury investments.

1.5. The Council recognises that effective treasury management will provide support towards the achievement of its business and service objectives. It is therefore committed to the principles of achieving value for money in treasury management, and to employing suitable comprehensive performance measurement techniques, within the context of the CIPFA Treasury Management Code of Practice.

## 2.0. Reporting Requirements

2.1. The Council and/or Cabinet are required to receive and approve, as a minimum, three main reports each year, which incorporate a variety of policies, estimates and actuals.

2.2. **Treasury Management Strategy Statement Report** – The first, and most important report is presented to the Council in February and covers:

- The Treasury Management Strategy Statement (TMSS), which details how the investments and borrowings for capital expenditure are to be organised, including Treasury Limits and Prudential Indicators.
- The Annual Investment Strategy which forms part of the TMSS, (the parameters on how investments are to be managed).
- the MRP Policy (how capital expenditure is charged to revenue over time).

**The 2023/24 TMSS was presented to Council on 23 February 2023.**

2.3. **Mid-Year Review Report** – This is presented to Cabinet in December/January and updates Members on the progress of the Capital Programme, reporting on Prudential Indicators to give assurance that the treasury management function is operating within the Treasury Limits and Prudential Indicators set out in the TMSS.

**This report fulfills the requirements of the the Mid-Year Review for 2023/24.**

2.4. **Treasury Management Outturn Report** – This is typically presented to Cabinet in June/July and provides details of a selection of actual prudential and treasury indicators and actual treasury operations compared to the estimates within the TMSS and Mid-Year Reports.

**Scrutiny** – The above reports are required to be adequately scrutinised, normally before being recommended to Cabinet/Council, with the role being undertaken by the Governance, Audit, Risk Management and Standards Committee (GARMS). The Council has complied with the CIPFA Treasury Management Code of Practice to the extent that all Treasury Management reports have been scrutinised.

2.5. The Council has delegated responsibility for the implementation and regular monitoring of its treasury management policies and practices to the Section 151 Officer. The Section 151 Officer chairs the Treasury Management Group (TMG), which monitors the treasury management activity and market conditions monthly.

## 3.0. Options considered

3.1. The report is in accordance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

## 4.0. Treasury Management Strategy Statement and Annual Investment Strategy Update

4.1. The Treasury Management Strategy Statement, (TMSS), for 2023/24 was approved by Council on 23 February 2023.

4.2. There are no policy changes proposed to the TMSS approved for 2023/24; the details in this report update the position in the light of the updated economic environment, budgetary changes and revised capital programme outturn forecast contained in the 2023/24 Q2 Revenue and Capital Budget Monitoring Report also presented at this meeting.

## 5.0. Compliance with Prudential Indicators

5.1. It is a statutory duty for the Council to determine and keep under review its affordable borrowing limits. The Council has operated within the Treasury and Prudential Indicators set out in the Council's Treasury Management Strategy Statement for 2023/24 during the half year ended 30 September 2023 (and up to 21 November 2023 at the point this report was despatched).

5.2. All treasury management operations have been conducted in full compliance with the Council's Treasury Management Practices.

**Prudential Indicator for Capital Expenditure**

5.3. The Council's Capital Programme is a key driver of Treasury Management activity. The output of the Capital Programme is reflected in the statutory prudential indicators, which are designed to provide Member's with an overview of the impact of the capital expenditure plans and ensure that these remain prudent, affordable and sustainable.

5.4. Table 1 shows the revised budget and the forecast outturn for 2023/24. The original budget for 2023/24 was agreed at Council in February 2023. The revised budget reflects updates to the 2023/24 original budget to reflect slippage from the 2022/23 capital outturn which has been rolled forward into 2023/24. The forecast outturn reflects the estimated capital spend for the full year.

**Table 1 - Capital Expenditure**

| Capital expenditure | 2023/24 Revised Budget £'000 | 2023/24 Forecast Outturn £'000 |
|---|---|---|
| **General Fund** | | |
| Resources Directorate | 11,026 | 7,253 |
| People's Directorate | 19,269 | 9,978 |
| Place Directorate | 75,729 | 50,581 |
| **General Fund** | **106,024** | **67,812** |
| HRA | 57,505 | 44,628 |
| **Total** | **163,529** | **112,440** |

5.5. The 2023/24 Q2 Capital Budget Monitoring Report provides further details of the updated forecast outturn position.

**Changes to the Financing of the Capital Programme**

5.6. Table 2 illustrates how the Council’s capital expenditure plans (table 1) will be funded. The net financing need for the year increases the underlying indebtedness of the Council by way of the Capital Financing Requirement (CFR), although this will be reduced in part by revenue charges for the repayment of debt (the Minimum Revenue Provision). This direct borrowing need may also be supplemented by maturing debt and other treasury requirements.

**Table 2 - Financing of Capital Expenditure**

| Financing of capital expenditure | 2023/24 Revised Budget £'000 | 2023/24 Forecast Outturn £'000 |
|---|---|---|
| **General Fund**<br>Capital Receipts | 0 | 0 |
| Capital Grants | 34,621 | 24,373 |
| BCiL | 5,408 | 3,992 |
| NCiL | 966 | 966 |
| Section 106 | 1,091 | 741 |
| Revenue | 0 | 0 |
| **External Funding** | **42,086** | **30,072** |
| **General Fund Net financing need for year** | **63,938** | **37,740** |
| **Total General Fund** | **106,024** | **67,812** |
| **HRA**<br>Capital Receipts | 5,282 | 5,282 |
| Capital Grants | 3,804 | 3,748 |
| Section 106 | 1,835 | 1,835 |
| Revenue | 17,579 | 13,142 |
| **External Funding** | **28,500** | **24,007** |
| **Net financing need for year (HRA)** | **29,005** | **20,621** |
| **Total HRA** | **57,505** | **44,628** |
| **GF & HRA Net Financing need for year** | **92,943** | **58,361** |

**Capital Financing Requirement (CFR)**

5.7. The CFR is the total historic outstanding capital expenditure incurred by the Council, which has not yet been paid for from either revenue or capital resources such as grant or other external funding and it is essentially a measure of the Council's underlying borrowing need. Any new capital expenditure, which requires funding from borrowing, will increase the CFR. The Council makes an annual charge to the revenue budget for the repayment of its debt liability, the Minimum Revenue Provision, which acts to reduce the CFR and charge prudential borrowing to the General Fund over time.

5.8. The Original Capital Financing Requirement for 2023/24 as reported in the Treasury Management Strategy Statement report to Cabinet in February 2023 was £644m as follows:

**Table 3 - Capital Financing Requirement**

| Capital Financing Requirement £'000 | 2023/24 Original Estimate |
|---|---|
| CFR – General Fund | 457,932 |
| CFR – HRA | 186,183 |
| **Total CFR** | **644,115** |

5.9. Table 4 reflects the latest projections for the 2023/24 CFR based on the both the revised budget for 2032/24 and the forecast outturn from the 2023/24 Q2 Capital Budget Monitoring Report, (summarised in tables 1 and 2). The revised CFR figure for 2023/24 incorporates the impact of the slippage from 2022/23 which was approved to be carried forward into 2023/24 by cabinet in July 2023.

5.10. The starting point to arrive at the revised CFR is the actual CFR as at 31st March 2023. The actual CFR at 31.3.2023 was £579.708m (£418.900m GF & £160.808m HRA). The CFR based on the revised budget for 2023/24 of £649.934m in Table 4 is arrived at by increasing the actual CFR of £579.708m by £92.943m (for an increase in net financing need) but reducing it by £22.717m which is the Minimum Revenue Provision (MRP).

**Table 4 – Capital Financing Requirement**

| **Capital Financing Requirement**<br><br>**£'000** | **2023/24 CFR based on Revised Capital Budget** | **2023/24 CFR based on Forecast Outturn** |
|---|---|---|
| CFR – General Fund | 460,121 | 433,972 |
| CFR – HRA | 189,813 | 181,429 |
| **Total CFR** | **649,934** | **615,401** |
| **Movement in CFR from 2022/23** | **70,226** | **35,693** |

| **Movement in CFR represented by** | | |
|---|---|---|
| Net financing need for the year (table 2) | 92,943 | 58,361 |
| Less MRP/VRP and other financing movements | -22,717 | -22,668 |
| **Movement in CFR** | **70,226** | **35,693** |

**Authorised Limit and Operational Boundary**

5.11. No changes have been proposed to the Council's Operational Boundary and Authorised Limit which were approved as part of the 2023/24 TMSS on 23 February 2023.

Operational Boundary

5.12. This limit is based on the Council's programme for capital expenditure, Capital Financing Requirement and cash flow needs for the year. It is the limit beyond which external debt is not normally expected to exceed.

**Table 5 – Operational Boundary**

| **Operational boundary £'000** | **2023/24** |
|---|---|
| Borrowing | 644,115 |
| Other long-term liabilities | 13,471 |
| **Total** | **657,586** |

Authorised Limit

5.13. This is a key prudential indicator and represents a control on the maximum level of borrowing. This represents a legal limit beyond which external debt is prohibited, and this limit needs to be set or revised by full Council.

5.14. It is the statutory limit determined under section 3(1) of the Local Government Act 2003. Under the Act, the Government retains an option to control either the total of all councils' plans, or those of a specific council, although this power has not yet been exercised.

**Table 6 – Authorised limit**

| Authorised limit £'000 | 2023/24 |
|---|---|
| Borrowing | 674,115 |
| Other long-term liabilities | 23,471 |
| **Total** | **697,586** |

## 6.0. Economic Update

6.1. The first half of 2023/24 saw Interest rates rise by a further 100bps, taking Bank Rate from 4.25% to 5.25% and, possibly, the peak in the tightening cycle. At the Bank of England's latest meeting on 2nd November, the rate remained unchanged at 5.25%.

6.2. CPI inflation fell from 8.7% in April to 6.7% in September, its lowest rate since February 2022.

**Interest Rate Forecast**

6.3. The PWLB rate forecasts below are based on the Certainty Rate (the standard rate minus 20 bps) which has been accessible to most authorities since 1st November 2012.

6.4. The latest forecast on 25th September sets out a view that short, medium and long-dated interest rates will be elevated for some little while, as the Bank of England seeks to squeeze inflation out of the economy.

| Link Group Interest Rate View | 25.09.23 | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Dec-23 | Mar-24 | Jun-24 | Sep-24 | Dec-24 | Mar-25 | Jun-25 | Sep-25 | Dec-25 | Mar-26 | Jun-26 | Sep-26 | Dec-26 |
| BANK RATE | 5.25 | 5.25 | 5.25 | 5.00 | 4.50 | 4.00 | 3.50 | 3.00 | 2.75 | 2.75 | 2.75 | 2.75 | 2.75 |
| 3 month ave earnings | 5.30 | 5.30 | 5.30 | 5.00 | 4.50 | 4.00 | 3.50 | 3.00 | 2.80 | 2.80 | 2.80 | 2.80 | 2.80 |
| 6 month ave earnings | 5.60 | 5.50 | 5.40 | 5.10 | 4.60 | 4.10 | 3.60 | 3.10 | 2.90 | 2.90 | 2.90 | 2.90 | 2.90 |
| 12 month ave earnings | 5.80 | 5.70 | 5.50 | 5.20 | 4.70 | 4.20 | 3.70 | 3.20 | 3.00 | 3.00 | 3.00 | 3.00 | 3.00 |
| 5 yr PWLB | 5.10 | 5.00 | 4.90 | 4.70 | 4.40 | 4.20 | 4.00 | 3.90 | 3.70 | 3.70 | 3.60 | 3.60 | 3.50 |
| 10 yr PWLB | 5.00 | 4.90 | 4.80 | 4.60 | 4.40 | 4.20 | 4.00 | 3.80 | 3.70 | 3.60 | 3.60 | 3.50 | 3.50 |
| 25 yr PWLB | 5.40 | 5.20 | 5.10 | 4.90 | 4.70 | 4.40 | 4.30 | 4.10 | 4.00 | 3.90 | 3.80 | 3.80 | 3.80 |
| 50 yr PWLB | 5.20 | 5.00 | 4.90 | 4.70 | 4.50 | 4.20 | 4.10 | 3.90 | 3.80 | 3.70 | 3.60 | 3.60 | 3.60 |

# 7.0. Treasury Position as at 30 September 2023

**Investments**

7.1. In accordance with the CIPFA Treasury Management Code of Practice and DLUHC (Previously MHCLG) Investment Guidance, the TMSS sets out the Council's investment priorities as being:

- Security of capital
- Liquidity
- Yield

7.2. The Council will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity and with the Council's risk appetite. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit rated financial institutions.

**Table 7 - Investments & Returns**

| Investment Portfolio | 31-Mar-23 | | | 30-Sep-23 | | |
|---|---|---|---|---|---|---|
| | Principal (£'000) | Average Rate (%) | Average Life (days) | Principal (£'000) | Average Rate (%) | Average Life (days) |
| - UK Government | 29,000 | 3.99% | 7 | 42,050 | 5.21% | 8 |
| - MMFs | 1,651 | 4.11% | 3 | 40,008 | 5.27% | 2 |
| - Banks | 48,743 | 2.01% | 3 | 31,090 | 4.17% | 2 |
| **Total Investments** | **79,394** | **2.78%** | **4** | **113,148** | **4.94%** | **4** |

7.3. The Council held £113.1m of investments as at 30 September 2023 compared with £79m at 31 March 2023. The portfolio remains highly liquid with the yield reflecting the current market for liquid investments. The internal borrowing strategy of the Authority, focusing on minimising the net cost of borrowing, also prevents longer term investment with a consequential impact on investment return.

7.4. The Council's investment income budget for 2023/24 is £1.104m and the forecast outturn is £2.663m. This includes income from the £15m loan to the West London Waste Authority which the Council approved in July 2013 to finance the cost of a new energy waste plant. The term of the loan is 25 years at an interest rate of 7.604%. Loan balance when plant went live was £16.89m which included interest accrued from 2013 upto 2016. The loan balance at the 31 March 2023 was £14.91m.

7.5. During the period cash investments have been held with Royal London, DWS and Fidelity Money Market Funds, DMO, Lloyds, Royal Bank of Scotland PLC, and Handelsbanken. Counterparty use has been in accordance with the credit criteria set out in the TMSS. Officers can confirm that the approved limits within the Annual Investment Strategy have not been breached to the period of 21st November 2023.

7.6. There are no changes proposed to the Council's Investment Counterparty Criteria approved in the 2023/24 TMSS.

**Borrowing**

7.7. The Council continues to run an internal borrowing strategy with a borrowing portfolio of £417m (excluding £17.6m of PFI and Finance Lease Liabilities) which is below the actual CFR of £580m as at 31 March 2023 and the revised estimate of the CFR for 31 March 2024 of £615m, based on the forecast outturn for the period from the 2023/24 Q2 Capital Budget Monitoring Report.

7.8. The Authority's current borrowing portfolio has not changed since 31 March and no new borrowing has been undertaken in 2023/24 to date. It is very unlikely that any further borrowing will need to be taken out by 31st March 2024.

7.9. The forecast outturn on borrowing costs is £9.15m, a favourable variance of £1.13m on the budget of £10.28m, reflecting the continued internal borrowing strategy adopted by the Authority.

**Table 8: Borrowing Portfolio**

| Borrowing Portfolio £'000 | 31-Mar-23 | | | 30-Sep-23 | | |
|---|---|---|---|---|---|---|
| | Principal | Average Rate (%) | Average Life (yrs) | Principal | Average Rate (%) | Average Life (yrs) |
| - PWLB | 343,461 | 3.43% | 34.56 | 343,461 | 3.43% | 34.06 |
| - Market | 73,800 | 3.53% | 39.72 | 73,800 | 3.53% | 39.22 |
| Total borrowing | 417,261 | 3.45% | 35.48 | 417,261 | 3.45% | 34.97 |

7.10. The Director of Finance will continue to keep borrowing decisions under review.

7.11. The maturity structure of the debt portfolio remained within the Prudential Indicator limits set as part of the 2023/24 Treasury Management Strategy. The maturity structure table (9) below includes one Lenders Option Borrowers Option (LOBO) market loan for £20.8m at its next call date of 4th December 2023, which is the earliest date the lender can require repayment.

**Table 9: Maturity Structure of Borrowing**

| Maturity structure of borrowing | Lower | Upper | Actual 31.03.23 | Actual 30.09.23 |
|---|---|---|---|---|
| Under 12 months | 0% | 40% | 5% | 5% |
| 12 months to 2 years | 0% | 30% | 0% | 0% |
| 2 years to 5 years | 0% | 30% | 1% | 2% |
| 5 years to 10 years | 0% | 40% | 6% | 5% |
| 10 years and above | 30% | 100% | 88% | 88% |

## 8.0. Risk Management Implications

This report is for noting and Cabinet are not being asked to make any decisions. Hence there are no direct risk management implications to this report.

## 9.0. Procurement Implications

There are no procurement implications arising from this report.

## 10.0. Legal Implications

The Local Government Act 2003 requires the Council to 'have regard to' the Prudential Code and to set Prudential Indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. These are contained within this report.

The Act, accompanying statutory guidance and Codes of Practice referred to through capital financing regulations requires the Council to set out its treasury strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments. This report assists the Council in fulfilling its statutory obligation under the Local Government Act 2003 to monitor its borrowing and investment activities.

## 11.0. Financial Implications

In addition to supporting the Council's revenue and capital programmes the Treasury Management interest budget is an important part of the revenue budget. Any savings achieved, or overspends incurred, have a direct impact on the financial performance of the budget.

## 12.0. Equalities implications / Public Sector Equality Duty

There is no direct equalities impact.

## 13.0. Council Priorities

This report deals with the Treasury Management Strategy which plays a significant part in supporting the delivery of all the Council's corporate priorities.

# Section 3 - Statutory Officer Clearance

**Statutory Officer: Sharon Daniels**
Signed off by the Chief Financial Officer
**Date: 19/11/2023**

**Statutory Officer: Caroline Eccles**
Signed on behalf of the Monitoring Officer
**Date: 21/11/2023**

**Chief Officer: Alex Dewsnap**
Signed off by the Managing Director
**Date: 22/11/2023**

**Head of Procurement: Nimesh Mehta**
Signed off by the Head of Procurement
**Date: 22/11/23**

**Head of Internal Audit: Neale Burns**
Signed off on behalf of the Head of Internal Audit
**Date: 22/11/23**

**Has the Portfolio Holder(s) been consulted? Yes ☒**

## Mandatory Checks

**Ward Councillors notified:** NO, as it impacts on all Wards

**EqIA carried out:** NO – report is for information and not decision making.

**EqIA cleared by:** N/A

## Section 4 - Contact Details and Background Papers

**Contact:** Sharon Daniels – Interim Director of Finance & Assurance, Sharon.Daniels@harrow.gov.uk,

**Background Papers:** None

### Call-in waived by the Chair of Overview and Scrutiny Committee – N/A