Cabinet Report

Treasury Management Mid-Year Review 2023/24
24th October 2023

Report of Chief Finance Officer

PURPOSE OF REPORT					
This report seeks Cabinet's consideration of various matters in connection with the amendments to the Treasury Management Strategy for 2023/24 and the Treasury Management Mid-Year Review 2023/24.					
Key Decision		**Non-Key Decision**	x	**Referral from Cabinet Member**	
Date of notice of forthcoming key decision					
This report is public					

RECOMMENDATIONS:

That Cabinet

(1) Consider the various matters in connection with the amendments to the Treasury Management Strategy for 2023/24 and the Treasury Management Mid-Year Review 2023/24

(2) Forward the amendments to the Treasury Management Strategy for 2023/24 as set out in **Appendix B** on to Budget & Performance Panel for consideration and comment then to Full Council for approval in accordance with CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code.

(3) Forward the Mid-Year Review 2023/24 as set out in **Appendix C** on to Budget & Performance Panel and Full Council for consideration in accordance with CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code.

1.0 INTRODUCTION

1.1 The Council's Treasury Management Activities are regulated the CIPFA Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) issued under the Local Government Act 2003

1.2.1 During 2022/23 the minimum reporting requirements are that Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 23 February 2022)
- a mid-year (minimum) treasury update report (This report).
- an annual review following the end of the year describing the activity compared to the strategy

1.3 In addition, Members will receive treasury management update reports on which are presented to Cabinet and Budget and Performance Panel.

2.0 BACKGROUND

2.1 As part of the Treasury Management Strategy for 2023/24 approved by Council on 22 February 2023 an amended Minimum Revenue Provision (MRP) Policy in relation to 2022/23 enabling savings of £2M to be realised in that year.

2.2 In order to fully reflect the impact of the change in MRP policy in financial years 2023/24 to 2026/27 several of the prudential indicators included in the original approved Treasury Management Strategy for 2023/24 now require amendment. These amendments need to be considered by Budget & Performance Panel and referred on the Full Council for approval.

2.3 The Mid-Year Review (Appendix A) sets out the performance of treasury operations for the first six months of the 2022/23 financial year in terms of long and short-term borrowing, investment activities and relevant borrowing limits and prudential indicators.

2.4 Under CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) it is a requirement that an information report on these matters be presented to Cabinet and full Council.

3.0 AMENDMENTS TO THE TREASURY MANAGEMENT STRATEGY 2023/24-2026/27

3.1 In compliance with the Prudential Framework the Council sets an annual Treasury Management Strategy including key indicators, determined under regulation, to assist Members in assessing the affordability of borrowing and in determining that it is prudent and sustainable.

3.2 The change to the MRP policy included within the original Treasury Management Strategy for 2023/24 was not able to be fully reflected in the prudential indicators at that time. Officers have now updated the indicators for adoption within the amended strategy and these require Council approval. Given that the 2022/23 accounts have been finalised and slippage on the capital programme has been approved this has also been incorporated into the amended strategy.

3.3 The impact of the change in policy is reflected primarily in the capital financing requirement which has increased by circa £2m. The same circa £2m impact can also be seen in an increase in the level of under-borrowing and an upwards movement in the operational boundary and authorised limit.

3.4 The amended indicators are set out in **Appendix B** and for comparative purposes the original indicators are set out in **Appendix C**. The remainder of the strategy is unchanged.

4.0 MID YEAR REVIEW SUMMARY DETAILS

4.1 Mid-year quarter 2 position incorporates the amended indicators set out in the amended TM strategy

<u>Investments</u>

4.2 The average level of funds available for investment purposes over the six-month period was £32.9M (2022/23 £44.5M). These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept and business rate related payments, the receipt of grants and progress on the Capital Programme.

4.3 The Council's investments returned a weighted average rate of 5.07% on deposit generating £748K of interest against a profiled budget of £433K.

<u>Borrowing</u>

4.4 The Capital Financing Requirement (CFR) measures the Council's underlining need to borrow for capital purpose, i.e., its borrowing requirement. The CFR is the amount of capital expenditure that has not yet been financed by capital receipts, capital grants or contributions from revenue.

4.5 The Council's capital financing requirement (CFR) for 2023/24 was forecast as £105.97M with the current forecast CFR at quarter 2 is, however, £108.14M. This is principally due to the impact of the change in MRP policy as set out earlier in this report.

4.6 If the CFR is positive the Council may borrow from the PWLB, or the market (external borrowing) or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions. The Council currently has borrowings of £59.01M and has utilised £49.13M of cash flow funds in lieu of borrowing and with current forecasts estimating new borrowing of £15.5M later in the financial year. However, the potential for slippage & uncertainty regarding the progress of some schemes under development make this difficult to quantify with certainty and the actual amount of borrowing may be lower.

4.7 Consideration also needs to be given to the recent volatility in the markets leading to PWLB interest rates being in excess of 5% at the time of writing. In light of this it may be prudent to delay borrowing or consider the use of short-term borrowing as an interim measure.

<u>Prudential Indicators</u>

4.8 In compliance with the Prudential Framework the Council sets an annual Treasury Management Strategy including key indicators, determined under regulation, to assist Members in assessing the affordability of borrowing and in determining that it is prudent and sustainable. The indicators are set out in **Annex A** of The Mid -Year Report at **Appendix A**

5.0 OPTIONS AND OPTIONS ANALYSIS

5.1 As the report is for consideration and progressing to Budget and Performance Panel and Full Council, no alternative options are put forward.

6.0 CONCLUSION

6.1 Consideration of Treasury Management Mid-Year Review and presentation to Full Council will ensure the Council complies with CIPFA's Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

RELATIONSHIP TO POLICY FRAMEWORK Treasury Management forms part of the Councils budget framework	
CONCLUSION OF IMPACT ASSESSMENT **(including Health & Safety, Equality & Diversity, Human Rights, Community Safety, HR, Sustainability and Rural Proofing)** Effective Treasury Management and use of the Councils' resources is fundamental to the delivery of its priorities and outcomes.	
LEGAL IMPLICATIONS None directly arising from this report.	
FINANCIAL IMPLICATIONS There are no financial implications arising directly from this report. However, due to the financial pressures faced by the Council, and the significant increase in interest rates and borrowing costs areas of capital investment may be delayed, reprofiled or stopped. Financial due diligence and assessment will ensure that all the appropriate costs are considered for each proposal and external advice considered ahead of any borrowing being incurred.	
OTHER RESOURCE IMPLICATIONS There are no additional resource or risk implications	
SECTION 151 OFFICER'S COMMENTS The s151 Officer has written this report in his role as Chief Finance Officer	
MONITORING OFFICER'S COMMENTS The Monitoring Officer has been consulted and has no further comments	
BACKGROUND PAPERS	**Contact Officer:** Paul Thompson **Telephone:** 01524 582603 **E-mail:** pthompson@lancaster.gov.uk **Ref:** N/A