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## **Meeting of the Council – 16<sup>th</sup> October, 2023**

### **Report of the Audit and Standards Committee**

#### **Treasury Management**

##### **Purpose**

1. To outline treasury activity during the financial year 2022/23 and in the current financial year up to the end of July 2023.

##### **Recommendations**

2. That the report be received and noted.

##### **Background**

3. The Treasury Management strategy for 2023/24 has been underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Treasury Management in the Public Services Code of Practice (2021 edition).
4. Treasury Management entails the management of the Council's cash flows, its borrowings and investments, the management of the associated risks and the pursuit of the optimum performance or return consistent with those risks.
5. The Council undertakes treasury management activity on its own behalf and as administering authority for the West Midlands Debt Administration Fund (*WMDAF*). We are responsible for administering capital funding of approximately £730m on our own account and another £61m on behalf of other West Midlands councils in respect of the WMDAF. The treasury function is governed by the Council's Treasury Policy Statement and Treasury Management Practices.

6. The Council has recently changed bank accounts from HSBC to Lloyds, the transition requires significant work from accountancy and services and this is ongoing. The project has gone smoothly to date with minimal impact on the business.

#### Treasury activity in 2022/23 on the Dudley fund

7. Our treasury activities were undertaken in the context of the Treasury Strategy Statement 2022/23 approved by the Audit and Standards Committee and Full Council in February 2022. The Strategy Statement stated:

*“The primary factor in determining whether we undertake new long-term borrowing will be cash flow need. We will seek to minimise the time between borrowing and anticipated cash flow need, subject to the need to maintain day to day liquidity”.*

8. In 2022/23 our investments averaged £20.6 million (with significant day to day variation as a result of cash flow). The average return on these investments was 2.33%. All investments were placed with institutions that satisfied the criteria for creditworthiness set out in the Treasury Strategy Statement 2022/23. Our investment activity for 2022/23 is set out in more detail in Appendix 1.
9. The average value of long-term borrowings in 2022/23 was £588.3 million. The average rate of interest on these borrowings was 3.75%. The loans were due to mature on dates ranging from 2023 to 2073. In 2022/23 we took out 11 long-term loans with the shortest having a duration of 2 years and the longest had a duration of 50 years.
10. Due to cash flow requirements in 2022/23, it was necessary to undertake short-term borrowing on 1 occasion. The value of this loan was £8.0m at a rate of 1.00% for a duration of 1 day.

#### Treasury activity in 2022/23 on the WMDAF

11. It was necessary to undertake short-term borrowing on 4 occasions for cashflow purposes for the WMDAF, at an average value of £2.63m at an average rate of 2.36% for an average duration of 150 days. Four investments were made in 2022/23 for the WMDAF at an average value of £4.25m at an average rate of 2.55% for an average duration of 10 days.

### Performance comparisons 2022/23

12. Our treasury management advisors Link Asset Services have compared our treasury performance with their other clients using borrowing and investment data at financial year end. The results are summarised in the table below:

### Performance Benchmarking

	<b>Dudley</b>	<b>Client Average</b>
<b>Gross Borrowing (£M)</b>	552.3	258.9
<b>Investments (£M)</b>	11.0	77.4
<b>Net Borrowing (£M)</b>	541.3	181.5
<b>Gross average borrowing rate</b> (the cost of borrowing, ignoring the return on investments)	3.90%	3.61%
<b>Investment return rate</b> (the return on investments, ignoring the cost of borrowing)	3.70%	3.17%
<b>Net average borrowing rate</b> (a combination of the above, representing the cost of borrowing net of the return on investments)	3.90%	3.80%

13. The data above is based on a snapshot of treasury portfolios as at 31 March 2023 and includes long and short term borrowing and investments.
14. It should be remembered that treasury performance measurement is not an exact science. These statistics represent the cumulative effect of decisions dating back over many years and the performance of other local authorities may have been achieved in circumstances different from our own.

### Prudential indicators 2022/23

15. The 2021 Prudential Code for Capital Finance in Local Authorities sets out a framework for the consideration and approval of capital spending plans. In so doing, it requires the Council to set a number of prudential indicators, some of which concern matters of treasury management. Appendix 2 outlines those indicators for 2022/23.

## Treasury activity 2023/24 to July

16. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2023/24 approved by Audit and Standards Committee and Council in February of this year. In that document we anticipated that long term borrowing would be required in the next 12 months due to cash flow need.
17. Our investments up to the end of July have averaged £34.9 million (with significant day to day variation as a result of cash flow). The average return on these investments was 4.22%. All investments were placed with institutions that satisfied the criteria for creditworthiness set out in the Treasury Strategy Statement 2023/24. Our investment activity for 2023/24 is set out in more detail in Appendix 3.
18. The Monetary Policy Committee has increased the Bank of England base rate four times since the last report to this Committee (the previously reported rate was 4.00% as voted for in February 2023 and the latest rate change was agreed in August 2023 which put the rate to 5.25%). This is in response to inflationary pressures. Our treasury advisors, Link Treasury Services, expect the rate to rise once more in 2023 before coming down in the next financial year (with the first drop in September 2024 to 4.75%).
19. The average value of long-term borrowings up to the end of July has been £622.0 million. The average rate of interest on Dudley's loans is 3.84%. The maturity dates for the loans range from the current year to 2073. To the end of July no new loans have been taken out in 2023/24. There has been no short-term borrowing in 2023/24 in the period to the end of July 2023.
20. We are monitoring interest rates and cash flow closely and anticipate that some new long term borrowing may be required before the end of the current financial year. It is likely that this borrowing will be at higher rates than have been experienced in recent years and therefore our average rate of borrowing will increase and this will need to be reflected as a pressure in setting budgets.
21. On the WMDAF one loan has been arranged in 2023-24 up to the end of July at a value of £14m at a rate of 5.88% for a duration of 237 days. We have made 2 investments on the WMDAF to the end of July in 2023/24; one with a value of £13.5 million at a rate of 5.175% for a duration of 55 days and the other with a value of £0.5 million at a rate of 5.115% for a duration of 28 days.

## **Finance**

22. Forecasts of performance against budget for treasury management activities are highly sensitive to movements in cash flow and interest rates.

## **Law**

23. These matters are governed by Part IV of the Local Government and Housing Act 1989 and Section 111 of the Local Government Act 1972, which empowers the Council to do anything which is calculated to facilitate or is conducive or incidental to the discharge of its various statutory functions.

## **Risk Management**

24. Treasury Management, by its nature entails the management of financial risks, specifically credit risk for investments which is mitigated by limiting acceptable counterparties to those of the highest credit quality and imposing counterparty limits for non-government institutions; and interest rate risk which is mitigated by prudential indicators detailed in Appendix 2.

## **Equality Impact**

25. The treasury management activities considered in this report have no direct impact on issues of equality.

## **Human Resources/Organisational Development**

26. There are no Human Resources/Organisational Development implications associated with this report.

## **Commercial/Procurement**

27. The over-riding purpose of the Council's Investment Strategy is day to day cash management and not income generation. The strategy prioritises security and liquidity of cash investments over yield. Once those are met, we aim to secure the maximum yield from our investments held with the small number of counterparties that meet the strict criteria laid out in our Annual Investment Strategy.

## **Council Priorities and Projects**

28. Treasury Management supports the Council's capital investment priorities as set out in the approved Capital Strategy.



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**Chair of the Audit and Standards Committee**

## Appendix 1

### Investment Activity 2022/23

<b>Counterparty name</b>	<b>Number of investments</b>	<b>Average value £ million</b>	<b>Average rate %</b>	<b>Average duration (days)</b>
Debt Management Office	244	13.92	2.29	9
Bank of Scotland	N/A	0.04	0.12	Call Account
HSBC Call Account	N/A	2.76	0.11	Call Account
HSBC 31 Day Notice	N/A	0.02	2.22	Deposit Account
Santander Call Account	N/A	3.55	0.89	Call Account
Santander 35 Day Notice	N/A	0.02	1.53	Deposit Account
Barclays Call Account	N/A	0.25	0.31	Call Account

## Appendix 2

### **Prudential indicators relating to treasury management 2022/23**

#### **External Borrowing**

These indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The authorised limit for external debt is a statutory limit (section 3 of the Local Government Act 2003) that should not be breached under any circumstances. The operational boundary is a lower threshold allowing for a prudent but not worst case scenario for cash flow.

	<b>£m</b>
Authorised limit for external borrowing	951
Operational boundary for external borrowing	837
Outturn - actual external borrowing	680

#### **Interest rate exposures and maturity structure of borrowing and investments**

These indicators allow the Council to manage the extent to which it is exposed to changes in interest rates.

#### **Dudley MBC**

	<b>Indicator</b>	<b>Outturn</b>
Upper limit for fixed interest rate exposure	100%	100%
Upper limit for variable rate exposure	10%	0%
Upper limit of principal maturing in any one year for sums invested for over 364 days	£10m	Nil
Maturity structure of fixed rate borrowing:-		
under 12 months	0-15%	4.4%
12 months and within 24 months	0-15%	2.6%
24 months and within 5 years	0-20%	5.5%
5 years and within 10 years	0-25%	14.3%
10 years and above	50-100%	73.2%



## West Midlands Debt Administration Fund

	<b>Indicator</b>	<b>Outturn</b>
Maturity structure of fixed rate borrowing:-		
under 12 months	0-26%	28.6%
12 months and within 24 months	0-20%	33.9%
24 months and within 5 years	0-54%	37.4%

## Appendix 3

### Investment Activity 2023/24 to July

<b>Counterparty name</b>	<b>Number of investments</b>	<b>Average value £ million</b>	<b>Average rate %</b>	<b>Average duration (days)</b>
Debt Management Office	127	29.06	4.47	10
Other Local Authorities	1	8.0	4.95	18
HSBC Call Account	N/A	0.65	0.36	Call Account
HSBC 31 Day Notice	N/A	0.00	1.68	Deposit Account
Santander Call Account	N/A	1.03	2.69	Call Account
Santander 35 Day Notice	N/A	0.02	3.78	Deposit Account
Barclays Call Account	N/A	0.05	0.00	Call Account
Lloyds Call Account	N/A	2.86	4.90	Call Account