
Audit and Standards Committee – 8th July 2024

Report of the Director of Finance and Legal Services

Treasury Management

Purpose

1. To outline treasury activity during the financial year 2023/24 and in the current financial year up to the end of May 2024.

Recommendations

2. It is recommended that the Audit and Standards Committee:
 - Comments and notes the treasury activities outlined in this report;
 - Refers all of the above to full Council for noting at its meeting on 15th July.

Background

3. The Treasury Management strategy for 2024/25 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 £43m 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.

Treasury activity in 2023/24 on the Dudley fund

6. Our treasury activities were undertaken in the context of the Treasury Strategy Statement 2023/24 approved by Audit and Standards Committee and Full Council in February 2023. 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”.
7. In 2023/24 our investments averaged £30.9 million (with significant day to day variation as a result of cash flow). The average return on these investments was 4.71% and total interest received was £1.5m. 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 1.
8. The average value of long-term borrowings in 2023/24 was £622.2 million. The average rate of interest on these borrowings was 3.93% and total interest paid was £24.4m. The loans were due to mature on dates ranging from 2023 to 2073. In 2023/24 we took out 7 long/medium-term loans with the shortest having a duration of 2.5 years and the longest had a duration of 10 years. Five of these loans (totalling £38m) were for the General Fund and two loans (totalling £8m) were for the Housing Revenue Account.
9. Due to cash flow requirements in 2023/24, it was necessary to undertake short-term borrowing on 1 occasion. This necessitated the undertaking of two short-term loans across a 14 day period. The average value of these loans was £1.5m at a rate of 5.65%.

Treasury activity in 2023/24 on the WMDAF

10. It was necessary to undertake short-term borrowing on 4 occasions for cashflow purposes for the WMDAF, at an average value of £8.5m at an average rate of 5.52% for an average duration of 62 days. Six investments were made in 2023/24 for the WMDAF at an average value of £2.73m at an average rate of 5.17% for an average duration of 54 days.

Prudential indicators 2023/24

11. 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 2023/24.

12. To comply with the revised Prudential Code we will also be issuing quarterly updates of the Prudential and Treasury Indicators from April 2024.

Treasury activity 2024/25 to May

13. Treasury activities in the current year have been undertaken in the context of the Treasury Strategy Statement 2024/25 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.
14. Our investments up to the end of May have averaged £20.0 million (with significant day to day variation as a result of cash flow). The average return on these investments was 5.03%. All investments were placed with institutions that satisfied the criteria for creditworthiness set out in the Treasury Strategy Statement 2024/25. Our investment activity for 2024/25 is set out in more detail in Appendix 3.
15. The Monetary Policy Committee (MPC) has left the Bank of England base rate unchanged at every meeting since the last report to this Committee (the latest rate change was agreed in August 2023 which put the rate to 5.25%). The MPC appears to be more confident that the rate of inflation will fall back to its 2% target and our treasury advisors, Link, are forecasting that the base rate will come down later in 2024/25.
16. The average value of long-term borrowings up to the end of May has been £652.9 million. The average rate of interest on Dudley's loans is 3.99%. The maturity dates for the loans range from the current year to 2073. To the end of May no new long-term loans have been taken out in 2024/25. We have borrowed short-term twice so far in 2024/25. The average value of these two loans was £5.5m, with an average interest rate of 5.4% and average duration of 3.5 days.
17. 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. Initial monitoring suggests that this borrowing will not need to be undertaken until later in the financial year however an updated forecast of anticipated borrowing and associated costs will be presented at the next Audit and Standards Committee. Quarterly treasury forecasts will feed into the Corporate reporting process so that the revenue impact of these changes can be reflected in both forecast outturn and future budgets.
18. On the WMDAF up to end May 2024 it has been necessary to undertake short-term borrowing on 1 occasion for cashflow purposes, at a value of

£1.5m at a rate of 5.30% for a duration of 50 days. There have been no investments made on WMDAF to end May 2024.

Finance

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

Law

20. 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

21. 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

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

Human Resources/Organisational Development

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

Commercial/Procurement

24. 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 Plan

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



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Appendices

- Appendix 1 – Investment Activity (2023/24) and Investment and Borrowing Portfolios as at 31st March 2024
- Appendix 2 – Prudential and Treasury Indicators 2023/24
- Appendix 3 – Investment Activity to May 2024
- Appendix 4 – Glossary of terms and acronyms used in the report

List of Background Papers

Treasury Strategy Statement, Treasury Management Practices and Schedules to the Treasury Management Practices.

Investment Activity 2023/24 (Dudley only)

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Debt Management Office	432	24.33	4.88	9
HSBC Call Account	N/A	0.53	0.53	Call Account
HSBC 31 Day Notice	N/A	0.00	3.58	Deposit Account
Santander Call Account	N/A	2.20	3.16	Call Account
Santander 35 Day Notice	N/A	0.02	4.55	Deposit Account
Barclays Call Account	N/A	0.19	4.04	Call Account
Lloyds Call Account	N/A	3.29	5.13	Call Account

Investment Portfolio (Dudley)

Investments	31.03.23 Actual £'000	31.03.24 Actual £'000
Banks	1,594	3,417
Local Authorities	0	0
Debt Management Office	9,400	5,000
Total Treasury Investments	10,994	8,417
Airport Shares	32,302	35,342
Total non-Treasury Investments	32,302	35,342
Total	43,296	43,759

Borrowing Portfolio

	31.03.23 Actual £'m	31.03.24 Actual £'m
HRA Borrowing		
Public Works Loan Board	453.6	457.9
Other loans	16.2	13.7
Total HRA borrowing	469.8	471.6
General Fund Borrowing		
Public Works Loan Board	152.7	178.8
Other loans	13.8	3.8
Total General Fund borrowing	166.5	182.6
Total Borrowing	636.3	654.2

N.B. All the loans above have a fixed interest rate

Appendix 2

Prudential and Treasury Indicators 2023/24

1. PRUDENTIAL INDICATORS	2022/23	2023/24	2023/24
	Actual	Original Estimate*	Actual
	£'m	£'m	£'m
Capital Expenditure			
Non - HRA	41.4	66.3	46.5
HRA	57.9	58.0	52.2
TOTAL	99.3	124.3	98.7
Ratio of financing costs to net revenue stream			
Non - HRA	8.4%	8.4%	8.7%
HRA	43.2%	42.8%	42.9%
Gross borrowing General Fund			
brought forward 1 April	136.7	166.5	166.5
carried forward 31 March	166.5	196.6	182.6
in year borrowing movement	29.8	30.1	16.1
Gross borrowing HRA			
brought forward 1 April	456.6	469.8	469.8
carried forward 31 March	469.8	463.6	471.6
in year borrowing movement	13.2	-6.2	1.8
Gross debt (total HRA and General Fund)	636.3	660.2	654.2
Capital Financing Requirement			
Non – HRA	256.2	264.9	241.3
HRA	474.8	483.8	492.8
TOTAL	731.0	748.7	734.1
Annual change in Cap. Financing Requirement			
Non – HRA	-13.8	+8.7	-14.9
HRA	+4.6	+9.0	+18.0
TOTAL	-9.2	+17.7	+3.1

*N.B. Originals are as per the indicators reported to Cabinet or Audit and Standards Committee in February 2024 in either the Capital Strategy or Treasury Management Strategy Statement

2. TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2023/24
<i>All actuals are gross external debt including Dudley's proportion of the WMDAF debt (£47.5m at 31.03.24)</i>	Actual	Original*	Actual
	£'m	£'m	£'m
Authorised Limit for external debt -			
borrowing	703	810	702
other long-term liabilities	12	12	11
TOTAL	715	822	713
Operational Boundary for external debt -			
borrowing	703	738	702
other long-term liabilities	12	12	11
TOTAL	715	750	713

For a full explanation of all of the terms referred to in tables 1 and 2 of Appendix 2 please refer to Appendix 4.

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

	Indicator	Outturn
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%	2.5%
12 months and within 24 months	0-15%	3.1%
24 months and within 5 years	0-20%	7.8%
5 years and within 10 years	0-25%	15.3%
10 years and above	50-100%	71.3%

West Midlands Debt Administration Fund

	Indicator	Outturn
Maturity structure of fixed rate borrowing:-		
under 12 months	25-55%	47.5%
12 months and within 24 months	20-55%	52.5%
24 months and within 5 years	0-40%	0%

Investment Activity (Dudley) 2024/25 to May

Counterparty name	Number of investments	Average value £ million	Average rate %	Average duration (days)
Debt Management Office	58	16.56	5.19	6
HSBC Call Account	N/A	0.00	0.51	Call Account
Santander Call Account	N/A	1.44	3.18	Call Account
Santander 35 Day Notice	N/A	0.02	4.78	Deposit Account
Barclays Call Account	N/A	0.67	4.84	Call Account
Lloyds Call Account	N/A	2.03	5.15	Call Account

Definition of abbreviations and terminology used in this report

Actual financing Costs as a proportion of net revenue stream – this indicator identifies the trend in the cost of capital against the net revenue stream.

Authorised Limit – The authorised limit is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this has been set the Council does not have the power to borrow above this level. The table in Appendix 2 demonstrates that during 2023/24 the Council has maintained gross borrowing within its authorised limit

CFR – Capital Financing Requirement – this is the Council’s underlying need to borrow for capital expenditure.

CIPFA – Chartered Institute of Public Finance and Accountancy

HRA – Housing Revenue Account – this records the income and expenditure related to running the Council’s housing stock and closely related services or facilities, which are provided primarily for the benefit of the Council’s own tenants.

MPC – Monetary Policy Committee – this is an independent Committee which makes decisions about the operation of monetary policy.

MRP – Minimum Revenue Provision – an annual charge made to reduce the capital financing requirement to ensure that capital assets are broadly charged to revenue over the life of the asset.

Operational Boundary – the operational boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary are acceptable subject to the authorised limit not being breached.

WMDAF – West Midlands Debt Administration Fund – the Council is the administering body of the ex-West Midlands County Council debt.