

Appendix 1 – Treasury Management 2023/24 Mid Year Report

1. Executive Summary

- 1.1 This appendix details treasury management activities for Westmorland & Furness Council during the first half of the 2023/24 financial year. It highlights performance and activities which confirm all Treasury Management activities undertaken during the period, including adherence to limits with the approved Prudential Indicators, were in compliance with the Annual Treasury Management Strategy Statement agreed by Members of the Shadow Authority in March 2023.
- 1.2 There has been a review of the 2023/24 Treasury Management Strategy Statement (TMSS) which includes the Annual Investment Strategy. This review has concluded that no amendments are required to the strategy.

2. Context

- 2.1 As detailed in Part 3 Section 6 (Financial Procedure Rules) of the Council's Constitution, the Council follows the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management in Local Authorities and the CIPFA Prudential Code for Capital Finance. The primary requirements of the Code of Practice include:
 - receipt by the full Council of an Annual Treasury Management Strategy Statement (TMSS), including the Annual Investment Strategy and Minimum Revenue Provision Policy, for the year ahead (this was approved by the Shadow Authority on 7 March 2023);
 - a mid-year strategy review report (this report); and
 - an annual review report following the end of the year, describing activities compared to the strategy set. The Annual Report for the full 2023/24 year is expected to be reviewed in summer 2024.
- 2.2 The TMSS approved by the Shadow Authority notes that CIPFA defines treasury management as *“The management of the local authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks.”*
- 2.3 To achieve this, the Treasury function ensures the Council’s short-term cash reserves are securely held (i.e. security of principal) and ensures that appropriate levels of cash are available to manage day to day payments (i.e. liquidity). After both security and liquidity have been considered, Treasury officers aim to maximise investment returns (i.e. income generation).

3. Treasury Management Activity - mid-year position 2023/24

- 3.1 As at 1 April 2023, the Council held £160m in available cash balances from the transfer of cash balances held by the four legacy Councils that formed Westmorland & Furness Council. The balance was due to the timing of spend related to funding allocated previously to the four Councils and the upfront grants to fund ongoing and new capital programmes for those Councils, and also incorporated a cash allocation from the split of Cumbria County Council's balance sheet reserves. Cash balances held by Westmorland & Furness Council decreased in its first six months of operation from £160m to £135m at 30 September 2023. Further details on the Council's investments are presented in Annex A to this report.
- 3.2 The Council has managed its cash balances effectively by retaining a prudent level of instant access cash to ensure it can respond to uncertainties associated with Local Government Reorganisation and the wider current economic position and a range of fixed term deposits across a wide number of counterparties. This position has ensured that the Council effectively meets its investment priorities of security and liquidity of its investment portfolio before then considering appropriate levels of investment return.
- 3.3 In the first six months investment of cash balances has returned an average of 4.46% - underperforming slightly the benchmark rate of 4.71% by 0.25%. The benchmark rate rose over the period reflecting increases to the Base Rates throughout the first half of the year. As interest rates continued to rise during the year, so too did the opportunity to secure returns on investing the cash balances of the Council, but this opportunity is only from the point that existing deposits mature and are reinvested into higher rates. The forecast outturn position in section 4 notes that the Council is forecasting interest receivable of £3.621m in excess of the original budget during 2023/24.
- 3.4 The cash balances provided the Council with the opportunity to use 'internal' borrowing rather than taking on new long-term debt to pay for approved capital expenditure funded by borrowing. This delay in borrowing generated considerable short-term savings against the budget.
- 3.5 The Council's external borrowing was £192.3m as at 1 April 2023. No loans matured in the first half of the year and no new long term borrowing was taken in the first six months of 2023/24. The Council's external borrowing therefore remained at £192.3m at 30 September 2023. The full detail of loans held by the Council is presented in Annex B. Officers in conjunction with the Council's contracted external specialist Treasury advisors (Link Group) will continue to keep the position of the Council's debt portfolio under review.
- 3.6 The external borrowing and investments balances as at 30 September 2023 are as follows:

External borrowing and investments	Principal (as at 30 Sept 2023) £m	Average Interest Rate %	Average Life Years	Principal (as at 1 April 2023) £m	Average Interest Rate %	Average Life Years
Total External Borrowing	192.3	3.84	24.4	192.3	3.84	24.9
Total Investments	135.0	5.21	< 1 year	159.5	3.68	< 1 year
Net Debt	57.3			32.8		

3.7 In undertaking these Treasury Management activities, the Director of Resources (S151 Officer) confirms that there have been no breaches of the approved limits relating to borrowing within the Prudential and Treasury Management indicators during the first six months of 2023/24.

4. Treasury Management Forecast Outturn

4.1 The approved 2023/24 Treasury Management budget is £12.891m. This budget included a one off saving of £2.100m in 2023/24 only, arising from the increased interest received on the Council's short-term cash balances achievable as interest rates have increased.

4.2 As at 30 September 2023, Treasury Management is forecasting to underspend by £6.553m as set out below:

4.2.1 No new external borrowing has been undertaken in the first six months of 2023/24 with the Council implementing its strategy to offset previously approved borrowing with short term cash reserves rather than incurring borrowing costs on new loans. It is also expected that no further borrowing will be undertaken during the remainder of 2023/24. This strategy has generated £2.886m savings in the year.

4.2.2 The Council is currently retaining cash balances as detailed in Annex A. As the Base Rate has continued to increase throughout the first 6 months of 2023/24, so too has the opportunity for the Council to obtain increased rates on its investment of these cash balances. As such, at 30 June 2023, the Council forecast to receive £3.621m more interest than budgeted in 2023/24.

4.2.3 Other expenditure within the Treasury Management budget is forecast to underspend by £0.046m.

4.3 It should be noted that these net underspends are a one-off saving relating to 2023/24 only. The forecast underspend of £6.553m is in addition to the savings included within the 2023/24 budget as detailed in paragraph 4.1.

5. Review of the Treasury Management Strategy Statement, Annual Investment Strategy and Prudential Indicators

- 5.1 The Treasury Management Strategy Statement (TMSS) details the anticipated value and rates at which borrowing may be undertaken to finance current and future capital spend. The main objectives of the strategy being to manage risk effectively while minimising long-term borrowing costs.
- 5.2 The high-level procedures and controls to achieve the objectives as set out in the Treasury Management Strategy were based on established processes from the legacy Councils and these along with authorised activity are detailed in the Council's Treasury Management Practices. All aspects of the Treasury Management strategy and Treasury Management practices have been adhered to in the first 6 months of the financial year.
- 5.3 The primary focus of the Annual Investment Strategy (AIS) is to provide security of cash invested within a low level of agreed risk whilst also trying to achieve a return in excess of the benchmark. It incorporates the Council's Investment Strategy, its Creditworthiness policy, and its country, group and sector limits for cash investment purposes.
- 5.4 The TMSS and the AIS for 2023/24 were approved by the Shadow Authority on 7 March 2023 (Item 8 Appendix D) and, in line with best practice, have been revisited as part of the mid-year review.
- 5.5 The investment strategy approach of the Council requires it to invest its cash balances with counterparties with strong credit ratings in strong credit rated countries (with limits to duration and maximum level of deposits). The investment portfolio at 30 September 2023 is shown in Annex A.
- 5.6 Annex C sets out the approved Prudential Indicators and Treasury Management Indicators for 2023/24 together with actual data as at 30 September 2023.
- 5.7 As set out in the Annex, all activities in the six months to 30 September have been conducted within the limits agreed by the Shadow Authority in March 2023.
- 5.8 Following the half-yearly review, it is recommended that no changes are required to the Treasury Management Strategy Statement and Annual Investment Strategy, neither are amendments required to the Prudential Indicators and Treasury Management Indicators.

Annex A - Investment Portfolio mid-year position 2023/24

Investment Portfolio as at 30 September 2023

Credit Limit Group / Counterparty	Country	Credit Rating	Deposit Type	Start Date	Maturity Date	Interest Rate (%)	Principal (£)
LOCAL AUTHORITY 20% MAX, UP TO 2 YRS							
STIRLING COUNCIL	UK	AA-	Term Deposit	28/09/2023	21/02/2024	5.45	2,500,000
STIRLING COUNCIL	UK	AA-	Term Deposit	28/09/2023	28/02/2024	5.45	2,500,000
EASTBOURNE BOROUGH COUNCIL	UK	AA-	Term Deposit	20/01/2023	20/11/2023	3.85	3,000,000
LIMIT £20m MAX - MONEY MARKET FUNDS							
ABERDEEN MMF	UK	AAA	MMF	N/A	daily access	5.29	9,500,000
FEDERATED LIQUIDITY MMF	UK	AAA	MMF	N/A	daily access	5.35	17,300,000
LIMIT £25m MAX, UP TO 1 YEAR							
NATWEST FIXED TERM DEPOSIT	UK	A+	Term Deposit	07/09/2023	07/03/2024	5.69	5,000,000
NATWEST LIQUIDITY ACCOUNT	UK	A+	Call Account	N/A	daily access	1.45	200,000
LIMIT £20m MAX, UP TO 1 YEAR							
AUSTRALIA AND NEW ZEALAND BANK	AUS	A+	Term Deposit	03/02/2023	03/11/2023	4.43	5,000,000
HELEBA - LANDESBANK HESSEN THURINGEN	GER	A+	Term Deposit	12/04/2023	11/04/2024	4.68	10,000,000
HELEBA - LANDESBANK HESSEN THURINGEN	GER	A+	Term Deposit	09/05/2023	09/11/2023	4.72	5,000,000
LIMIT £15m MAX, UP TO 6 MTHS							
STANDARD CHARTERED BANK - SUSTAINABLE	UK	A+	Term Deposit	05/05/2023	31/10/2023	4.77	10,000,000
STANDARD CHARTERED BANK - SUSTAINABLE	UK	A+	Term Deposit	18/07/2023	18/01/2024	5.88	5,000,000
GOLDMAN SACHS INTERNATIONAL BANK	UK	A+	Term Deposit	06/07/2023	05/01/2024	5.93	10,000,000
GOLDMAN SACHS INTERNATIONAL BANK	UK	A+	Term Deposit	22/08/2023	22/11/2023	5.67	5,000,000
LLOYDS BANK CORPORATE MARKETS	UK	A+	Term Deposit	21/04/2023	20/10/2023	4.95	5,000,000
LLOYDS BANK CORPORATE MARKETS	UK	A+	Term Deposit	30/06/2023	22/12/2023	5.90	5,000,000
LLOYDS BANK CORPORATE MARKETS	UK	A+	Term Deposit	15/08/2023	15/02/2024	5.90	5,000,000
NATIONAL BANK OF CANADA	CAN	A+	Term Deposit	12/04/2023	12/10/2023	4.62	10,000,000
NATIONAL BANK OF CANADA	CAN	A+	Term Deposit	24/07/2023	24/01/2024	5.77	5,000,000
SANTANDER UK	UK	A+	Term Deposit	14/07/2023	12/01/2024	5.77	5,000,000
SANTANDER UK	UK	A+	Term Deposit	27/07/2023	27/10/2023	5.36	5,000,000
LEGACY - SPECIFIED INVESTMENTS NON-COMPLIANT WITH TMSS							
SAFFRON BUILDING SOCIETY	UK		Term Deposit	14/12/2022	13/12/2023	4.18	3,000,000
NEWCASTLE BUILDING SOCIETY	UK		Term Deposit	12/10/2022	11/10/2023	4.43	2,000,000
Average Rate and Total Specified Investments						5.21	135,000,000

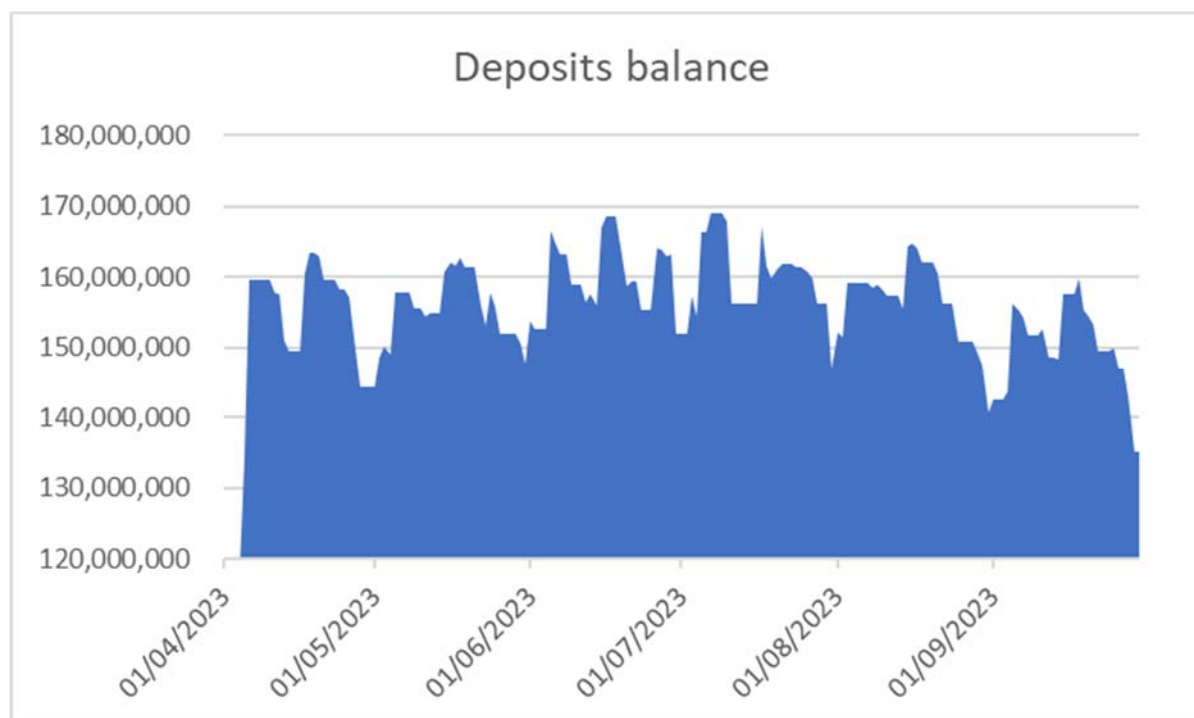
LEGACY - OTHER INVESTMENTS							
CCLA LAMIT - PROPERTY FUND	UK			N/A	N/A	variable	4,039,828
CCLA DIVERSIFIED INCOME FUND	UK			N/A	N/A	variable	907,797
Total Non-Specified Investments							4,947,624
Total Treasury Investments							139,947,624

The average investment returns have increased over the six months to 5.21% at 30 September as a result of the increasing Bank Base Rate (now 5.25%, from 2.25% in September 2022). The average investment return over the six-month period was 4.46%, as fixed term deposits maturing in this time could be replaced with new deposits at increasingly high interest rates. The comparison to the Council's benchmark is detailed in the table below.

Period	Benchmark Return % pa	Average Rate of Return achieved % pa	Out/(Under) Performance %
6 months to 30/09/2023	4.71%	4.46%	(0.25%)

The Council underperformed slightly against this benchmark rate (7 day Sterling Overnight Index Average (SONIA)); as this was over a period with a rising base rate there is a delay for the portfolio average to also increase and catch-up.

The cash deposit portfolio varied over the period as shown below, averaging at £155m, within a range of £169m to £135m:



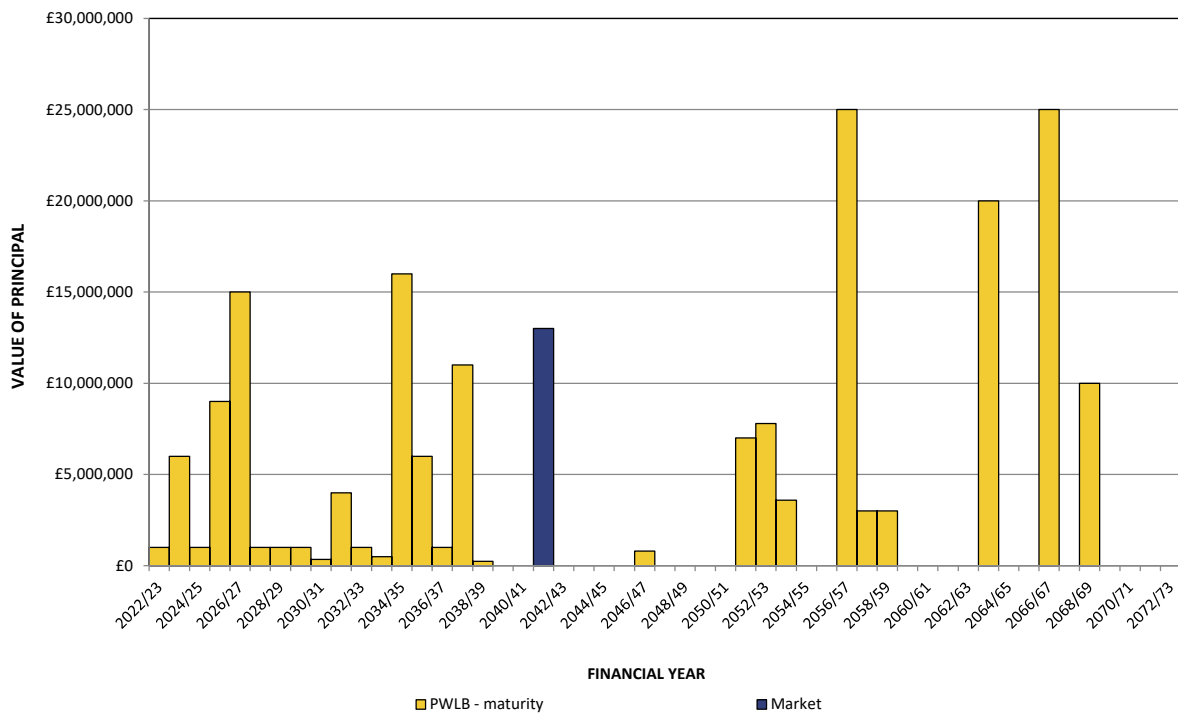
Annex B - Debt portfolio detail at 30 September 2023:

Lender	Original Loan Start Date	Maturity Date	Principal	Loan Rate (%)
PWLB	04/05/1995	15/11/2023	5,000,000	8.50
PWLB	28/03/2012	28/03/2024	1,000,000	2.70
PWLB	28/03/2012	28/03/2025	1,000,000	2.82
PWLB	14/11/2001	14/11/2025	3,000,000	4.50
PWLB	29/05/2003	15/11/2025	5,000,000	4.45
PWLB	28/03/2012	28/03/2026	1,000,000	2.92
PWLB	14/11/2001	14/11/2026	14,000,000	4.50
PWLB	28/03/2012	28/03/2027	1,000,000	3.01
PWLB	28/03/2012	28/03/2028	1,000,000	3.08
PWLB	28/03/2012	28/03/2029	1,000,000	3.15
PWLB	28/03/2012	23/03/2030	1,000,000	3.21
PWLB	21/11/2005	01/01/2031	4,000,000	4.25
PWLB	28/03/2012	28/03/2031	350,000	3.26
PWLB	28/03/2012	28/03/2033	1,000,000	3.34
PWLB	28/03/2012	28/03/2034	500,000	3.37
PWLB	20/12/2004	15/05/2034	16,000,000	4.50
PWLB	24/10/2005	01/10/2035	6,000,000	4.45
PWLB	28/03/2012	28/03/2037	1,000,000	3.44
PWLB	10/12/2007	15/11/2037	10,000,000	4.49
PWLB	28/03/2012	28/03/2038	1,000,000	3.46
PWLB	28/03/2012	28/03/2039	239,000	3.47
FMSWERTM	25/01/2002	27/01/2042	13,000,000	4.73
PWLB	25/08/2006	29/03/2047	800,000	4.25
PWLB	07/08/2006	01/10/2051	4,000,000	4.35
PWLB	04/01/2008	29/03/2052	3,000,000	4.42
PWLB	10/10/2006	01/04/2052	4,794,734	4.10
PWLB	02/08/2007	29/09/2052	3,000,000	4.55
PWLB	12/06/2007	01/04/2053	3,595,000	4.75
PWLB	08/03/2007	15/05/2056	25,000,000	4.25
PWLB	07/05/2008	29/03/2058	3,000,000	4.43
PWLB	09/10/2008	29/09/2058	3,000,000	4.36
PWLB	10/06/2019	10/06/2063	20,000,000	2.16
PWLB	28/03/2018	28/03/2067	25,000,000	2.32
PWLB	31/05/2018	31/05/2068	10,000,000	2.25
TOTAL DEBT PORTFOLIO			192,278,734	3.84

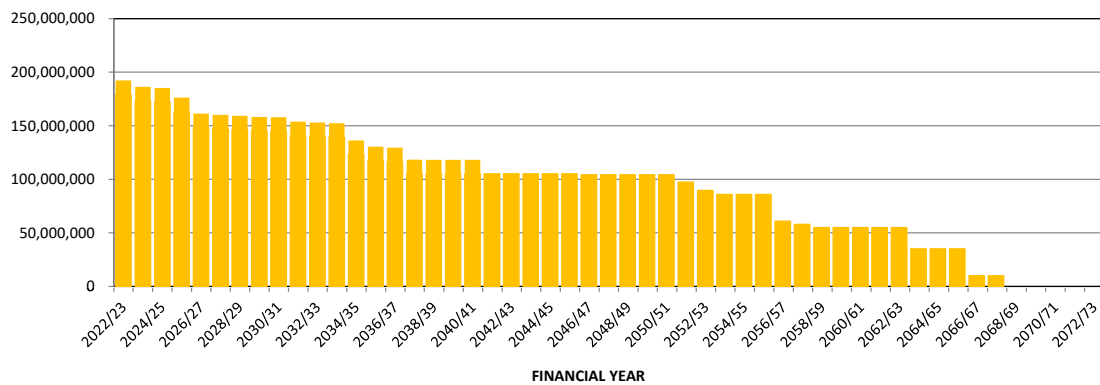
Note: The FMSWERTM borrowing above relates to a market loan with FMS Wertmanagement Bank Germany. Initially taken from Depfa Bank Plc (Dublin) and subsequently transferred by the lender to FMS.

Long term borrowing (Debt Portfolio) at 30 September 2023

Current Maturity Profile



Cumulative Debt Profile to Maturity



Note: Lender Option Borrower Options (LOBO) are long term 'market loans' (i.e. a loan from a bank for a fixed period repaid at maturity). The interest rates in the initial periods of these loans are at a discount to the market rate. The lender has the option to change the terms, at which point the Council has the option to repay the loan early. Due to this, the loans are classed as 'variable' rate. The costs of early repayment have been reviewed and penalties for re-financing are currently prohibitive.

Annex C - Prudential Indicators and Treasury Management Indicators and Liability Benchmark - Half Year Update 2023/24

		2023/24	2023/24
		Revised Estimate*	Original Estimate**
PRUDENTIAL INDICATORS – Affordability		£.pp	£.pp
		£m	£m
1	Estimate of proposed capital expenditure (includes capitalisation directive and HRA)	113.930	104.164
	Estimate of proposed capital expenditure to be funded by prudential borrowing (includes capitalisation directive)	To be confirmed at year-end	51.088
The original and forecast capital expenditure (as included within the Qtr2 2023/24 Budget Monitoring report) and amount of capital expenditure to be funded by prudential borrowing for 2023/24.			
2	Capital Financing requirement (CFR) – the total borrowing need	£m	£m
		To be confirmed at year-end	290.829
The Capital financing requirement indicator is a measure of the Council's underlying need to borrow for capital purposes.			
3	Ratio of Finance costs to Net Revenue Stream	%	%
		To be confirmed at year-end	4.71%
This indicator shows the proportion of income received from grant and Council Tax that is spent on paying for the consequences of borrowing to fund capital borrowings.			

PRUDENTIAL INDICATORS - Prudence		2023/24 Approved Limit **	Revised limits proposed	2023/24 Actual at 30/09/23
4	Authorised limit for external debt	£m	£m	£m
	Borrowing	318	no change	192
	Other Long term Liabilities	135	no change	0
	Total	453	no change	192
<p>This is the limit beyond which borrowing is prohibited and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable in the longer term. It is the expected maximum borrowing need with some headroom for unexpected movements. This is the statutory limit (Legal Limit) determined under section 3 (1) of the Local Government Act 2003.</p>				
5	Operational Boundary for external debt	2023/24 Approved Limit **	Revised limits proposed	2023/24 Actual at 30/09/23
		£m	£m	£m
	Borrowing	293	no change	192
	Other Long term Liabilities	125	no change	0
	Total	418	no change	192
<p>The Operational Boundary is based on the Council's prudent estimate of the maximum level of external debt. It is only a guide and may be breached temporarily on occasion without significant concern, due to variations in cash flow and/or interest rates. Any sustained or regular trend above the operational boundary will be investigated and action taken as appropriate.</p> <p>No new borrowing is expected for the remainder of the year, debt at 30/09/23 is £192m. £5m matures in November 2023 and £1m matures in March 2024 so borrowing at 31/03/2024 is forecast to be £186m.</p>				

6	Upper Limit on Net Sums Borrowed	2023/24 Approved Limit ** £m	Revised limits proposed £m	2023/24 Actual at 30/09/23 £m
	Fixed interest rates	293	no change	179
	Variable interest rates	100	no change	(122) ***
<p>*** Net variable borrowing is negative as variable investments (£135m) exceed variable borrowing (£13m). All investments maturing within one year are classed as variable.</p> <p>The purpose of this indicator is to contain the Council's exposure to unfavourable movements in future interest rates. The indicators are expressed as Fixed Rate Debt less Fixed Rate Investments and Variable Rate Debt less Variable Rate Investments. The Council defines variable rate as including those instruments maturing within each year, as the replacement of those instruments will be subject to prevailing rates of interest.</p>				

7	Upper limit for total principal sums invested for over 364 days (per maturity date)	Lower of £20m or 20% of the portfolio at any time during the financial year. Actual £0m		
	The purpose of this indicator is to ensure that the Council has protected itself against the risk of loss arising from the need to seek early redemption of principal sums invested. Only core cash will be invested for periods greater than 1 year.			
8	Maturity Structure of fixed interest rate borrowing	Upper	Lower	Forecast 31/03/24
	Under 12 months	30%	0%	0.5%
	12 months to 2 years	40%	0%	4.8%
	2 years to 5 years	40%	0%	9.1%
	5 years to 10 years	40%	0%	3.7%
	10 years and above	100%	0%	81.9%
The maturity of borrowing is determined by the earliest date on which the lender can require payment. The indicator is designed to exercise control over the Council having large concentrations of fixed rate debt needing to be replaced at any one time.				

* 2023/24 Budget Monitoring at September 2023, to Cabinet in December 2023

** 2023/24 Original Estimate as agreed by the Shadow Authority in March 2023

Liability Benchmark – required by CIPFA TM Code: CFR per TMSS is shown below -

