Annual Treasury Management Review
2023/24

Contents

Annual Treasury Management Review 2023/24

Purpose

This Council is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2023/24 the minimum reporting requirements were that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 23/02/2023)
- a mid-year, (minimum), treasury update report (Council 25/01/2024)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

In addition, Cabinet and the Finance, Audit and Risk (FAR) Committee have received quarterly treasury management update reports.

The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Finance, Audit and Risk (FAR) Committee before they were reported to Cabinet / Full Council . Members are provided with an annual training session on Local Government finance, which takes place in June each year. All members are invited, with a focus on new members attending. Members of Finance, Audit and Risk Committee are provided with a short training session before most meetings. The content of these sessions is guided by Members needs, and treasury management will be considered as a topic for 2024/25.

Executive Summary

During 2023/24, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	31.3.23 Actual £m	2023/24 Original £m	31.3.24 Actual £m
Capital Expenditure	6.923	8.516	2.409
Capital Financing Requirement	-2.719	-1.500	-2.583
Gross borrowing	0.367	0.347	0.347
External debt	0.367	0.347	0.347
Investments	50.500	40.685	46.000
Net borrowing	-50.133	-40.338	-45.653

Other prudential and treasury indicators are to be found in the main body of this report. The Director of Finance also confirms that no new borrowing was undertaken and the statutory borrowing limit, (the authorised limit), was not breached.

Introduction and Background

This report summarises the following:-

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness, (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to this indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

1. The Council's Capital Expenditure and Financing

The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

£m General Fund	31.3.23 Actual	2023/24 Budget	31.3.24 Actual
Capital expenditure	**6.923**	**8.516**	**2.409**
Financed in year	5.192	7.610	2.273
Unfinanced capital expenditure	**1.731**	**0.906**	**0.136**

2. The Council's Overall Borrowing Need

The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2023/24 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWLB], or the money markets), or utilising temporary cash resources within the Council.

The Council's 2023/24 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 23/02/2023.

The Council's CFR for the year is shown below, and represents a key prudential indicator.

CFR (£m): General Fund	31.3.23 Actual £m	2023/24 Working Budget £m	31.3.24 Actual £m
Opening balance	-4.446	-2.375	-2.719
Add unfinanced capital expenditure (as above)	1.731	0.906	0.136
Less Finance Lease Repayments	0.004	0.004	0.004
Closing balance	-2.719	-1.465	-2.579

The negative closing balances mean that the Council does not have a need to borrow.

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR - in order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator as all borrowing is historic and it is not economical to repay it.

	31.3.23 Actual £m	2023/24 Budget £m	31.3.24 Actual £m
Gross borrowing position	0.367	0.347	0.347
CFR	-2.719	-1.465	-2.579

The 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 below demonstrates that during 2023/24 the Council has maintained gross borrowing within its authorised limit.

The 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 over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2023/24 £m
Authorised limit	7.0
Maximum gross borrowing position during the year	0.367
Operational boundary	2.0
Average gross borrowing position	£0.358m
Financing costs as a proportion of net revenue stream	-15.77%

3. Treasury Position as of 31st March 2024

The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices. At the end of 2023/24 the Council's treasury position was as follows:-

DEBT PORTFOLIO	31.3.23 Principal £m	Rate/ Return	31.3.24 Principal £m	Rate/ Return
Fixed rate funding:				
-PWLB	0.367	10.28%	0.347	10.48
-Market	0		0	
Variable rate funding:				
-PWLB	0		0	
-Market	0		0	
Total debt	**0.367**	**10.28%**	**0.347**	**10.48**
CFR	**-2.719**		**-2.579**	
Over / (under) borrowing	**3.086**		**2.926**	
Total investments	**50.5**	**4.19%**	**46.0**	**5.57%**
Net debt	**50.133**		**45.653**	

The maturity structure of the debt portfolio was as follows:

	31.3.23 Actual £'000	31.3.24 Actual £'000
Under 12 months	21	21
12 months and within 24 months	21	20
24 months and within 5 years	50	40
5 years and within 10 years	25	15
10 years and above	250	250

INVESTMENT PORTFOLIO	31.3.23 Actual £m	31.3.22 Actual %	31.3.23 Actual £m	31.3.23 Actual %
Treasury investments				
Banks	11.0	22	2.0	4
Building Societies - rated	8.0	16	0.0	0
Building Societies – unrated	0.0	0	0.0	0
Local authorities	29.0	57	44.0	96
DMADF (H M Treasury)	2.5	5	0.0	0
TOTAL TREASURY INVESTMENTS	50.5	100%	46.0	100%

The maturity structure of the investment portfolio was as follows:

	31.3.23 Actual £m	31.3.24 Actual £m
Investments Longer than 1 Year	2.0	2.0
Investments Up to1 Year	48.5	44.0

4. The Strategy for 2023/24

The strategy in 2023/24 was to continue lending to UK banks, building societies, money market funds and Local Authorities and allow investments with non-UK banks with a credit rating greater than AA- with a AAA Country rating. Only UK banks that met credit rating criteria ("BBB" or above for longer term deals, and F3 or above for short term deals) were on the Council's lending list. (These are Fitch definitions of ratings). Not all building societies are credit rated but this did not preclude them from the lending list as lending to a building society was dependant on their asset size. Where a society did have a rating, this was considered at the time of the deal taking into account the amount of investment and the length of the deal.

4.1 Investment strategy and control of interest rate risk

Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market was pricing in a first cut in Bank Rate in either June or August 2024.

The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.

While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

4.2 Borrowing strategy and control of interest rate risk

The policy of avoiding new borrowing by running down spare cash balances which has served well over the last few years continued during 23/24.

Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently (at February 2024) the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

5. Borrowing Outturn

Borrowing
No new borrowing was undertaken during the year

Borrowing in advance of need
The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

Rescheduling
No rescheduling was done during the year as the approximate 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

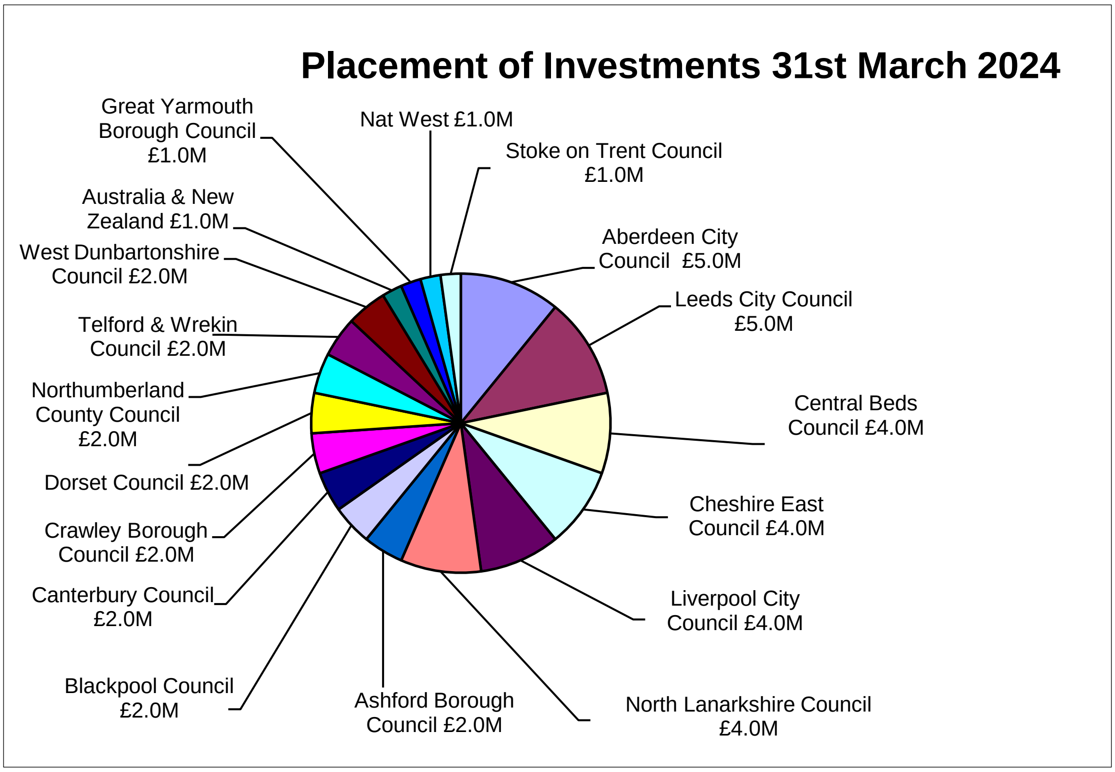
Repayments
£20K of PWLB loans were repaid during the year, as they became due.

6. Investment Outturn

Investment Policy – the Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the annual investment strategy approved by the Council on 23 February 2023. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the Fitch credit rating agency for banks and asset size for building societies.

The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

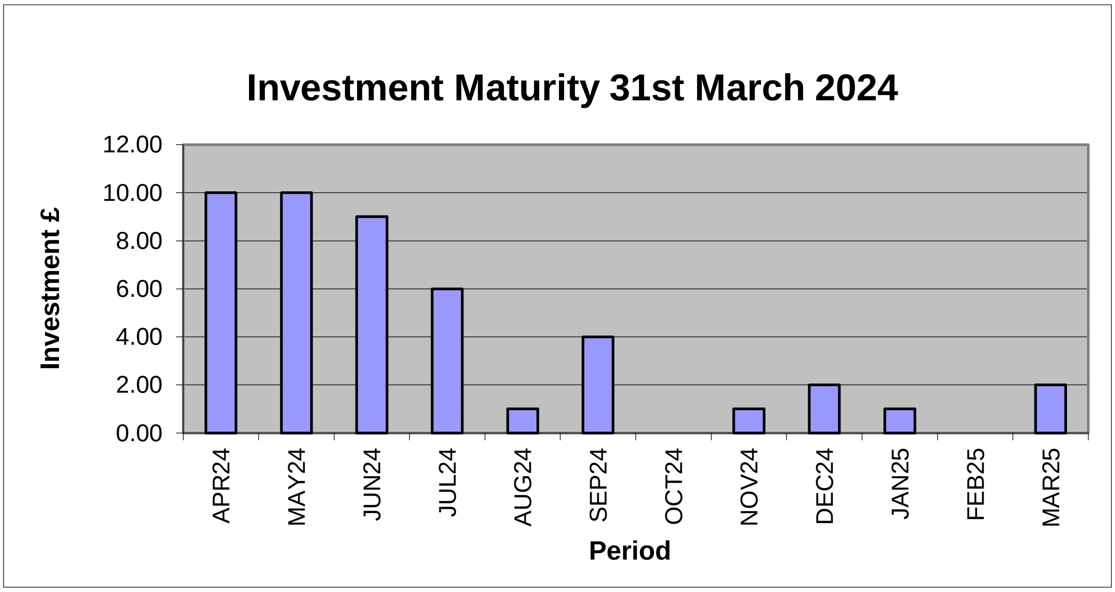
The pie chart below shows the spread of investment balances as at 31 March 2024. This is a snapshot in time that demonstrates the diversification of investments.



The average daily balance of investments was £57.0m with balances varying between £46m and £72.0m.

£2.941m of interest was generated from investments during the year. This is as budgeted for at Quarter 3 (£2.940M), but significantly more than the original budget of £1.602million.

The graph below shows the maturity profile of investments at 31st March 2024.



The level of risk of any investment will be affected by the riskiness of the institution where it is invested and the period that it is invested for. Where an institution has a credit rating this can be used to measure its riskiness. This can be combined with the period remaining on the investment to give a historic risk of default percentage measure. The table below shows the Historic Risk of Default for outstanding investments at 31 March. The most risky investment still has a risk of default of only around 0.044%. It should also be noted that in general the interest rate received is correlated to the risk, so the interest income received would be less if it took on less risk. All investments have been made in accordance with the Investment Strategy. The risk of default is also affected by the length of the investment.

Borrower	Interest Rate %	Principal	Days to Maturity from 31/03/24	Risk of Default %	Expected Credit Loss £
Telford & Wrekin Council	5.7	2,000,000	15	0.001	0
Ashford Borough Council	5.65	2,000,000	17	0.001	0
Cheshire East Council	5.5	2,000,000	22	0.001	0
Central Beds Council	5.45	2,000,000	23	0.001	0
Crawley Borough Council	5.55	2,000,000	26	0.002	0
Aberdeen City Council	5.7	3,000,000	33	0.002	0
Blackpool Council	5.5	1,000,000	37	0.002	0
Central Beds	5.5	2,000,000	43	0.003	0
North Lanarkshire Council	5.55	2,000,000	54	0.003	0
Aberdeen City Council	5.55	2,000,000	60	0.004	0
Leeds City Council	5.5	5,000,000	64	0.004	0
Cheshire East Council	5.5	2,000,000	64	0.004	0
Canterbury Council	5.65	2,000,000	78	0.005	0
Australia and New Zealand Bank	5.51	1,000,000	93	0.011	113
Nat West	5.26	1,000,000	93	0.011	113
Dorset Council	5.51	2,000,000	99	0.006	0
Liverpool City Council	5.55	2,000,000	121	0.008	0
Blackpool Council	5.9	1,000,000	144	0.009	0
North Lanarkshire Council	5.8	2,000,000	170	0.011	0
Northumberland County Council	5.55	2,000,000	183	0.012	0
Great Yarmouth Borough Council	5.6	1,000,000	227	0.014	0
West Dunbartonshire Council	5.7	2,000,000	260	0.017	0
Stoke on Trent City Council	5.75	1,000,000	303	0.019	0
Liverpool City Council	5.25	2,000,000	354	0.023	0
Total	**5.57**	**46,000,000**		**0.006**	**226**

Under IFRS 9, the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default.