Meeting Name:	Council Assembly
Date:	17 July 2024
Report title:	Treasury Management – Outturn 2023-24
Ward(s) or groups affected:	All
Classification:	Open
Reason for lateness (if applicable):	N/A
From:	Strategic Director of Finance

RECOMMENDATION

1. That Council Assembly note the 2023-24 treasury management annual outturn report and in particular;

   - the update on the Economic Background.
   - that all treasury management activity was undertaken in compliance with the 2023-24 approved treasury management strategy and the council's prudential indicators for 2023-24, attached at appendix A.
   - that the balance outstanding on all external debt as at 31 March 2024 was £1,085m.
   - that the balance on investments as at 31 March 2024 stood at £63m.

BACKGROUND INFORMATION

2. In compliance with the Local Government Act 2003, the council has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA) Treasury Management Code of Practice (the Code). The Code requires local authorities to prepare an annual treasury management strategy and, as a minimum, formally report on their treasury activities and arrangements to Council Assembly mid-year and after the financial year-end.

3. The Code provides the following objective regarding treasury management:

   "It is important that treasury management policies adequately reflect risk and in particular security, liquidity and yield, in that order of importance. No treasury management transaction is without risk and management of

risks is the key purpose of the treasury management strategy."

4. The council is exposed to financial risks from its investments, existing external debt, as well as future borrowing requirements arising from the council's capital programme. The risks include potential losses from investments and increased borrowing costs from changing interest rates. The successful identification, monitoring and control of risk remain central to the Authority's treasury management strategy.

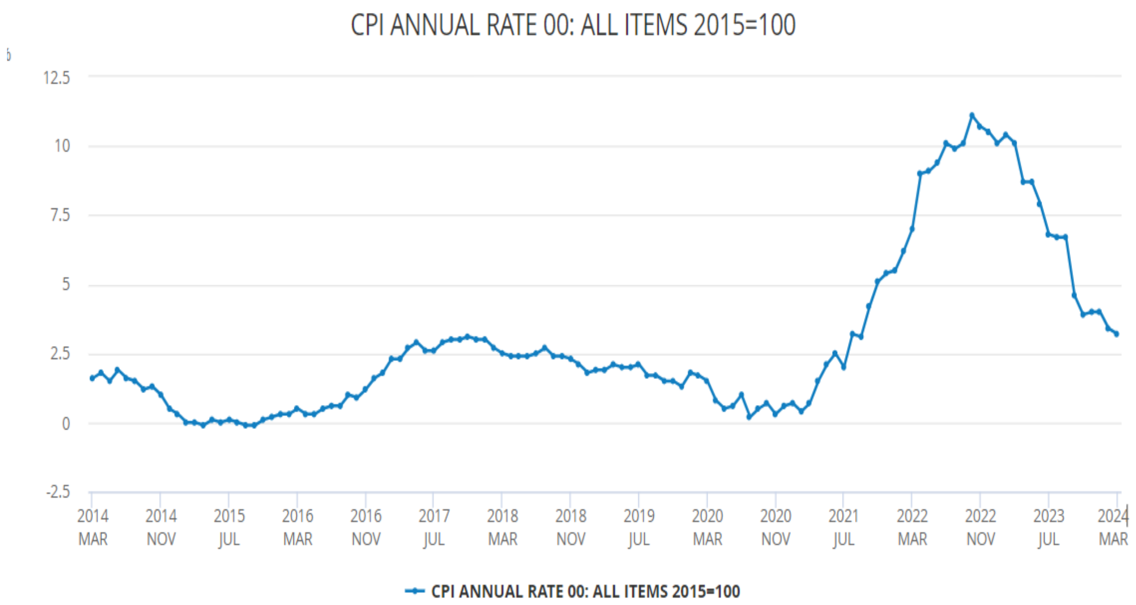
KEY ISSUES FOR CONSIDERATION

Economic Background: April 2023 to March 2024

5. UK inflation continued to decline from the 8.7% seen at the start of 2023/24. By February 2024, consumer price inflation (CPI) had fallen to 3.4%, but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

6. The UK economy entered a technical recession in the second half of 2023. The Office for National Statistics reported a rebound in activity with the economy expanding 0.2% in January 2024. The data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

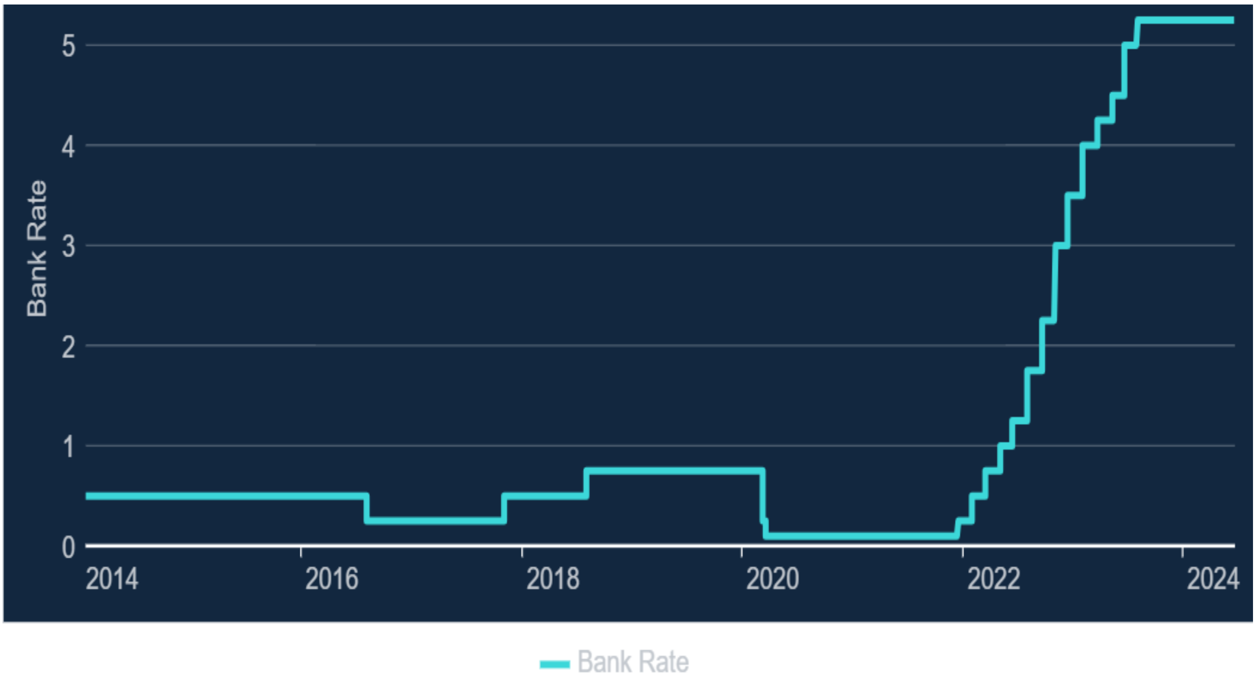
<u>CPI Inflation 2014 – 2024</u>



7. The Monetary Policy Committee (MPC) increased the Bank of England base rate from 4.25% to 5.25% in August 2023 and this rate was maintained through to March 2024.

8. Following the MPC meeting in August 2023, Arlingclose, the authority's treasury adviser, maintained its central view that the base rate will peak at 5.25% and that interest rates will most likely start to be cut later in the second quarter of 2024.

Bank of England base rate 2014 - 2024



OUTTURN 2023-24

9. The 2023-24 treasury management strategy was approved by Council Assembly in February 2023. Under financial delegation, all executive, managerial and operational decisions are the responsibility of the Strategic Director of Finance.

Debt Management

10. As at 31 March 2024, outstanding debt held by the council was £1,085m, (£991m as at 31 March 2023).

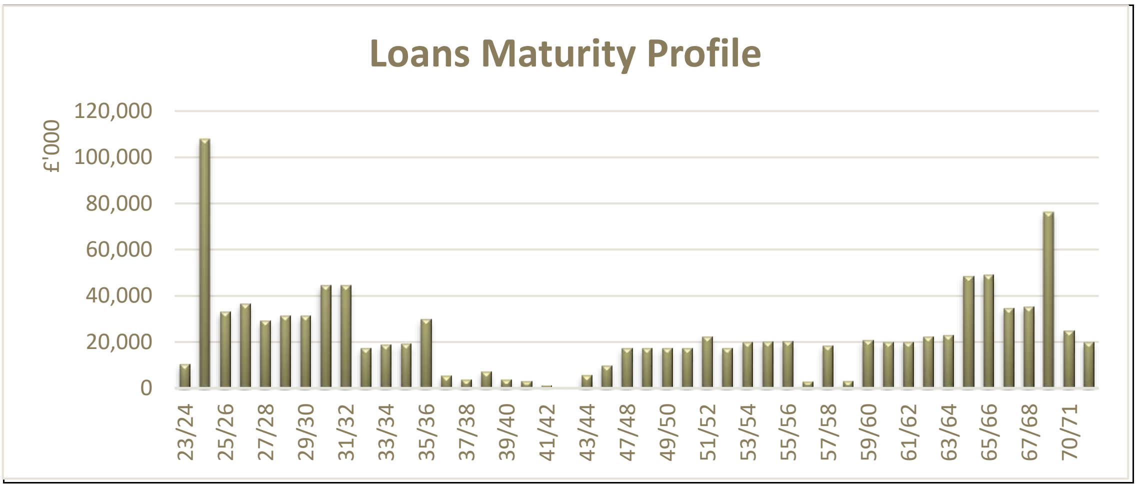
11. In the financial year to 31 March 2024, the council borrowed £115m from the Public Works Loans Board, in various tranches ranging from 1 to 13 years maturity, at an average interest rate of 4.21%.

12. Long-term borrowing is supplemented by short-term borrowing from other local authorities to manage cash flow. This approach continued during 2023-24. As at 31 March 2024: Short-term borrowings outstanding from other local authorities was £65m at an average rate of 6.29%. The weighted average rate of interest for the council's overall debt portfolio was 3.91%

as at 31 March 2024. (Long-term weighted average rate of 3.76% and short-term weighted average was 6.22%).

13. It is expected that further borrowing will be required in 2024-25 to re-finance maturing debt and to finance the growing capital programme. The council will consider a number of borrowing sources, both long and short term. Decisions on the most optimal and value for money source and duration of the borrowing will be made in the context of any changes in interest rates and the longer term cash flow requirements of the council.

14. The maturity profile of outstanding long-term debt as at 31 March 2024 is shown in the chart below:



Provision for repayment of debt

15. Each year, the general fund sets aside sums, known as the minimum revenue provision (MRP), to reduce its borrowing liabilities. In 2023-24, £12.6m (£11.2m in 2022-23) was set aside to repay debt. The HRA can, voluntarily, also set aside sums to reduce its borrowing liabilities. However, there were were no additional sums set aside in 2023-24.

Investment Management

16. CIPFA published a revised Treasury Management in the Public Services Code of Practice and Cross-sectoral Guidance Notes on 20th December 2021. These define treasury management investments as investments that arise from the organisation's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until cash is required for use in the course of business.

17. The council has funds invested, representing income received in advance of expenditure plus balances and reserves held. Council cash that is not immediately required for current expenditure is invested in money market instruments in accordance with the DLUHC Guidance on Local Authority Investments and the investment strategy as approved by Council Assembly each financial year.

18. In accordance with DLUHC guidance, the council gives priority to the security and liquidity of any investments made and then seeks a return commensurate with these principles. The Authority's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

19. Council investments are managed both in-house and delegated to two external fund managers (Alliance Bernstein and Aberdeen Standard Investments). The focus for in-house investment is to meet variable near-term cash liquidity requirements. The council has been winding down its investments with external fund managers to help reduce the council's borrowing requirement.

20. The external fund managers invest over a longer term, across a range of investment instruments including UK government gilts, supranational bank bonds, and certificates of deposits and covered bonds issued by major banks/ building societies. The use of fund managers has the advantage of diversification of investment risk, coupled with the services of professional fund managers, which over the longer term, provides enhanced returns commensurate with the council's risk appetite. Although investments can be redeemed from the fund managers at short notice, the intention initially, was to hold them for the medium term.

21. However, considering our borrowing requirements, we have gradually been winding down our portfolio with the external fund managers. The maturity profiles have been restructured, with full liquidation by September 2024. The process is designed to create minimum deviation from current portfolio valuation. Their performance and suitability in meeting the council's investment objectives are regularly monitored.

22. As at 31 March 2024, total investments stood at £63m (£220m at 31 March 2023). The overall rate of return on investments during 2023-24 was 4.43% (2.07 % in 2022-23).

23. Internally managed funds achieved a return on its share of the portfolio of 4.46% in 2023-24. (2.14% in 2022-23)

24. To assess the external fund manager's portfolio, the council measures the return against a composite investment benchmark of three month LIBID and one to three year gilt index. For the financial year, the benchmark index annualized return was 4.37%. Actual external fund manager return was 4.70%, indicating a better performance compared to the benchmark.

25. The rate of return generated by the treasury management portfolio is a consequence of the council's prudent, low risk approach to treasury management investment policy. This is in line with the requirements of the statutory guidance for local government treasury investments issued by DLUHC.

26. The distribution of investments by maturity and credit rating as at 31 March 2024 is set out in the following table.

Maturity Profile and Credit Ratings

	A		AA		AAA		Total	
Investment Maturity	**£m**	**%**	**£m**	**%**	**£m**	**%**	**£m**	**%**
Up to 1 Year	7	11	5	9	40	63	52	83
1-2 Years	1	1	2	3	3	5	6	9
2-5 Years	2	3	3	5	0	0	5	8
Total	**10**	**15**	**10**	**17**	**43**	**68**	**63**	**100**

AAA represents the highest credit quality, AA represents very high credit quality and A represents high credit quality.

Table: Revenue Implications of Treasury Management Activities

27. As can be seen from the table below, net interest payable shows a favourable variance against budget of £6.2m.

	2023-24		
	Budget	**Outturn**	**Variance**
	£'000	**£'000**	**£'000**
HRA			
Interest payable	24,731	32,793	8,062
Interest receivable	(450)	(9,080)	(8,630)
HRA Net Interest	**24,281**	**23,713**	**(568)**
GF			
Interest payable	12,901	6,623	(6,278)
Interest receivable	(700)	(70)	630
GF Net Interest	**12,201**	**6,553**	**(5,648)**
NET INTEREST TOTAL	**36,482**	**30,266**	**(6,216)**

Non-Treasury Investments

28. The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council as well as other non-financial assets which are held primarily or partly for financial return. These include:

- The council's commercial property portfolio is valued at £309.5m (£309.5m at 31 March 2023), and this generated investment income of £20.9m in 2023-24.

- The balance of loans to local institutions totalled £26.4m at 31 March 2024.

Prudential Indicators - Actuals

29. Local authority borrowing, investment and capital finance activity is supported by the Prudential Code for Capital Finance, the Treasury Management in the Public Services Code of Practice and related guidance published by CIPFA. The codes require councils to set a series of indicators and limits each year. The 2023-24 indicators were agreed in February 2024, before the start of the financial year. Appendix A shows the outturn of the Authority against the 2023-24 prudential indicators.

30. The council complied with its prudential indicators throughout 2023-24.

Community, Equalities (including socio-economic) and Health Impacts

31. This report monitors the council's compliance with the treasury management strategy and prudential indicators as agreed in February 2023. This report has been judged to have no direct impact on local people and communities.

Climate change implications

32. There are no climate change implications arising directly from this report.

Resource implications

33. There are no direct resource implications in this report.

Consultation

34. There has been no consultation on this report.

SUPPLEMENTAL ADVICE FROM ASSISTANT CHIEF EXECUTIVE – GOVERNANCE AND ASSURANCE

35. The constitution determines that agreeing the treasury management strategy is a function of the council assembly and that review and scrutiny of strategies and policies is the responsibility of the audit, governance and standards committee.

36. Financial standing orders require the Strategic Director of Finance to set out the treasury management strategy for consideration and decision by council assembly, and report on activity on a regular basis to cabinet and at mid and year-end to council assembly. Furthermore, all executive and operational decisions are delegated to the strategic director of finance and governance.

37. The Local Government Act 2003 ("the 2003 Act") and supporting regulations require local authorities to determine annual borrowing limits and have regard to the Prudential Code for Capital Finance, and the Treasury Management in the Public Services Code of Practice and Guidance, published by the Chartered Institute of Public Finance and Accountancy, when considering borrowing and investment strategies, determining or changing borrowing limits or prudential indicators.

38. Section 15(1) of the 2003 Act requires a local authority "to have regard (a) to such guidance as the Secretary of State may issue". This guidance is found in the Ministry of Housing, Communities and Local Government Guidance on Local Authority Investments updated February 2018 and there is statutory guidance on the Minimum Revenue Provision (MRP) made under section 21(1A) of the 2003 Act.

39. Section 12 of the 2003 Act grants local authorities the powers to invest for any purpose relevant to its functions or for the purposes of the prudent management of its financial affairs.

Community, equalities (including socio-economic) and health impacts

Community impact statement

40. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Equalities (including socio-economic) impact statement

41. This report is not considered to contain any proposals that would have a significant equalities impact.

Health impact statement

42. This report is not considered to contain any proposals that would have a significant health impact.

Climate change implications

43. This report is not considered to contain any proposals that would have a significant impact on climate change.

BACKGROUND DOCUMENTS

Background Papers	Held at	Contact
Capital and Treasury Management Strategy 2023-24	160 Tooley Street	Caroline Watson

APPENDICES

No.	Title
Appendix A	Prudential Indicators – 2023-24 Actuals

AUDIT TRAIL

Lead Officer	Clive Palfreyman, Strategic Director of Finance	
Report Author	Caroline Watson, Chief Investment Officer	
Version	Final	
Dated	02 July 2024	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	**Comments Sought**	**Comment included**
Assistant Chief Executive – Governance & Assurance	Yes	Yes
Strategic Director, Finance	No	N/A
Cabinet Member	Yes	No
Date final report sent to Constitutional Team		02 July 2024

APPENDIX A

PRUDENTIAL INDICATORS: 2023-24 ACTUALS

BACKGROUND

1. Capital finance, borrowing and investment arrangements are supported by a series of prudential indicators, drawn from the Prudential Code on Capital Finance for Local Authorities and the Treasury Management in the Public Services Code of Practice plus Guidance, published by CIPFA. The Local Government Act 2003 requires that councils have regard to these codes. The indicators were approved by Council Assembly in February 2023. This appendix updates the 2023-24 indicators as per the un-audited statement of accounts for 2023-24.

2. The indicators are grouped into three broad areas: affordability and prudence, capital finance and treasury management. The indicators are of a technical nature and existing budgets take account of capital finance and treasury activities. The indicators themselves have no effect on those budgets.

AFFORDABILITY AND PRUDENCE INDICATORS

3. The indicators below are for affordability and prudence.

2022-23	2023-24	
		Ratio of Financing Cost to Net Revenue Stream A measure of the cost of borrowing and long term liabilities (e.g. PFI) net of interest income and set-asides, as a percentage of revenue.
7%	8%	HRA
4%	3%	General fund

		Capital Financing Requirements (CFR) and Gross Debt The CFR is the balance remaining on past capital expenditure financed through debt and long term liabilities (e.g. PFI). The level of gross debt should not exceed the CFR unless prudent over the short term. Actual gross debt remained below the CFR throughout 2023-24 on account of cash balances, internal borrowing and PFI transactions.
£1,503m	£1,753m	CFR
£991m	£1,085m	Gross debt

CAPITAL FINANCING INDICATORS

4. The indicators below are for capital finance.

2022-23	2023-24	
Capital Expenditure - Capital expenditure includes PFI funded spend.		
£318m	£331m	HRA
£88m	£102m	General fund
£406m	**£433m**	**Total**

. ***Capital Financing Requirement (CFR)*** - the CFR is capital expenditure yet to be financed through borrowing and long term liabilities (e.g. PFI), taking into account available internal resources.		
£704m	£896m	HRA
£799m	£857m	General fund
£1,503m	**£1,753m**	**Total**

TREASURY MANAGEMENT INDICATORS

5. The indicators below are for treasury management.

Operational Boundary and Authorised Limit for External Debt:

These are limits the council determines to accommodate borrowing and long term liabilities.
The lower limit is the operational boundary and takes account of existing positions and ordinary activity and the higher limit is the authorised limit, enabling additional borrowing to be taken for very short periods, in the interest of prudence, within a risk controlled framework.

2022-23 Outturn	**2023-24 Limit**	**2023-24 Outturn**	**Operational Boundary**
£991m	£1,519m	£1,085m	Borrowing (maximum outstanding in year)
£76m	£ 71m	£66m	Other Long -Term Liabilities
£1,067m	**£1,590m**	**£1,151m**	**Total**

			Authorised Limit
£991m	£1,910m	£1,085m	Borrowing (maximum outstanding in year)
£76m	£ 120m	£66m	Other Long -Term Liabilities
£1,067m	**£2,030m**	**£1,151m**	**Total**

2022-23 Outturn	2023-24 Limit	2023-24 Outturn	
77%	100%	94%	**Gross and Net Debt** An upper limit on net debt as a percentage of gross debt. The net debt has remained below gross on account of investments held to meet spend.

			Maturity Structure of Borrowing Limits accommodating existing positions with flexibility to vary exposure within a risk controlled framework.
9%	35%	11%	Under 1 year
4%	35%	3%	1 year and within 2 years
9%	50%	9%	2 years and within 5 years
10%	75%	14%	5 years and within 10 years
69%	100%	63%	10 years and over
			Limits on Investments Greater than One Year Caps on the maximum exposure to longer investments, while recognising benefits from prudent exposure within a risk controlled framework.
6%	65%	18%	Percentage longer than one year
9.4 months	2.5 years	1.1 months	Overall maximum average maturity