Treasury Management Outturn Report 2023/24

1. Introduction

1.1 In February 2011 this Council adopted the Chartered Institute of Public Finance and Accountancy's *Treasury Management in the Public Services: Code of Practice* (the CIPFA Code) which requires the Authority to approve a treasury management annual report after the end of each financial year.

1.2 The continuing economic recovery from coronavirus pandemic, together with the war in Ukraine, higher inflation, and higher interest rates were major issues over the period.

1.3 UK CPI (UK measure of inflation) was 8.7% at the start of 2023/24. By the last quarter of the financial year this had fallen to 3.2% but was still above the Bank of England's 2% target at the end of the period.

1.4 Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023 with a 3-way split in the Committee's voting as the UK economy appeared resilient in the face of the dual headwinds of higher inflation and interest rates. Bank Rate was maintained at 5.25% through to March 2024. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

2. Main Points

2.1 Investment and borrowing interest for 2023/24 have produced a net surplus of £16,815 against the revised budget.

2.2 Pooled Funds have returned dividends that were budgeted at the start of the financial year and starting against higher capital values returned 4.49% against the £7m invested in this area.

2.3 The capital values of the Pooled Funds realised losses of over £6k for 2023/24.

2.4 The Council had debt of £201.326m as of 31st March 2024 at an average rate of 4.18%.

2.5 All treasury prudential indicators were within their permitted limits for 2023/24.

3. Local Context

3.1 On 31st March 2024, the Authority had net borrowing of £179.339m arising from its revenue and capital expenditure, an increase on 2022/23 of £13.048m. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

3.2 The Council's strategy was to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and keep interest costs low. The treasury management position as of 31st March 2024 and the year-on-year change is shown in table 1 below.

3.3 On 31st March 2024, the Authority had net borrowing of £179.399m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while balance sheet resources are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary

	31.3.23 Actual £m	**31.3.24 Actual £m**
General Fund CFR	125.425	130.309
HRA CFR	66.715	73.341
Total CFR	**192.140**	**203.650**
External borrowing	179.111	201.326
Internal (over) borrowing	13.029	2.324
Less: Balance sheet resources	(20.755)	(21.927)
Net borrowing	**158.356**	**179.399**

3.4 The treasury management position at 31st March 2024 and the change during the year is shown in table 2 below.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	**2023/24 Movement £m**	**31.3.24 Balance £m**	**31.3.24 Rate %**
Long-term borrowing Short-term borrowing	116.111 63.000	18.815 3.400	134.926 66.400	3.33 5.90
Total borrowing	**179.111**	**22.215**	**201.326**	**4.18**
Long-term investments Short-term investments Cash and cash equivalents	(15.850) - (4.905)	(1.077) - (0.095)	(16.927) - (5.000)	4.50 - 5.29
Total investments	**(20.755)**	**1.172**	**21.927**	**4.89**
Net borrowing	**158.356**	**21.043**	**179.399**	

3.5 Borrowing Activity as at 31st March 2024, the Authority held £201.326m of loans, an increase of £22.215m on the previous year. New borrowing of £20m was taken from the PWLB in 2023/24 due to an opportunity when the gilt market rates reduced to lower than the base rate. This enabled the Council to take out a 11 year loan at the rate of 4.32% to fund previous and current capital expenditure financed by borrowing.

Table 3: Borrowing Position

	31.3.23 Balance £m	**2023/24 Movement £m**	**31.3.24 Balance £m**	**31.3.24 Rate %**
Public Works Loan Board	102.211	18.815	121.026	3.27
Banks (LOBO)	5.000	-	5.000	3.95
Banks (fixed-term)	8.900	-	8.900	3.82
Banks (short-term LOBO)	2.000	(2.000)	0	4.95
Local authorities (short-term)	61.000	5.4000	66.400	5.90
Total borrowing	**179.111**	**22.215**	**201.326**	**4.18**

3.6 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Authority's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio.

3.7 Long term interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. Gilt yields fell in late 2023, reaching April 2023 lows in December 2023 before rebounding to an extent in the first three months of 2024. Gilt yields have remained volatile, seeing upward pressure from perceived sticker inflation at times and downward pressure from falling inflation and a struggling economy at other times.

3.8 The cost of short term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates are expected to fall back to more normal market levels in April 2024.

3.9 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Council.

PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield unless these loans are for refinancing purposes.

3.10 The Authority currently holds PWLB debt of £42.018m for commercial investments that were purchased prior to the change in the CIPFA Prudential Code.

4. Investment Activity

4.1 The Council holds invested funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24 the Council's investment balance ranged between £14.5m and £27m due to timing differences between income and expenditure. The year-end investment position and the year-on-year change in show in table 3 below.

Table 4: Investment Position (Treasury Investments)

	31.3.23 Balance £m	**2023/24 Movement £m**	**31.3.24 Balance £m**	**Interest Rate %**
Banks & Building Societies	0	0	0	-
Government (inc. Local	0	0	0	-
Authorities)	4.905	0.095	5.000	5.29
MMF's/Call Accounts	7.000	0	7.000	4.49
Pooled Funds	8.850	1.077	9.927	4.10
Other Investments				
Total Investments	**20.755**	**1.172**	**21.927**	**4.89**

4.2 £7m of the Council's investments are held in externally managed strategic pooled (bond, equity, multi-asset and property) funds where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated a total return of £314k (4.49%), with the capital value of these funds fell by just £6k, which is treated as an unrealised capital loss. See table 4 below for a breakdown of the individual returns for each fund.

Table 5: Current Pooled Funds

Fund Manager	Investment	Capital Value as at 31st March 2023	Capital Value as at 31st March 2024	Dividends Received 2023/24	2023/24 Gain/(Loss)	Gain/(Loss) v Original Investment
	£	£	£	£	£	£
CCLA Property Fund	3,000,000	2,704,632	2,599,135	136,164	(105,497)	(400,865)
Schroders Income Maximiser Fund	2,000,000	1,528,554	1,535,497	126,496	6,943	(464,503)
CCLA Diversified Income Fund	2,000,000	1,884,988	1,977,682	51,525	92,694	(22,318)
Total –current Funds	**7,000,000**	**6,118,174**	**6,112,314**	**314,185**	**(5,860)**	**(887,686)**

4.5 The nature of these funds is that values can fluctuate from one year to another. Their performance and suitability in meeting the Council's investment objectives are monitored and discussed with Arlingclose on a regular basis. Because these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the Council's investment objectives is regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years; but with the confidence that over a three to five-year period total returns will exceed cash interest rates.

5. Financial Implications

5.1 The outturn for debt interest paid in 2023/24 was £6.684 million (3.70%) on an average debt portfolio of £180.468 million against a budgeted £6.373 million. A deficit of £75k was recorded for the financial year after taking into account the re-imbursement of £2.760m for the debt associated to the HRA for 2023/24.

5.2 The outturn for investment income received in 2023/24 was £1.307m which equates to a 5.10% return (22/23 – 2.98%) on an average investment portfolio of £19.834 million against a budgeted £1.153m. The General Fund reimbursed the HRA £62k for revenue balances held within investment balances during 2023/24. A General Fund surplus of £92k was made for investment income.

5.3 Net loans and investments budget for 2023/24 which also includes leasing and third party loans repayments, was a budgeted cost of £2.694m but made an actual cost return of £2.677m, a surplus of £17k. See table 6 below for a breakdown.

Table 6 – Borrowing and Investment Costs

Borrowing Costs	2023/24 Original £	2023/24 Revised £	2023/24 Actual £	Variance (surplus)/loss £
Temp Borrowing	1,825,000	2,684,291	2,807,887	123,596
LT Borrowing	3,744,349	3,688,746	3,874,684	185,938
HRA Share	(2,198,751)	(2,525,630)	(2,760,342)	(234,712)
Total GF Cost	**3,370,598**	**3,847,407**	**3,922,229**	**74,822**
Investment Income	2023/24 Original £	2023/24 Revised £	2023/24 Actual £	Variance (surplus)/loss £
Pooled Funds	293,200	293,200	314,184	(20,984)
Short term/call	255,100	140,556	181,050	(40,494)
Other Loans/Lease	727,455	794,555	812,070	(17,515)
HRA Share	(52,500)	(75,000)	(62,355)	(12,645)
Total GF Income	**1,223,255**	**1,153,311**	**1,244,949**	**(91,638)**
NET COST (Saving)	**2,147,343**	**2,694,096**	**2,677,280**	**(16,816)**

6. Compliance Report

6.1 The Council can confirm that it has complied with its Prudential Indicators for 2023/24, which was set in March 2023 as part of the Council's Treasury Management Strategy and Capital Strategy. In compliance with the requirements of the CIPFA Code of Practice this report provides members with a summary report of the treasury management activity during 2023/24. None of the Prudential Indicators have been breached and a prudent approach has been taking in relation to investment activity with priority being given to security and liquidity over yield.

The Prudential Indicators include:

- Authorised and Operational Boundary for External Debt
- Average Credit rating
- Upper limits for fixed interest rate exposure and variable interest rate exposure
- Upper limit for total principal sums invested over 364 days.

Table 7: Debt Limits

	2023/24 Maximum £m	**31.3.24 Actual £m**	**2023/24 Operational Boundary £m**	**2023/24 Authorised Limit £m**	**Complied**
Borrowing	201.326	201.326	262	272	✓

6.2 Since the operational boundary is a management tool for in-year monitoring it is not significant if the operational boundary is breached on occasions due to variations in cash flow, and this is not counted as a compliance failure. Total debt was never above the operational boundary during 2023/24.

7. Treasury Management Indicators

The Authority measures and manages its exposures to treasury management risks using the following indicators.

7.1 Maturity Structure of Borrowing

This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

Table 8 Maturity structure of borrowing

	31.3.24 Actual	Actual Debt Due	Upper Limit	Lower Limit	Complied
Under 12 months	45.46%	£91.528m	50%	0%	✓
12 months and within 24 months	1.49%	£3.008m	50%	0%	✓
24 months and within 5 years	6.71%	£13.514m	100%	0%	✓
5 years and within 10 years	14.21%	£28.608m	100%	0%	✓
10 years and above	32.13%	£64.668m	100%	0%	✓

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The actual maturity percentages for 31st March 2024 are calculated on the debt outstanding of £201.326m.

7.2 Principal Sums Invested for Periods Longer than 364 days

The purpose of this indicator is to control the Authority's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

Table 9 Principal invested over 364 days

	2021/22	2022/23	2023/24
Actual principal invested beyond year end	7m	7m	7m
Limit on principal invested beyond year end	10m	10m	10m

Complied	✓	✓	✓