





# Audit Committee

<b>Report for:</b>	Audit Committee
<b>Title of report:</b>	Treasury Management Outturn and Performance Indicators 2023/24
<b>Date:</b>	18th September 2024
<b>Report on behalf of:</b>	Cllr Michela Capozzi, Portfolio Holder for Corporate & Commercial
<b>Part:</b>	I
<b>If Part II, reason:</b>	N/A
<b>Appendices:</b>	
<b>Background papers:</b>	Cabinet 20 <sup>th</sup> June 2023 – Treasury Management Strategy (Appendix D to Provisional Outturn Report)
<b>Glossary of acronyms and any other abbreviations used in this report:</b>	CIPFA-The Chartered Institute of Public Finance and Accountancy CFR- Capital Financing Requirement CPI- Consumer Price Index



### Report Author / Responsible Officer

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<b>Corporate Priorities</b>	A clean, safe and enjoyable environment Building strong and vibrant communities Ensuring economic growth and prosperity Providing good quality affordable homes, in particular for those most in need Ensuring efficient, effective and modern service delivery Climate and ecological emergency
<b>Wards affected</b>	All

<b>Purpose of the report:</b>	1. To report upon the outturn performance for treasury management in 2023/24.
<b>Recommendation (s) to the decision maker (s):</b>	1. Note the contents of the report on Treasury Management performance and the Prudential Indicators for 2023/24.
<b>Period for post policy/project review:</b>	Not applicable.

## 1 Introduction/Background:

The Council is required by 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 in the Public Services (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities.

For 2023/24 the minimum reporting requirements were that Full Council should receive:

- an annual Treasury Management Strategy Statement in advance of the year;
- a mid-year Treasury Management update report;
- an annual review following the end of the year describing the activity compared to the strategy (this report).
- A quarterly update on treasury management performance and all forward looking prudential indicators.

This report provides the outturn position for the Council's treasury activities and highlights compliance with the Treasury Management Strategy 2023/24 previously approved by Members in July 2023.

Following review by Audit Committee, this report will be presented to Cabinet to recommend to Full Council to accept the report on Treasury Management Performance for 2023/24.

## 2 Key Issues/proposals/main body of the report:

### The Economy and Interest Rates

- 2.1 Investment returns increased throughout 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures using higher interest rates.
- 2.2 Starting April 2023 at 4.25%, the Bank of England base rate had increases of either 0.25% or 0.5%, reaching 5.25% by August 2023. There were no further rate increases during 2023/24. A decrease in the base rate to 5.00% was made in August 2024.
- 2.3 The CPI measure of inflation was 3.2% in March 2024. At July 2024 this had fallen to 2.2%.
- 2.4 UK unemployment was below 4% at the end of 2023/24 and annual wage inflation running at above 5%. At the time of writing, the UK unemployment rate stands at 4.2% with updated official figures due for release on 10<sup>th</sup> September 2024.

### Treasury Position as at 31 March 2024

- 2.5 The Council's underlying need to borrow to finance 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.

2.6 The Council's CFR was £364.0m at the end of the year. This includes the borrowing from the Public Works Loan Board following the introduction of HRA Self-financing and borrowing taken in 2015/16 for General Fund capital expenditure. HRA self-financing involved the transfer of national housing debt from central government to local authorities with HRA responsibilities. No new external loans were undertaken during 2023/24. The Housing Revenue Account had internal borrowing of £17.2m. This is where cash balances are utilised instead of external borrowing to fund the Capital Programme. Internal borrowing is usually cheaper than external borrowing.

2.7 The table below shows a decrease in balances available for investment as at 31 March 2024 compared to as at 31 March 2023 due to internal borrowing.

	31-Mar-23	Rate/ Return	Average Life	31-Mar-24	Rate/ Return	Average Life
<b>HRA and GF COMBINED</b>	£m	%	Years	£m	%	Years
<b>Capital Financing Requirement</b>	349.3			364.0		
<b>Total external debt*</b>	337.6			335.3		
<b>Total investments</b>	103.7	2.03	0.46	85.30	4.88	0.30
<b>Net external debt</b>	234.0			250.0		

\*including finance lease obligations

#### General Fund

2.8 The General Fund CFR (its need to borrow) was £17.9m at 31 March 2024.

2.9 The General Fund is under borrowed by £11.4m. This means the council is utilising its own cash balances to fund past capital expenditure rather than borrowing externally. This is usually cheaper.

	31-Mar-23	Rate/ Return	Average Life	31-Mar-24	Rate/ Return	Average Life
<b>GENERAL FUND (GF)</b>	£m	%	Years	£m	%	Years
<b>Total external debt</b>	6.4	3.04%	9	6.4	3.04%	8
<b>Finance leases</b>	0.2			0.2		
<b>Capital Financing Requirement</b>	18.3			17.9		
<b>Over / (under) borrowing</b>	(11.7)			(11.4)		

#### Housing Revenue Account

2.10 The HRA's CFR was £346m and external borrowing is £328.8m at 31 March 2024. During 2023/24 £2.31m of external borrowing was repaid in year and £17.2m of internal borrowing was undertaken as described in 2.6.

	31-Mar-23	Rate/ Return	Average Life	31-Mar-24	Rate/ Return	Average Life
<b>HOUSING REVENUE ACCOUNT (HRA)</b>	£m	%	Years	£m	%	Years
<b>Total external debt</b>	331.1	3.40%	14	328.8	3.41%	13
<b>Capital Financing Requirement</b>	331.1			346.0		
<b>Over / (under) borrowing</b>	0.0			(17.2)		

## Investment Outturn

- 2.11 The Council's 2023/24 investment policy (contained in its Treasury Management Strategy) sets out the approach for choosing investment counterparties. It is based on a system of credit ratings provided by the three main credit rating agencies, and supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc) provided by MUFG Pension & Market Services (formerly Link Asset Services), the Council's treasury management advisors.
- 2.12 The Council maintained an average balance of £111.8m of internally managed funds throughout 2023/24, earning an average rate of return of 4.88% compared with the previous year of 2.03%. The increase in return between years is attributable to interest rate rises described in 2.2.
- 2.13 Investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

## **Prudential and Treasury Indicators**

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

Actual prudential and treasury indicators	2022/23	2023/24	2023/24
	Actual	Original Budget Estimate	Actual
	£'000	£'000	£'000
<u>Capital expenditure</u>			
· General Fund	8,199	32,470	41,241
· HRA	34,884	81,248	17,400
· <b>Total</b>	<b>43,083</b>	<b>113,718</b>	<b>58,641</b>
<u>Capital Financing Requirement:</u>			
· General Fund	18,272	29,728	35,183
· HRA	331,077	364,174	328,768
· <b>Total</b>	<b>349,349</b>	<b>393,902</b>	<b>363,951</b>
External debt excluding finance leases	<b>337,446</b>	<b>355,214</b>	<b>335,137</b>
<u>Investments- balance at year end</u>			
· Longer than 1 year	0	0	0
· Under 1 year	103,668	48,853	85,304
· <b>Total</b>	<b>103,668</b>	<b>48,853</b>	<b>85,304</b>

- 2.15 To ensure borrowing levels are prudent over the medium term, Local Authority external borrowing can only be for capital purposes, i.e. it cannot be used to support revenue expenditure. Gross borrowing should not, except in the short term, exceed its CFR i.e. the Council's need to borrow. The Council complies with this indicator.

- 2.16 The **Authorised Limit** - the authorised limit is the “affordable borrowing limit” required by the Local Government Act 2003. The Council does not have the power to borrow above this level. During 2023/24 the Council maintained gross borrowing within its authorised limit.
- 2.17 The **Operational Boundary** – the operational boundary reflects the current borrowing position with an allowance for additional borrowing for cash flow purposes during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorised limit not being breached.

	2023/24
Authorised limit	£410.00m
Operational boundary	£355.402m

- 2.18 **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.

Ratio of financing costs to net revenue stream	31-Mar-23 Actual	2023/24 Original Limits	31-Mar-24 Actual
General Fund	-3.20%	-0.11%	-6.03%
HRA	19.14%	17.29%	17.71%

- 2.19 Due to higher interest rates the general fund’s interest received was greater than interest paid and minimum revenue provision costs.
- 2.20 The following table shows the **net debt position for the Council**. Net debt has increased by £16m due to a decrease in investments held as at 31 March 2024. Cash balances were lower at this date than at 31 March 2023 due to HRA internal borrowing.

	31-Mar-23	Rate/ Return	Average Life	31-Mar-24	Rate/ Return	Average Life
	£m	%	Years	£m	%	Years
Fixed rate funding:						
PWLB and Finance Leases	337.6	3.40%	14		3.40%	13
<b>Total external debt</b>	<b>337.6</b>	<b>3.40%</b>	<b>14</b>	<b>335.3</b>	<b>3.40%</b>	<b>13</b>
<b>CFR</b>	<b>349.349</b>			<b>364.0</b>		
<b>Over/ (under) borrowing</b>	<b>(11.7)</b>			<b>(28.6)</b>		
<b>Total investments</b>	<b>103.7</b>	<b>2.03</b>	<b>0.46</b>	<b>85.3</b>	<b>4.88</b>	<b>0.30</b>
<b>Net debt</b>	<b>234.0</b>			<b>250.0</b>		

- 2.21 The following table shows the **maturity structure of the debt portfolio**:

	31-Mar-23 actual	31-Mar-24 actual
Under 12 months	2.8	4.2
12 months and within 24 months	3.7	4.8
24 months and within 5 years	16.2	18.1
5 years and within 10 years	48.2	56.2
10 years and above	266.7	252.0

**3 Options and alternatives considered**

None. An annual treasury management review is a statutory requirement.

**4 Consultation**

The council liaise with MUFG Pension & Market Services, our Treasury advisors, on all treasury management matters.

**5 Financial and value for money implications:**

In accordance with the CIPFA Treasury Management in the Public Services Code of Practice, the order of the Council's investment priorities is 1. Security; 2. Liquidity; and, 3. Return. This may result in the Council achieving a lower rate of return than an organisation operating a more aggressive investment strategy in a less regulated sector.

**6 Legal Implications:**

There are no direct legal implications arising from this report.

**7 Risk implications:**

A prudent approach to investment is required to minimise the risk to the Council of investment losses, as outlined in the Council's Treasury Management Strategy 2023/24. This report provides an update on the delivery of that strategy.

**8 Equalities, Community Impact and Human Rights:**

A Community Impact Assessment is not required. There are no Human Rights Implications.

**9 Sustainability implications (including climate change, health and wellbeing, community safety):** Not applicable

**10 Council infrastructure (including Health and Safety, HR/OD, assets and other resources):** Not applicable

**11 Conclusion:**

The Annual Treasury Management Outturn Report for 2023/24 provides the outturn position for the Council's 2023/24 treasury activities and highlights compliance with policies previously approved by Members. Its approval is required for the Council to meet its statutory obligations in respect of Treasury Management activities.