

Review of Treasury Management Activity 2023/24

Introduction

The council's treasury management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's Codes of Practice on Treasury Management ("the Code") and the related Prudential Code which were updated in 2021. Authorities are required to produce Prudential Indicators and a Treasury Management Strategy Statement on planned financing and investment activity annually. This was approved for 2023/24 by Full Council on 9 February 2023.

Investment and borrowing decisions are taken based upon long-term borrowing requirements, the estimated level of reserves and actual and estimated cash-flow. They are also taken in the context of the current and forecast economic conditions. Consideration is also given to risks and compliance with Prudential Indicators. Therefore, this report provides commentary on the following factors for 2023/24:

- Economic environment
- Borrowing activity
- Investment activity
- Performance against the Prudential Indicators

Economic Environment During 2023/24

Treasury management activity in the year was undertaken against a backdrop of inflation being above the Bank of England's target and consequently in the first part of the year, increasing Bank Rate. With generally weak growth and falling inflation attention turned to when Bank Rate would peak and whether or not there would be subsequent reductions.

At the start of the year UK inflation was at 8.7% which was a fall from the peaks seen in 2022/23. The year saw inflation continuing to fall and in March 2024 the rate was at 3.2%. However, this was still above the Bank of England's 2% target at the end of the period.

The UK economy entered a technical recession in the second half of 2023, as growth rates of -0.1% and -0.3% respectively were recorded for Q3 and Q4. Over the 2023 calendar year GDP growth only expanded by 0.1% compared to 2022. Towards the end of the financial year there were signs of an increase in activity with the Office for National Statistics reporting that the economy expanded by 0.2% in January 2024. Subsequently, the first estimate of the UK GDP in Q1 (January to March) 2024 is for it to have increased by 0.6%.

Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee increased the Bank Rate in May, June and August to reach a level of 5.25%. The Bank Rate was maintained at 5.25% through to March 2024.

Generally, forecasts have seen 5.25% as the peak rate and following the Bank's quarterly Monetary Policy Report in February which showed the Banks expected low growth in the UK economy in the first half of 2024 and that headline CPI was to fall below target. Consequently, many forecasters anticipated that interest rates will most likely start to be cut in the second half of 2024.

Sentiment in financial markets during 2023/24 remained uncertain and bond yields, which determine the borrowing rates from the PWLB, continued to be volatile over the year. During the first half of the year, yields rose as interest rates continued to be pushed up in response to high inflation. From October they started declining again before falling sharply in December as falling inflation caused financial markets to expect cuts in interest rates in 2024. When it emerged in January that inflation was stickier than expected and the Bank of England were not inclined to cut rates soon, yields rose once again.

Over the financial year, the 10-year UK benchmark gilt yield rose from 3.44% to peak at 4.75% in August, before then dropping to 3.44% in late December 2023 and rising again to 3.92% at 28 March 2024.

Portfolio 2023/24

The holdings at 31 March 2024 are summarised in the table below and are shown for 2023/24 and the previous year for comparison:

	31/03/2024	31/03/2023
	£m	£m
Long term borrowing	531.6	879.6
Short term borrowing	575.4	296.7
Total borrowing	1,107.0	1,176.3
Long term investments	584.0	700.1
Short term investments	106.2	180.0
Total investments	690.2	880.1
Net Borrowing Position	416.8	296.2

Borrowing Activity 2023/24

The Code requires that the council, in the medium term, only borrows for capital purposes (with the underlying need to borrow for capital purposes being measured by the Capital Financing Requirement). Total borrowing in the year was managed within the operational and authorised borrowing limits as approved in the Treasury Management Strategy which reflects the underlying need to borrow for capital purposes.

The year saw a fall of £69m in the total borrowing held largely resulting from a reduction in investing from other public bodies under our local shared investment scheme.

Despite the moves towards longer term borrowing in previous years the short-term debt is still significant with some £575m of debt held on 31 March 2024 due to mature within 12 months. Of this total, £350m relates to the maturity of one bond in March 2025. The following section provides further details on the borrowing during the year.

Analysis of Borrowing

Debt 31/03/2023		Borrowing		Repayments		Debt 31/03/2024	
£m	%	£m	£m	£m	£m	£m	%

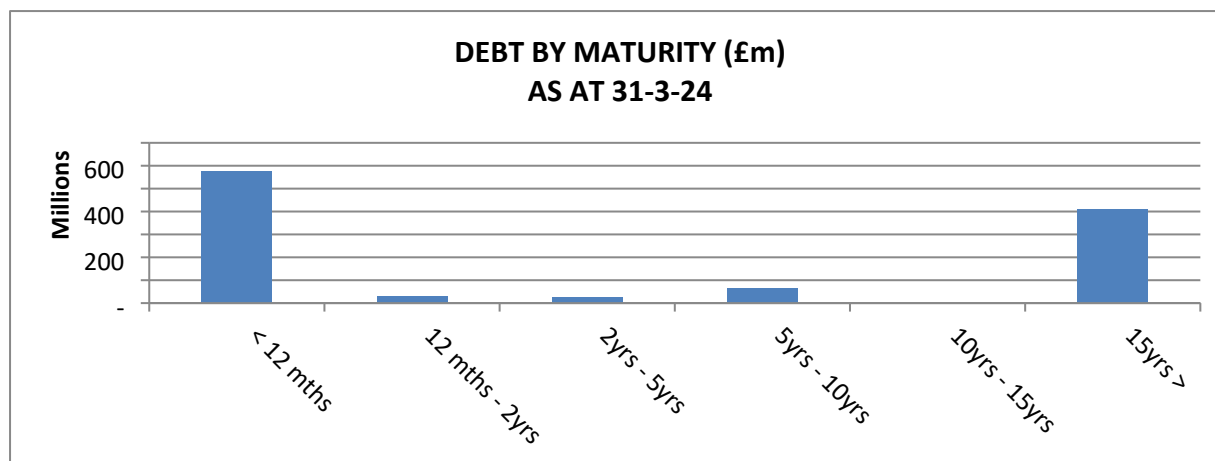
Fixed Rate Funding

Public Works Loan Board	279.6	23.8	0.0	-10.0	269.6	24.3
Bond	250.0	21.2	0.0	0.0	250.0	22.6
Market Borrowing	217.0	18.4	529.5	-535.5	211.0	19.1
Total Fixed Rate Funding	746.6		529.5	-545.5	730.6	

Variable Rate Funding

Bond	350.0	29.8	0.0	0.0	350.0	31.6
Shared Investment Scheme	79.7	6.8	614.4	-667.7	26.4	2.4
Total Variable Rate Funding	429.7		614.4	-667.7	376.4	

Total Loan Debt	1,176.3		1,143.9	-1,213.2	1,107.0	
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Overall, the average rate of interest paid in 2023/24 on the debt was 4.37% per annum compared with an average rate of 2.93% in 2022/23.

The council did not enter into any new other long term liability arrangements in the year. The outstanding Private Finance Initiative liability at 31 March 2024 was £118m.

Investment Activity

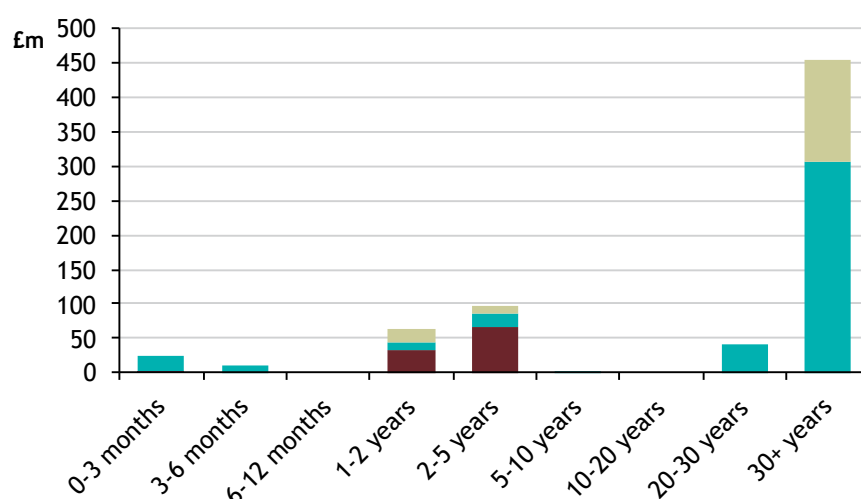
The council invests its reserves and other cash balances. The total value of investments held (excluding fair value adjustment) at 31 March 2024 for treasury management purposes was £690.2m. This is £189.9m lower than at 31 March 2023. The table below shows the investment holdings and the movements during the year:

Maturity Range	Position at 31/3/2023 £m	Movement £m	Position at 31/3/2024 £m
Call accounts and deposits under 1 year	54.7	-19.6	35.1
Deposit 1-2 years	10.0	-10.0	0.0
Local authority bonds	31.6	-11.4	20.2
UK Government and supranational bonds	783.8	-148.9	634.9
Total	880.1	-189.9	690.2

In line with the new Prudential Code and the approved treasury management strategy for 2023/24, the council made no further 'non-treasury management' investments in the year and the existing 'non-treasury management' investments were managed within the treasury management limits. These comprised mostly of LOBO loans, with the council being the lender.

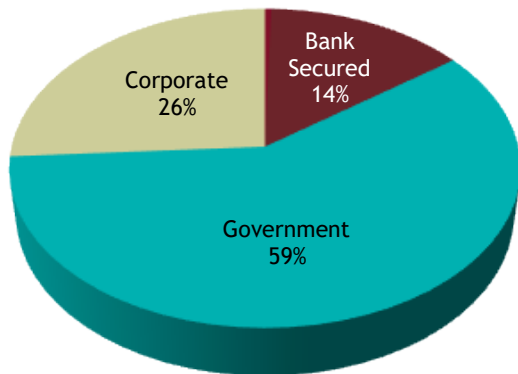
In undertaking investments consideration is given to the risk and liquidity within the portfolio which are affected by the maturity of the investment, asset type, country invested in and the credit rating. The position of the investment portfolio on these areas at the year-end are shown in the following charts.

Investments by Maturity

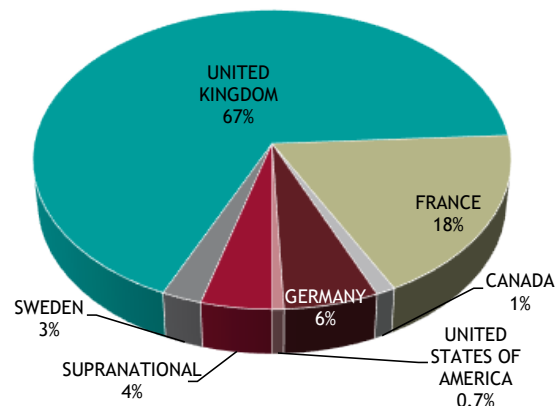


This graph shows the maturity dates of assets. The very long-term investments are principally investment in the UK government via gilts. Therefore, the credit risk is considered low. The assets are saleable and do not have to be held to maturity therefore although prices fluctuate the market risk can be managed.

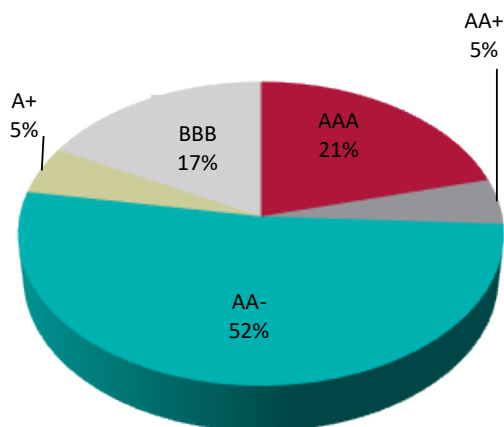
Total investments analysed by asset type



Total Investments analysed by country



Total Investments analysed by credit rating



Security

Security of capital remained the council's main investment objective. This was maintained by following the council's Counterparty Policy, as set out in its Treasury Management Strategy Statement for 2023/24. This defined "high credit quality" organisations as those having a minimum long-term credit rating of A+. In practice the average credit rating in 2023/24 was higher at AA-, with the lowest rating being BBB which relates to the holding of bonds issued by the energy company EDF which is largely owned by the French government.

Investments with banks were held in call accounts only, with deposits for longer terms being with other local authorities.

Liquidity Management

The council maintained a minimum level of primary liquidity through the use of Call Accounts. The council also has bond portfolios which are available for sale, at current market prices, if needed as 'secondary' liquidity.

The council undertakes cash flow forecasting daily to determine the maximum period for which funds may prudently be committed.

Yield

The rates of return on the council's short-dated investments reflect prevailing market conditions and the council's objective is to optimise returns commensurate with the principles of security and liquidity.

Overall, the treasury management investment portfolio returned an average rate of 3.17% in 2023/24 which can be attributed to the categories as follows:

Maturity Range	Average Balance £m	Average Rate
Call accounts and deposits under 1 year	73.5	4.95%
Local Authority Deposits 1-2 years	10.0	2.95%
Local Authority Bonds	23.4	3.84%
UK Government & Other Bonds	768.9	2.98%
Total	875.8	3.17%

Impact of the Treasury Management Strategy on the Council's Revenue Budget

The financing charges budget is intended to cover the net cost of borrowing activity, after income from investments. In total there was a net overspend against this budget of £15.7m as shown in the table below. This net overspend was financed from a specific treasury management reserve which was established to meet shortfalls arising from not meeting the investment returns target in the budget.

	23/24 Budget	23/24 Actual	Variance
	£m	£m	£m
Minimum Revenue Provision	28.8	31.7	2.9
Interest paid on borrowing	50.9	57.8	6.9
Fair Value Adjustments	0.0	-0.9	-0.9
Investment return	-39.0	-32.2	6.8
Total	40.7	56.4	15.7

Overall income received in the year was £7m lower than budgeted. The amount of interest paid was more than budget due to the actual level of interest rates paid being a lot higher than anticipated in the budget, due to the increases in the Bank of England base rate.

The Minimum Revenue Provision was more than budgeted due an increased borrowing requirement during the year along with the average scheme project life being shorter than expected.

The council has a remaining amount of a hedging transaction, which must be accounted for at its fair value, which impacted the overall position positively at the year end.

Treasury Management and Prudential Indicators 2023/24

The Local Government Act 2003 and supporting regulations require the council to have regard to the Prudential Code and to set prudential indicators to ensure the council's capital investment plans are affordable, prudent and sustainable. A comparison of the actual position at 31 March 2024 to the 2023/24 indicators set in the Treasury Management Strategy is shown as follows.

All activity in the year complied with the Prudential Indicators and Treasury Management Policy Statement for the year.

Prudential Indicators

Authorised limit for external debt The authorised limit is a prudent estimate of debt which reflects the council's capital expenditure plans and allows sufficient headroom for unusual cash movements.	Limit £m	Actual £m
Borrowing	1,700	1,107
Other long term liabilities (PFI schemes)	400	119
TOTAL	2,100	1,226

Operational boundary for external debt The operational boundary is a prudent estimate of debt but has no provision for unusual cash movements. It represents the estimated maximum external debt arising as a consequence of the council's current plans.	Limit £m	Actual £m
Borrowing	1,300	1,107
Other long term liabilities (PFI schemes)	160	119
TOTAL	1,460	1,226

Loans Capital Financing Requirement to Gross debt For the purposes of treasury management activity the CFR and gross debt comparison exclude the PFI schemes.	Limit £m	Actual £m
Loans Capital Financing Requirement	1,114	1,029
Estimated gross debt	1,187	1,107
Debt to Capital Financing Requirements	107%	108%

The Capital Financing requirement is the underlying need to borrow for capital purposes. This is the cumulative effect of past borrowing decisions and future plans. This is not the same as the actual borrowing requirement on any one day, as day to day borrowing requirements incorporate the effect of cash flow movements relating to both capital and revenue expenditure and income.

Gross debt includes borrowing for premiums, long term debtors and transferred debt. Under the Prudential Code when comparing debt to the Capital Financing Requirement these should be netted off the gross debt. The non-adjusted gross debt is above the Capital Financing Requirement by £78m but once the adjustments are made the borrowing is £5m above Capital Financing Requirement. The amount above the Capital Financing Requirement will be eliminated as debt matures.

Treasury Management Indicators

Interest rate exposure The limit measures the council's exposure to the risk of interest rate movements. The one year impact indicator calculates the theoretical impact on the revenue account of an immediate 1% rise in all interest rates over the course of one financial year.	Upper Limit £m	Actual £m
1 year impact of a 1% rise	50.0	5.2

Maturity structure of debt Limit on the maturity structure of debt helps control refinancing risk.	Upper Limit %	Actual %
Under 12 months	75	52.0
12 months and within 2 years	75	2.6
2 years and within 5 years	75	2.4
5 years and within 10 years	75	6.0
10 years and above	75	37.0

Minimum Average Credit Rating To control credit risk the council requires a very high credit rating from its treasury counterparties.	Bench mark	Actual
Average counterparty credit rating	A	AA-

<i>Liquidity Risk Indicator</i>	Limit £m	Actual £m
The council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount it can borrow each quarter without giving prior notice.		
Total sum borrowed in past 3 months without prior notice	50	40

<i>Proportion of Financing Costs to Net Revenue Stream</i>	Budget	Actual
Although capital expenditure is not charged directly to the revenue budget, interest payable on loans and MRP are charged to the revenue account.		
Financing costs (£m)	79.7	89.5
Proportion of net revenue stream	7.7%	8.2%