REPORT TO EXECUTIVE

Date of Meeting: 9 July 2024

REPORT TO COUNCIL

Date of Meeting: 16 July 2024

Report of: Director Finance

Title: Treasury Management 2023/24

Is this a Key Decision?

No

Is this an Executive or Council Function?

Council

1. What is the report about?

To report on the current Treasury Management performance for the 2023/24 financial year and the position regarding investments and borrowings at 31 March 2024. The report is a statutory requirement and is for information only with no key decisions required.

2. Recommendations:

It is recommended that the Executive and Council note the content of this report.

3. Reasons for the recommendation:

It is a statutory requirement for the Council to publish regular reports on Treasury Management to Council. This includes an annual Treasury Management Strategy and half yearly report and a year-end report as a minimum.

4. What are the resource implications including non financial resources

The report is an update on the overall performance in respect of treasury management for the 2022/23 financial year. Therefore, there are no financial or non-financial resource implications.

5. Section 151 Officer comments:

The Council has benefitted from higher interest rates alongside a stronger than expected cashflow position. This is principally down to the challenges of delivering the capital programme and has meant that no further borrowing has been required. As Members will see the expectation is that interest rates will begin to reduce this year falling to a more affordable level over the next couple of years.

6. What are the legal aspects?

The CIPFA (Chartered Institute of Public Finance and Accountancy) Treasury Management Code of Practice recommends that members be updated on treasury management activities regularly. This report, therefore, ensures this Council is implementing best practice in accordance with the Code. Adoption of the Code is required by regulations laid under the Local Government Act 2003.

Chapter 1 of the Act sets out capital finance and accounts requirements. Section 1 states that local authorities have the powers to borrow money for any purpose relevant to its functions under any enactment or for the purposes of the prudent management of its financial affairs. Sections 2 to 6 of the Act cover the duty to control borrowing and the duty to determine affordable borrowing limits. Section 12 covers the power to invest.

The Treasury Management Strategy is based on the requirements of DLUHC's Guidance on Local Government Investments and the CIPFA Treasury Management code.

This report confirms that the section 151 Officer is satisfied that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003, the DLUHC's Guidance and CIPFA Code of Practice.

7. Monitoring Officer's comments:

This report is for Members' information. The Monitoring Officer has no additional comments.

8. Report details:

8.1 **Economic Context and Interest Rate forecast**

Forecasts from our Treasury Management advisers at the time of approval of the Treasury Management Strategy report for 2023/24 were as follows:

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

The most recent projections from our advisers were:

Link Group Interest Rate View	08.01.24												
	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.

Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24, but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.

UK, EZ and US 10-year yields have all stayed stubbornly high throughout 2023/24. Inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain elevated and policy will be "restrictive for sufficiently long" and "restrictive for an extended period".

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Unemployment is currently sub 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics. CPI rose by 3.2% in the 12 months to March 2024, down from 3.4% in February.

8.2 **Treasury Management Strategy Statement**

The Council approved the 2023/24 Treasury Management Strategy at its meeting on 21st February 2023. The Council's stated investment strategy was to continue to hold small surplus funds and to seek to utilise its Call Accounts, Money Market Funds, use the Government's Debt Management Office and use short-dated deposits which would be placed with Local Authorities, Banks or Building Societies which are on the Council's counterparty list.

The Council's stated borrowing strategy was to defer long-term borrowing and to reduce the size of the Council's investment balance instead, however some targeted long term borrowing can be undertaken where the costs will be offset against future income streams.

The Council is currently maintaining an under-borrowed position; so the actual borrowings of the Council are below the Council's borrowing requirement, as it has taken advantage of internal borrowings. This means that the Council's borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt, as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure instead of borrowing at elevated levels. This strategy is prudent and minimises counterparty risk on placing investments.

8.3 **Investments**

A number of Money Market Funds have been set up by the Council, which also allow immediate access to our funds and spreads risk as it is pooled with investments by other organisations and invested across a wide range of financial institutions.

Property Funds

The Council has made two investments, totalling £5m, in the CCLA – LAMIT property fund (April and November 2016). The investment in the property fund is a long term commitment which will mean that there will be fluctuations in the return over the period of the investment.

Amount	Investment	Dividend Yield
£5,000,000	CCLA – LAMIT Property Fund	5.21%

The value of the investment as at 31 March 2024 was £4,415,093. At the end of the financial year the value of the investment in the Property Fund is adjusted to equal the number of units held multiplied by the published bid price, with the gain or loss taken to the Available for Sale Reserve. Movements in the unit price therefore have no impact on the General Fund until the investment is sold or impaired.

The Council's investments as at 31st March 2024 were:

Money Market Funds

Amount	Investment	Interest rate*
£10,000,000	Federated Investors	5.03%
£5,000,000	Aberdeen Standard Investments	5.00%
£2,000,000	CCLA - The Public Sector Deposit Fund	4.94%
£nil	Black Rock Asset Management	4.97%
£17,000,000		

* Interest rate is variable, therefore rates quoted are an average of 2023/24 rates.

Fixed Term Deposits – Current

Amount	Investment	Interest rate	Date Invested	Maturity Date	No. of Days
£5,000,000	London Borough of Barking and Dagenham	5.55%	03/01/2024	03/07/2024	182
£2,000,000	Barclays Green notice account	5.25%	19/07/2022	65 days from notice date	Min: 65
£1,000,000	Barclays Standard notice account	5.25%	19/07/2022	65 days from notice date	Min: 65
£8,000,000					

The Barclays Green account is linked to projects in pursuit of the transition to a lower carbon economy and as such counts towards the Council's Green agenda and can be included in a sustainability clause in the audited accounts.

8.4 **Borrowings**

The Council's long term borrowing is currently £164.768m (£92.524m General Fund and £72.244m HRA) and there is currently no short-term borrowing. Details of loans are set out below.

The Council made a one-off payment on 28 March 2012, to buy itself out of the HRA subsidy system. The final settlement figure of £56.884m was confirmed in February 2012. The amount was borrowed from the Public Works Loans Board over a 50 year period and in repayable on maturity at the end of the loan term. The interest rate was 3.48% fixed for the term of the loan.

<u>Existing loans</u>

Due to the costs of borrowing no further PWLB loans were taken out during the year. The section 151 Officer confirms that borrowing has only been undertaken for a capital purpose and that Council borrowing is affordable and in accordance with the provisions of the Local Government Act 2003 the DLUHC's Guidance and CIPFA Code of Practice.

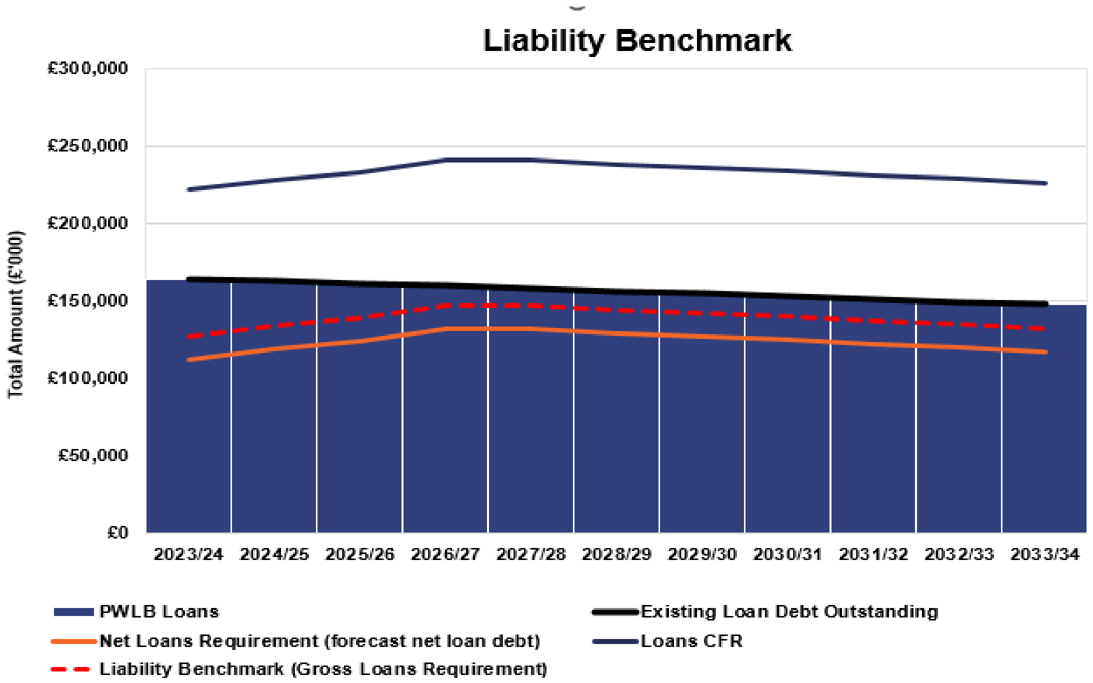
Amount as at 31/3/2024	Lender	Interest rate	End date
£56,884,000	PWLB maturity (HRA)	3.48%	28/03/2062
£1,856,000	PWLB 25 year annuity	2.34%	11/01/2044
£1,840,313	PWLB 25 year annuity	2.08%	04/04/2044
£4,086,796	PWLB 30 year annuity	1.61%	26/09/2049
£7,939,891	PWLB 35 year annuity	1.71%	26/09/2054
£33,914,626	PWLB 50 year annuity	1.80%	26/09/2069
£15,360,000	PWLB maturity (HRA)	1.31%	14/04/2070
£42,886,448	PWLB 50 year annuity	1.78%	24/12/2071

8.5 **Compliance with Treasury and Prudential Limits**

During 2023/24 the Council has operated within the treasury and prudential indicators set out in the Council's Treasury Management Strategy Statement and no difficulties are envisaged for the current or future years in complying with these indicators.

All treasury management operations have also been conducted in full compliance with the Council's Treasury Management Practices. The approved limits within the Annual Investment Strategy set out in the TMSS were not breached during the year ended 31st March 2024.

To support the risk management of the capital financing requirement a graphical indication of the Council's borrowing liability and actual loans for the General Fund and HRA combined is shown overleaf.



8.6 **Net Interest Position**

The General Fund shows an improvement against the estimate for net interest payable, the position is:

	2023/24 Budget £	Outturn £	Variation £
Interest paid	2,592,000	1,847,795	(744,205)
Interest earned			
Temporary investment interest	(902,000)	(2,571,190)	(1,669,190)
ECL Loan	(732,000)	-	732,000
Other interest earned	(9,300)	(9,485)	(185)
Science Park Loan	-	(25,850)	(25,850)
CVS Loan	(3,000)	(4,651)	(1,651)
Guildhall	(10,000)	(£22,244)	(£12,244)
Less			
Interest to HRA	524,000	1,542,598	1,018,598
Interest to S106 agreements	80,000	-	(80,000)
Interest to deposits held	1,800	11,632	9,832
Interest to Trust Funds	3,500	28,874	25,374
Lord Mayors Charity	-	219	219
GF interest (received) / paid out	(1,047,000)	(1,050,095)	(3,095)
Net Interest	**1,545,000**	**797,700**	**(747,300)**

CCLA – LAPF Dividend	(225,000)	(260,514)	(35,514)
Net Interest after dividends	**1,320,000**	**537,186**	**(782,814)**

Net interest payable for 2023/24 was £783k lower than budget. An expected underspend of £550k was reported in the Treasury Management half year update to Council at its meeting on 12th December 2023.

The key reasons for the variance to budget are as follows:

The budgeted interest payable on PWLB loans for 2023/24 anticipated that the Council would take out additional borrowings in the year to finance capital projects and a loan to Exeter City Living. However, the loan to ECL is no longer planned and no external borrowing was taken out due to prohibitively high interest rates. This resulted in a saving in interest paid of £744k.

ECL loans were written off during the year resulting in a reduction of £732k of anticipated interest. Continued high interest rates on temporary investments offset this and lead to a net £3k additional interest after paying over interest relating to the HRA and other funds held, and £36k higher than budgeted dividends on the CCLA Property Fund.

The Housing Revenue Account (HRA) earned £1,543k interest on its balances compared with the budget of £524k. This is calculated on the following:

- HRA working balance;
- The balance of funds in the Major Repairs Reserve and Useable Capital Receipts

The Council borrowed £56,884k to buy itself out of the HRA subsidy scheme since the borrowing cap was lifted in October 2018, and the HRA has since borrowed a further £15,360k towards new Council housing development projects.

The HRA had approval to borrow a further £3.9m however due to currently high interest rates no external borrowing has been undertaken during 23/24 and the borrowing has been delayed to future years, so interest payable was £214k lower than the £2,394k originally budgeted for 23/24. Additionally £9k has been charged on the borrowing used to fund the Council's Own Build properties which was included in the budget.

8.7 **Repayment of debt**

Repayment of Debt	**Estimate 2023/24 £**	**Outturn £**	**Variation £**
Minimum Revenue Provision	2,494,670	2,456,030	38,640
Voluntary Revenue Provision	(800,000)	97,217*	(892,217)
TOTAL	**1,694,670**	**2,553,247**	**(£858,577)**

*A VRP of £897k has been set aside as a transfer from earmarked reserves to fund the ECL loans.

8.8 **Future Position**

The approved capital programme for 2024/25 includes a borrowing requirement of £10.095m (£6.195m General Fund and £3.9m HRA). The decision of whether to take external long-term borrowing will be made in light of current and forecast interest rates and the decision is delegated to the section 151 Officer and Leader of the Council.

The short term investments that are made through the call accounts and money market funds ensure cash can be accessed immediately. This has an ongoing impact on returns but increases the security of our cash.

The Council's four Money Market Funds, which are AAA, rated, currently offer rates which vary from 5.20% to 5.26%, but these rates are likely to be impacted with the projected reductions in base rate during 2024/25.

We will also lend, when possible, to institutions on the Council's counterparty list which includes other Local Authorities, UK and Foreign owned banks and the Debt Management Office. The rates received for Local Authority deposits are currently circa 5.3%.

Officers will continue to liaise to treasury advisors in respect of new investment opportunities. Any decisions taken will comply with the code of practice that requires the council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. If an amendment to the current treasury management strategy is required, a report will be presented to committee requesting the necessary amendments.

9. How does the decision contribute to the Council's Corporate Plan?

Treasury Management supports the Council in generating additional funds for investing in Services, whilst minimising the amount of interest paid on borrowings. It does not in itself contribute to the Council's Corporate Plan.

10. What risks are there and how can they be reduced?

The Council uses treasury management advisors who continually provide updates on the economic situation, interest rates and credit ratings of financial institutions. They also provide a counterparty list which details the financial institutions which meet the council's treasury management strategy.

11. Equality Act 2010 (The Act)

11.1 Under the Act's Public Sector Equalities Duty, decision makers are required to consider the need to:

- eliminate discrimination, harassment, victimisation and any other prohibited conduct;
- advance equality by encouraging participation, removing disadvantage, taking account of disabilities and meeting people's needs; and
- foster good relations between people by tackling prejudice and promoting understanding.

11.2 In order to comply with the general duty authorities must assess the impact on equality of decisions, policies and practices. These duties do not prevent the authority from reducing services where necessary, but they offer a way of developing proposals that consider the impacts on all members of the community.

11.3 In making decisions the authority must take into account the potential impact of that decision in relation to age, disability, race/ethnicity (includes Gypsies and Travellers), sex and gender, gender identity, religion and belief, sexual orientation, pregnant women and new and breastfeeding mothers, marriage and civil partnership status in coming to a decision.

11.4 In recommending this proposal no potential impact has been identified on people with protected characteristics as determined by the Act because there are no significant equality and diversity impacts associated with this decision.

12. Carbon Footprint (Environmental) Implications:

12.1 We are working towards the Council's commitment to carbon neutral by 2030. The impact of each new investment is considered prior to approval.

13. Are there any other options?

None

Director Finance, David Hodgson

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Local Government (Access to Information) Act 1972 (as amended)

Background papers used in compiling this report:-

None

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