TRAFFORD COUNCIL

Report to:	**Accounts & Audit Committee 25th September 2024** **Executive 21st October 2024** **Council Meeting 20th November 2024**
Report for:	**Information**
Report of:	**The Executive Member for Finance, Change and Governance and the Director of Finance and Systems**

Treasury Management Annual Performance 2023/24 Report

Summary

This report outlines the main treasury management activities undertaken during 2023/24 as follows:

- All legislative and regulatory requirements, including all treasury management prudential indicators have been complied with.
- The average level of external debt and interest rate payable for 2023/24 was £312.6m and 2.50% and this compares to £318.2m & 2.71% in 2022/23.
- The average level of treasury investments for 2023/24 was £67.3m with a rate of return of 5.16% compared with 2022/23 when the equivalent figures was £119.6m and 2.27% respectively.
- The outturn position for the Council's Treasury Management function was a favourable outturn of £2.65m, largely due to higher-than-expected returns on short-term investments yielding an additional £1.4m of income. A contribution has been made towards the Interest Rate Smoothing Reserve of £1.49m to absorb a potential increase in borrowing costs over the short-term.

Recommendations

That the Accounts & Audit Committee note the treasury management activities undertaken in 2023/24 and recommend that both Executive and Council also note the report.

Contact person for background papers:
Frank Fallon – Finance Manager Place & Central Services

Background papers: None

CORPORATE PRIORITIES AND GOVERNANCE CONSIDERATIONS	
The Best Start for our Children and Young People Healthy and Independent Lives for Everyone A Thriving Economy and Homes for All Address the Climate Crisis Culture, Sport and Heritage for Everyone	The Treasury Management function ensures that the Council has sufficient financing available to fund the activities which support the Council's Corporate Priorities. Further any additional net interest income derived from Treasury activities can be used to support the revenue budget and front line services.
Relationship to GM Policy or Strategy Framework	Not applicable
Financial Considerations	The net outturn for treasury management was a favourable variance to budget of £2.65m and details of this are provided at paragraph 10.1.
Legal Implications:	Treasury Management activities are subject to requirements detailed in legislation, Ministry of Housing, Communities and Local Government (MHCLG), Chartered Institute of Public Finance & Accountancy (CIPFA) Prudential Code and Treasury Management Code of Practice. The report sets out details of compliance in respect of these requirements.
Equality/Diversity Implications	All treasury management transactions undertaken by the Council are carried out with institutions with no known direct links to any illegal regimes or which promote the use of forced labour.
Sustainability Implications	The Investment Strategy was updated in February 2024 to confirm that the Council will only place funds with institutions which are signatories to the UN Principles for Responsible Banking, or are UK Government or Local Government bodies. The UN Principles for Responsible Banking are a unique framework for ensuring that signatory banks' strategy and practice align with the vision society has set out for its future in the Sustainable Development Goals and the Paris Climate Agreement.
Resource Implications e.g. Staffing / ICT / Assets	Not applicable
Risk Management Implications	The monitoring and control of risk underpins all treasury management activities and these factors have been incorporated into the systems and procedures for this function which are independently tested on a regular basis. Failure to properly manage and monitor the Council's loans and investments could lead to service failure and a loss of reputation. No Treasury Management activity is without risk and the Council's in-house team continually monitor risks to ensure that security of capital sums is maintained at all times and adverse fluctuations in

	interest rates are avoided.
Health & Wellbeing Implications	Not applicable
Health and Safety Implications	Not applicable
Socioeconomic duty Implications	Not applicable

Executive Summary

During 2023/24, the Council achieved compliance of its legislative and regulatory requirements via the following activities:

Economic position (Section 2)

- Inflation, although reducing, stayed above central bank targets and the UK economic outlook remained relatively weak.
- Starting the financial year at 7.8%, the annual CPI measure of UK inflation reduced gradually to 4.2% in November 2023, where it stabilised, with the final rate of 3.8% in March 2024.
- As the inflation rate remained above the Bank of England (BOE) target of 2%, the BOE Monetary Committee raised the Bank Rate three times to a peak of 5.25% by August 2023, from 4.25% in March 2023.

Debt (Section 5)

- Total loan debt rose from £318.2m as at 31.03.2023 to £332.8m by 31.03.2024. The increase comprises one new £34m PWLB loan and the repayment of one PWLB loan (£4.3m) and the Dexia (LOBO) loans (£15.0m).
- Loan interest totalling £8.2m was paid of which £3.7m related to external loans associated with the Asset Investment Programme. This loan interest is recharged to the AIP at a higher rate reflecting the latest commercial cost of borrowing.
- Average rate of interest payable was 2.50% in 2023/24 and compared to 2.71% in 2022/23 a drop of 0.11%.
- Level of under-borrowing was £86.6m at 31.03.2024 which represents a decrease of £3.4m from the 31.03.2023 closing position of £90.0m.
- Statutory borrowing limits, the authorised limit and operational boundary, were not breached.

Investments (Section 6)

- The high interest rate environment of 2023/24 resulted in the Council receiving a greater level of investment income in year than that originally budgeted for.
- Total level of investments fell from £70.4m at 31.03.2023 to £47.8m at 31.03.2024 a movement of £22.6m due to cash surpluses being utilised in advance of any new external borrowing, which would be costly.
- The average rate of return for all investments in 2023/24 was 5.16% which resulted in a return of £3.50m, £1.40m above budget. This average rate was 0.09% or £0.06m above the recognised performance indicator of 1 month SONIA which was 5.03%.
- All investments were repaid on time without issue and undertaken in accordance with the approved strategy.

Prudential Indicators and limits (Section 8 and Appendix E)

- No breaches to any of these limits occurred.

1. BACKGROUND

1.1. The Council is required by regulations issued under 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, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

1.2. For the financial year 2023/24, the Accounts & Audit Committee together with the Executive and Council received the following three reports:

- annual treasury management strategy for the year ahead (issued February 2023)
- mid-year update report (issued November / December 2023)
- annual outturn report describing the activity undertaken (September 2024 this report).

1.3. The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.4. It is confirmed that in accordance with the requirement of the Code, prior scrutiny of all the above treasury management reports is undertaken by the Accounts & Audit Committee before they are reported to the Executive and Council.

1.5. Figures in this report are based on the actual amounts borrowed and invested and as such will differ from those stated in the final accounts which are shown in compliance with International Financial Reporting Standards.

1.6. For reference a list of abbreviations used within the report has been provided and can be found in Appendix F.

1.7. This report comprises of the following sections:

- Major Economic Headlines (Section 2);
- Interest Rates (Section 3);
- Treasury Position (Section 4);
- Borrowing Position (Section 5);
- Investment Position (Section 6);
- Related Treasury Issues (Section 7);
- Prudential and Performance indicators (Section 8);
- Outlook 2024/25 (Section 9);
- 2023/24 Summary Outturn position (Section 10);
- Appendices including details of abbreviations used in the report.

2. MAJOR ECONOMIC HEADLINES

2.1. A brief summary of the main events which occurred during 2023/24 are highlighted below for reference;

- Starting the financial year at 7.8%, the annual CPI measure of UK inflation reduced gradually to 4.2% in November 2023, where it stabilised, with the final rate of 3.8% in March 2024. RPI followed a similar pattern during the year, starting at 11.4% in April 2023, reducing to 4.3% by March 2024.
- As the inflation rate remained above the Bank of England (BOE) target of 2%, the BOE Monetary Committee raised the Bank Rate three times a peak of 5.25% by August 2023, from 4.25% in March 2023. As the 12-month inflation rate began to fall during 2023/24, no further increases in the rate occurred, with a reduction to 5.00% being implement in August 2024.
- Over the period the 5-year UK benchmark gilt yield rose from 3.53% to peak at 5.13% in July before ending the financial year at 3.88%. Over the same timeframe the 10-year gilt yield rose from 3.53% to peak at 4.73% before falling back to 3.94%, while the 20-year yield rose from 3.89% to 5.14% and then declined to 4.38%. The Sterling Overnight Rate (SONIA) averaged 5.03% over 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, although a growth of 0.7% was reported for the first quarter of 2024.
- Employment and vacancies declined, and unemployment rose to 4.3% (3mth/year) in July 2023. The same month saw the highest annual growth rate of 8.5% for total pay (i.e. including bonuses) and 7.8% for regular pay growth (i.e. excluding bonuses). Thereafter, unemployment began to decline, falling to 3.9% (3mth/year) in January and pay growth also edged lower to 5.6% for total pay and 6.1% for regular pay, but remained above the Bank of England’s forecast.

3. INTEREST RATES

3.1. Within the 2023/24 Treasury Management Strategy, a forecast for interest rates was provided which indicated that rates were expected to continue to rise to a peak of 4.50% during the year. Actual interest rates seen in the period rose above this forecast, with the growth in the rates seen across all periods from April 2023 to March 2024, as shown in the table below.

	2023/24	2023/24	1 April 2023	31 March 2024
	Forecast Average	Actual Average	Actual	Actual
	%	%	%	%
Bank Rate	4.50	5.03	4.25	5.25
Investment Rates				
3 month	4.50	5.41	4.50	5.38
1 Year	4.60	5.54	4.89	5.11
Loan Rates				
5 Year	4.20	4.99	4.33	4.69
25 Year	4.40	5.33	4.69	5.22
50 Year	4.30	5.08	4.40	5.01

3.2. The expectation for interest rates within the treasury management strategy for 2023/24 was that the Bank Rate would continue on an upwards path and the Bank Rate did increase, ending the year at 5.25% and since the end of the year the Bank Rate was reduced to 5.00% (August 2024). Forecasted decreases are likely when the Bank of England's Monetary Policy Committee meet in the second half of 2024.

4. TREASURY POSITION

4.1. The Council's Treasury Management in-house team actively ensure that:

- All transactions are carried out in accordance with the current Scheme of Delegation,
- All borrowing has been carried out in accordance with the Council's current Debt Strategy and Prudential Indicators,
- All investments placed have been done so in accordance with the criteria stipulated within the current Investment strategy,
- Security for investments and the management of risks within all treasury management activities is maintained,
- Access to funds is available at all times enabling all payments to be made on time preserving the Council's reputation and
- Procedures and controls to achieve these objectives are in place and that these are reported to members as detailed in the background section and through officer activity as highlighted in the annual Audit and Assurance report.

4.2. The table below shows the loan and investment positions at the beginning and end of 2023/24 for reference:

	31 March 2024		31 March 2023	
	Principal (£m)	**Avg. Int. Rate %**	**Principal (£m)**	**Avg. Int. Rate %**
DEBT				
- PWLB	311.8	2.53	282.2	2.39
- Government Loans - Salix	0.0	0.0	0.0	0.0
- Market	21.0	4.79	36.0	4.56
Total debt	***332.8***	**2.67**	***318.2***	**2.63**
CFR (to finance past capital expenditure)	(422.8)		(412.0)	
Other Long Term Liabilities (PFI)	*3.4*		*3.8*	
Over/ (under) borrowing	***(86.6)***		***(90.0)***	
INVESTMENTS				
- Instant access	29.9	5.27	26.3	4.07
- Call account	1.3	5.14	0.0	0.0
- Term deposit	0.0	0.00	27.4	3.92
- CCLA	4.6	5.34	4.7	4.65
- Asset Investment Strategy(AIS) (Albert Estate)	12.0	n/a	12.0	n/a
Total investments	***47.8***	**4.89**	***70.4***	**3.95**

4.3. Whilst the table at paragraph 4.2 details the position as at the beginning and end of 2023/24 the average position for 2023/24 and 2022/23 was as follows:

	2023/24		2022/23	
	Principal	**Interest Rate**	**Principal**	**Interest Rate**
Average Debt	£312.6m	2.50%	£318.2m	2.71%
Average Investment *	£67.3m	5.16%	£119.6m	2.27%

* Excludes Asset Investment Strategy

5. BORROWING POSITION

5.1. As highlighted in paragraph 4.1 above, part of the Council's treasury management remit is to address any potential borrowing needed to be taken to fund the capital expenditure programme. This may result in funds being borrowed by the in-house treasury management team from external bodies, such as the Government, through the PWLB, the money markets or utilising temporary cash resources which the Council may have.

5.2. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). This represents capital spend, not yet paid for by revenue or other capital resources, incurred from current and prior years' activities reflecting the level of the Council's indebtedness.

5.3. During 2023/24, the Council maintained an under-borrowed position as highlighted in the table at paragraph 4.2 which means that the capital borrowing needed was not fully funded with new loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was deemed prudent due to the increased cost of new external borrowing in the current economic environment and the availability of internal funds. External borrowing may be taken later to replace this internal funding, should the terms of the new loans and cost implications of the borrowing be commensurate with the financial plans of the Council.

5.4. To safeguard the Council's finances, the level of CFR is not allowed to rise indefinitely, and statutory controls are in place to ensure that any borrowing costs incurred are charged to revenue over the useful life of the asset. The Council is required to make an annual revenue charge called the Minimum Revenue Provision (MRP) and this reduces the CFR and effectively is a repayment of borrowing. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

5.5. The total CFR can also be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts) or
- charging more than the statutory revenue charge MRP each year through a Voluntary Repayment Provision (VRP).

5.6. The Council's CFR includes PFI and any leasing schemes held on the balance sheet, which increase the overall borrowing need. No borrowing is required against these schemes as a borrowing facility is included in the contract.

5.7. During 2023/24 the Council repaid one PWLB loan totalling £4.3m at an average rate of 6.62% due to natural maturity and the two LOBO loans with Dexia totalling £15m were also repaid at an average rate of 4.24%. In the year to March 2024 the Council undertook £34m of new borrowing.

5.8. As at 1 April 2023 there was no short term debt outstanding. The use of an overdraft facility provided by the Council's bank is available, although unutilised as this is an expensive form of borrowing and would result in higher interest costs.

5.9. The level of under borrowing reduced from £90.0m as at 31 March 2023 to £86.6m at 31 March 2024. This under borrowing has been largely driven by using cash balances to support the Asset investment Strategy. This process could create additional financial risk should the Council need to borrow from an external source to fund these investments given the increase in borrowing costs. This additional risk is offset, however, as the business case for these investments is priced accordingly to afford additional borrowing cost from income received.

5.10. The Director of Finance and Systems can confirm that during 2023/24 the Council's level of gross external borrowing did not exceed its CFR thereby ensuring its long term borrowing levels are prudent, only taken for capital purposes and not used to support revenue expenditure.

5.11. From the table at paragraph 4.2 the level of external debt increased during 2023/24 from the opening position of £318.2m to close at £332.8m and due to the following transactions:

Lender	Principal – New	Principal – (Repayment)	Average Interest rate	Notes
Long Term				
PWLB	£34.0m		4.26%	Early Repayment
Dexia		£(15.0)m	4.24%	Early Repayment
Sub total	**£34m**	**£(15.0)m**		
Short Term				
PWLB		£(4.3)m	6.62%	Natural maturity
Sub total	**£0.0m**	**£(4.3)m**		
Grand total	**£34.0m**	**£(19.3)m**		

5.12. From the total debt outstanding of £332.8m, £0.4m is administered on behalf of Greater Manchester Probation Service which leaves £332.4m in respect of the Council's own long-term requirement and a maturity profile of the Council's debt can be found at Appendix B & C for reference.

5.13. Gross loan interest paid during 2023/24 totalled £8.2m and of this £3.7m related to external loans associated with the Asset Investment Strategy, which was subsequently recharged to the programme. The balance of interest paid of £4.5m related to loans associated with the historic borrowing used to fund the capital programme and within the MTFP budget provision.

6. INVESTMENT POSITION

6.1 The Council's investment policy is governed by the DLUHC guidance which has been implemented within the annual investment strategy approved by Council in February 2023. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

6.2 Using this information the Council's in-house treasury management team is able to produce an approved lending list in order to ensure investments are only placed with low risk institutions. Funds are invested for a range of periods reflecting cash flow requirements together with counterparty limits as set out in the approved investment strategy ensuring that an excessive level of funds are not placed in a single counterparty.

6.3 The Director of Finance and Systems can confirm that:

- during the year all investment activity conformed to the approved strategy,
- the approved limits within the Annual Investment Strategy were not breached,
- the Council had no liquidity difficulties and
- in-line with previous years, security and liquidity of its investments remained the overall priorities followed by optimum return (yield) consummate with this approach.

6.4 In 2023/24 the Council maintained an average balance of £62.6m of internally managed funds (this figure excludes £4.7m placed in the Property Fund managed externally by CCLA group) earning an average rate of return of 5.12% which generated £3.15m in investment interest. This return was £1.39m above the agreed budget figure of £1.76m and 0.09% above the performance indicator of the average SONIA 1 Month rate of 5.03%.

6.5 With regards to the Council's long-term investments, in 2015, £5m was placed into the CCLA Property Fund for a minimum period of 5 years which after entry costs had been deducted of £0.3m, enabled 1,643,872 units to be purchased in the fund. At 31 March 2023 the value of these units, were £4.74m however this has since fallen to a value of £4.55m at 31 March 2024.

6.6 The market background for commercial property improved marginally in 2023/24 and was more stable, in contrast to the very challenging backdrop of 2022/23. Low transactional volumes were a constraint on valuations and made prospective sellers and buyers more cautious. Although many sectors lacked momentum, there was growing confidence in the longer-term outlook as occupier demand and rental markets held up. Industrial and retail warehousing sectors remained strong, but the retail and offices sectors remained weak, the latter continuing to be hindered by low occupancy from hybrid working practices. The outlook for this fund is steady growth in value in 2024/25.

6.7 In response to the implementation in 2018/19 of IFRS 9 into the CIPFA Code of Practice on Local Authority Accounting, any movement in valuation would normally have to be taken and reflected in full to the Council's revenue account. As a consequence of this change to the CIPFA Code of Practice DLUHC put in place a 5 year statutory override effective from 1 April 2018. This override has since been extended for a further two years to 31st March 2025. The Council will use this override facility to account for any changes in the value of this investment during this period thereby avoiding any adverse movements being taken to the revenue account in full during the year they occurred.

6.8 After the expiry of this override any fall in valuation could place a burden on the Council's revenue account. The value of this investment will be closely monitored to ensure that the likelihood of this happening is minimised.

6.9 Annualised returns generated from the CCLA property fund in 2023/24 (gross of fees on the original value invested) were 5.34% and this compares with that achieved in 2022/23 of 4.65%.

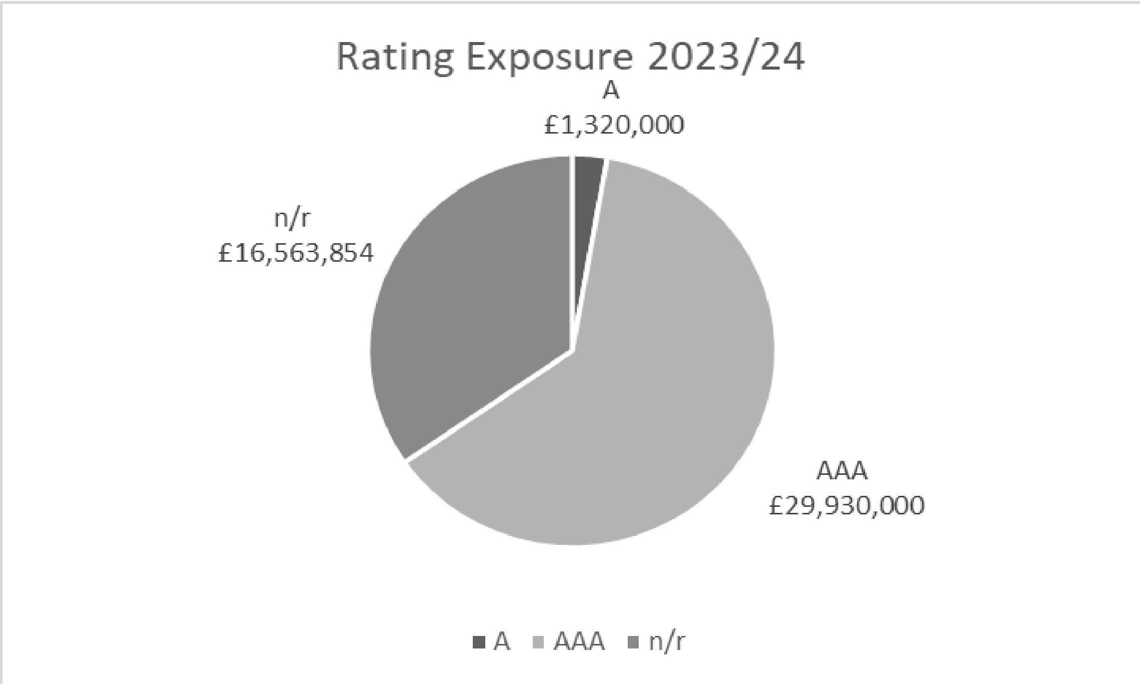
6.10 When the rates of return for both short and long term investments are combined, this produces an average level invested of £67.3m, generating a rate of return of 5.16% worth £3.48m which is £1.35m above budget and 0.12% or £0.37m above the performance indicator of the average SONIA 1 Month rate of 5.03%.

6.11 In addition to the £5m CCLA investment, the Council in August 2019 undertook a further long term investment when it entered into a £17.6m 5 year loan facility agreement with Queens Holding Limited secured on 4 prominent income producing properties known as Albert Estate within Manchester City Centre. A sale of part of the estate resulted in a partial early repayment to the Council of £5.6m, in April 2022, reducing the facility to £12.0m.

6.12 The Council's main bank account with Barclays, is non-interest bearing and consequently if no investments were undertaken by the in-house team, the Council would lose the opportunity to generate £3.15m of income.

6.13 Levels of funds available to be invested on a daily temporary basis are subject to a number of factors such as timing in the form of monies being received ahead of spend requirements and progress on the Capital Programme.

6.14 The graph below provides a breakdown of the Council's investments placed as at 31 March 2024 by long term credit rating and further information detailing the make-up of this can be found at Appendix C & D



7. RELATED TREASURY ISSUES

7.1 Member training – In accordance with the Code, Members are responsible for ensuring effective scrutiny of the treasury management strategy and policies takes place. To be able to do so effectively, a member training session was provided by the Council's advisors Arlingclose and in-house staff to members of the Accounts and Audit Committee on 23 January 2024 via the Teams facility.

7.2 Following three rounds of consultation, the Ministry of Housing, Communities and Local Government (MHCLG) published its final consultation response, amendment regulations and revised statutory guidance on Minimum Revenue Provision (MRP). There are three main changes:

- Local authorities cannot exclude any amount of their Capital Financing Requirement (CFR) from their MRP calculation, unless by an exception set out in law.

• Capital receipts cannot be used to directly replace, in whole or part, the prudent charge to revenue for MRP, with specific exceptions for capital loans and leased assets.

• For capital loans given on or after 7th May 2024, sufficient MRP must be charged so that the outstanding CFR in respect of the loan is no higher than the principal outstanding minus any expected credit loss.

Changes will take effect from the 2025/26 financial year, except in respect of expected credit losses which take effect from the 2024/25 year.

The Council's MRP Policy will require changing accordingly, with an update to be provided for approval in the 2024/25 Mid-Year Treasury Report.

8. PRUDENTIAL AND PERFORMANCE INDICATORS

8.1 It is a statutory duty for the Council to determine and keep under review the Council's Prudential Indicators as approved within the Treasury Management Strategy for 2023/24.

8.2 During the year ended 31 March 2024, the Council operated within these indicators and these are shown in Appendix E for reference.

9. OUTLOOK 2023/24

9.1 CPI inflation rose to 2.2% in July 2024, form 2.0% in June 24 and the Bank's MPC expects this to rise to 2.75% in the second half of this year, as declines in energy prices last year fall out of the annual comparison and reveal more clearly the prevailing persistence of domestic inflationary pressures. Wage growth has fallen but remains elevated and services inflation is higher than had been expected.

9.2 Since the end of 2023/24, the Bank of England has reduced the base rate from 5.25% in March 2024 to 5.00% in August 2024. It is expected that this rate will be reduced again towards 4.50% by the end of the 2024/25 financial year.

9.3 The previous growth in the Bank Rate has increased the cost to the Council to borrow but has also increased the return on any investments undertaken. The Treasury team will look to manage cash flows to minimise the need for borrowing and maximise any investment return.

10. 2023/24 SUMMARY OUTTURN POSITION

10.1 Activities undertaken as part of the treasury management function are subject to many factors beyond the control of the Council impacting on actual performance e.g. worldwide economic and political events and interest rate movements. The table below reflects the summarised outturn position compared to that originally forecasted for reference;

Treasury Management 2023/24	Budget £000	Outturn £000	Variance £000
DEBT			
Loan Interest	8,349	8,207	(142)
MRP	4,406	5,502	1,096
PFI Interest & Premium	1,046	1,046	0
Other Costs	916	159	(757)
Sub-total	**14,717**	**14,914**	**197**
INVESTMENTS			
Investment Interest & other net interest receipts	(2,054)	(3,457)	(1,403)
MAH Ltd – Main Share dividend Loan interest and car park dividend	 0 (3,500)	 (323) (3,783)	 (323) (283)
Sub-total	**(5,554)**	**(7,563)**	**(2,009)**
RESERVES			
Contribution to / (from) Interest Smoothing Reserve	2,937	1,765	(1,172)
Other Reserve/provision Transactions	(351)	(351)	**0**
Sub-total	**2,586**	**1,414**	**(1,172)**
Internal Recharge - Loan Interest	(6,868)	(6,441)	427
Internal Recharge - MRP	(2,356)	(2,449)	(93)
Sub-total*	**(9,224)**	**(8,890)**	**334**
TOTAL	**2,525**	**(125)**	**(2,650)**

* The above figures reflect all associated debt servicing costs in respect to the Council's Asset Investment Programme are self-financing i.e. paid for from the income stream generated from the investment;

10.2 The average investment interest rate at the time of setting the budget was 4.15% and increased to 5.25% by the end of the year. This saw a subsequent increase in the average investment rate, which generated additional investment income of £1.4m. A contribution of £1.8m has been made to the Council's Interest Rate Smoothing Reserve, to mitigate against adverse borrowing or investment market conditions in future years.

10.3 The application of the Interest Smoothing Reserve will, should it be needed over the forthcoming years, be applied to finance future cash implications arising from:

- The increased cost of future borrowing in a high interest environment
- Potential adverse changes in investment interest rates,
- Short term temporary borrowing funding requirements and
- Non-treasury management activities which have an impact on cash flows.

Other Options

This report is a mandatory report which has been produced in order to comply with Financial Regulations and relevant legislation and provides an overview of transactions undertaken during 2023/24. There are no other options to consider.

Consultation

There are no consultation requirements in respect of this report.

Reasons for Recommendation

The report is a mandatory report which has been produced in order to comply with the requirements of the Council's Financial Procedure Rules which incorporate the requirements of both the CIPFA Prudential Code for Capital Finance and the CIPFA Code of Practice on Treasury Management.

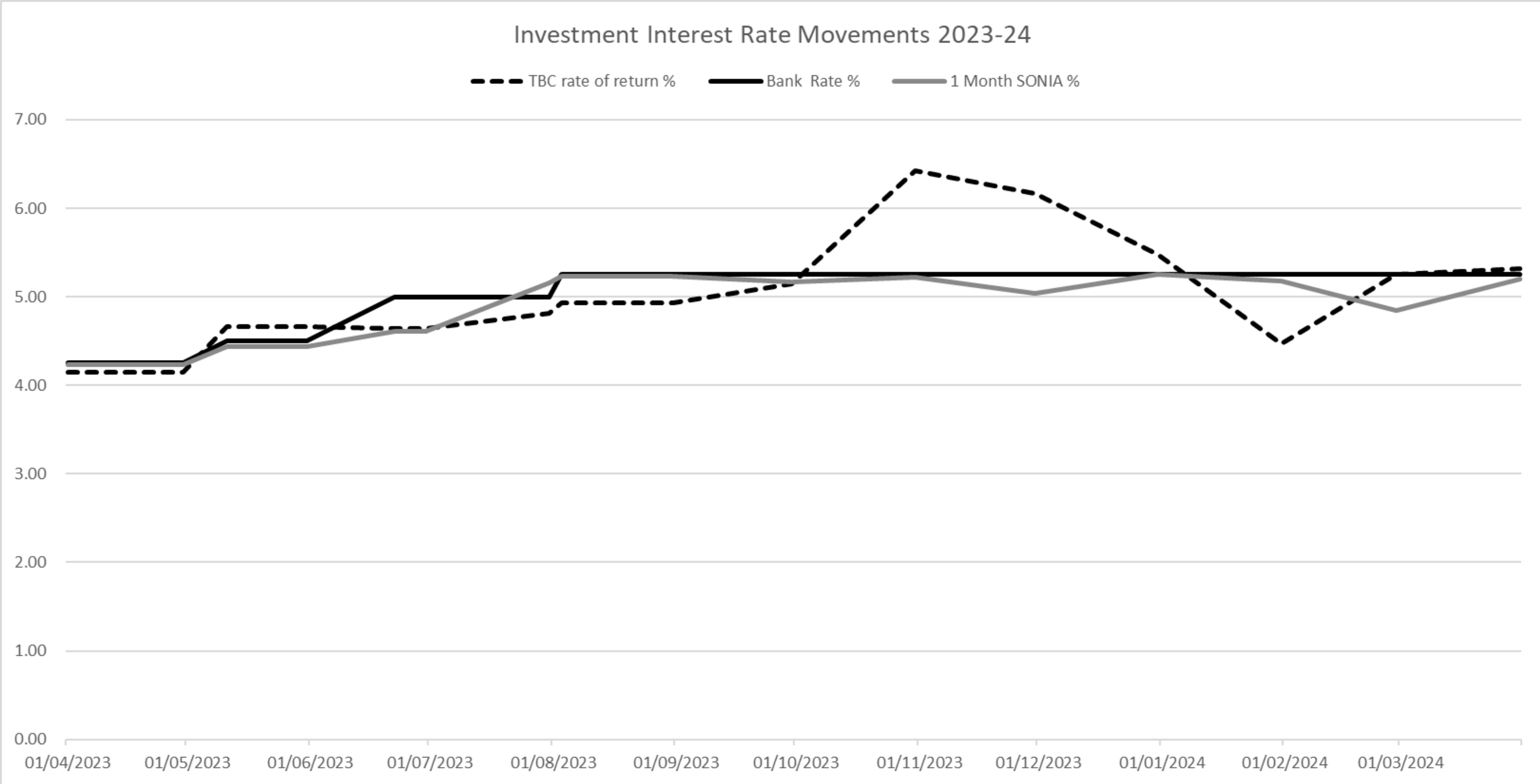
Finance Officer Clearance DM

Legal Officer Clearance EM

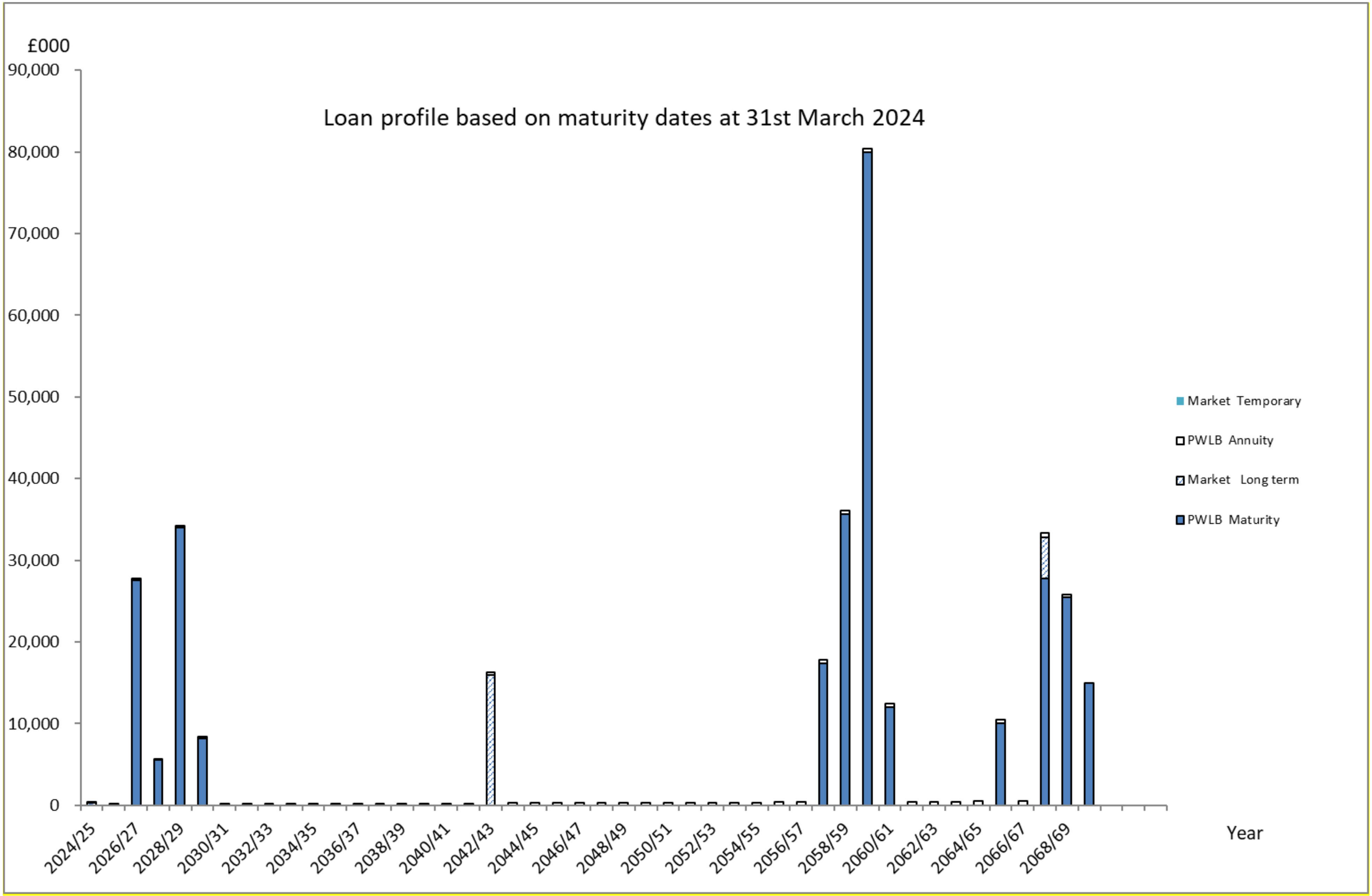
DIRECTOR'S SIGNATURE GB

To confirm that the Financial and Legal Implications have been considered and the Executive Member has cleared the report.

Appendix A



Investment Interest Rate Movements 2023-24
TBC rate of return %
Bank Rate %
1 Month SONIA %
7.00
6.00
5.00
4.00
3.00
2.00
1.00
0.00
01/04/2023
01/05/2023
01/06/2023
01/07/2023
01/08/2023
01/09/2023
01/10/2023
01/11/2023
01/12/2023
01/01/2024
01/02/2024
01/03/2024


£000
90,000
80,000
70,000
60,000
50,000
40,000
30,000
20,000
10,000
0
Loan profile based on maturity dates at 31st March 2024
Market Temporary
PWLB Annuity
Market Long term
PWLB Maturity
2024/25
2026/27
2028/29
2030/31
2032/33
2034/35
2036/37
2038/39
2040/41
2042/43
2044/45
2046/47
2048/49
2050/51
2052/53
2054/55
2056/57
2058/59
2060/61
2062/63
2064/65
2066/67
2068/69
Year

Appendix B

Appendix C

Maturity Profile

Debt portfolio:

	31 March 2024 (£m)	31 March 2023 (£m)
Under 12 months	0.1	19.3
12 months and within 24 months	0.2	0.1
24 months and within 5 years	67.5	33.5
5 years and within 10 years	9.1	9.1
10 years and above	255.9	256.2
Total	**332.8**	**318.2**

Investment portfolio:

	31 March 2024 (£m)	31 March 2023 (£m)
Instant Access	31.2	26.3
Up to 3 Months	0.0	27.4
3 to 6 Months	0.0	0.0
6 to 9 Months	0.0	0.0
9 to 12 months	0.0	0.0
Over 1 year	16.6	16.7
Total	**47.8**	**70.4**

Appendix D

Breakdown of Investments

Counterparty	Amount (30 Sept 2023) £	Amount (31 March 2024) £	Long Term Credit Rating
Money Market Fund			
Aberdeen	3,000,000	4,150,000	AAA
CCLA	3,000,000	4,150,000	AAA
Federated Investors	5,450,000	4,790,000	AAA
Insight	3,000,000	4,150,000	AAA
Invesco Aim	5,000,000	4,250,000	AAA
Legal & General	5,400,000	4,290,000	AAA
Morgan Stanley	3,000,000	4,150,000	AAA
Sub total	*27,850,000*	*29,930,000*	
Notice Accounts			
Lloyds 1 Day Notice	355,000	320,000	A
Sub total	*355,000*	*320,000*	
Term Deposit			
Australia and New Zealand Bank	3,000,000	0	A
Development Bank of Singapore	3,000,000	0	A
First Abu Dhabi Bank	5,500,000	0	A
National Bank of Kuwait	5,000,000	0	A
Renfrewshire Council	5,000,000	0	A1
Lancashire County Council	3,000,000	0	Not rated
Sub total	*24,500,000*	*0*	
Property Funds			
Church Commissioners Local Authority	4,676,816	4,553,854	Not rated
Sub total	*4,676,816*	*4,553,854*	
Other			
Asset Investment Programme	12,010,000	12,010,000	Not rated
Sub total	*12,010,000*	*12,010,000*	
Total	**69,391,816**	**47,813,854**	

The above table shows the level of investments placed as at 30 September 2023 (the last time Members were provided with this information) and 31 March 2024.

Appendix E

Prudential Indicators for 2023/24

Indicator	Indicator set by Council	Actual
Authorised Borrowing Limit Maximum level of external debt, including other long term liabilities (PFI & leases) undertaken by the authority including any temporary borrowing - this is a statutory limit under Section 3(1) of the Local Government Act 2003.	£618.4m	£332.8m
Operational Boundary Calculated on a similar basis as the authorised limit but represents the expected level of external debt & other long term liabilities (PFI & leases) excluding any temporary borrowing – this is not a limit.	£598.4m	£332.8m
Upper limits on fixed interest rates **Maximum** limit of net fixed interest rate exposure - debt less investment	£9.5m	£5.6m
Upper limits on variable interest rates **Maximum** limit of net variable interest rate exposure – debt less investment	£1.0m	£0.0m
Gross Debt and the Capital Financing Requirement – this reflects that over the medium term, debt will only be taken for capital purposes. During 2023/24 the Director of Finance and Systems can confirm that this indicator was complied with.		
Maturity structure of fixed rate borrowing These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing and are required for upper and lower limits.	Indicator set by Council	Actual
Under 1 year (this includes the next call date for Market loans)	40%	0%
1 year to 2 years	40%	0%
2 years to 5 years	40%	20%
5 years to 10 years	40%	3%
10 years to 20 years	40%	5%
20 years to 30 years	40%	1%
30 years to 40 years	70%	45%
40 years and above	90%	26%
Upper Limit for sums invested for over 1 year – these limits are set with regard to the Council's liquidity requirements and to reduce the need for early sale of an investment.	£100m	£67.3m

Performance Indicators for 2023/24

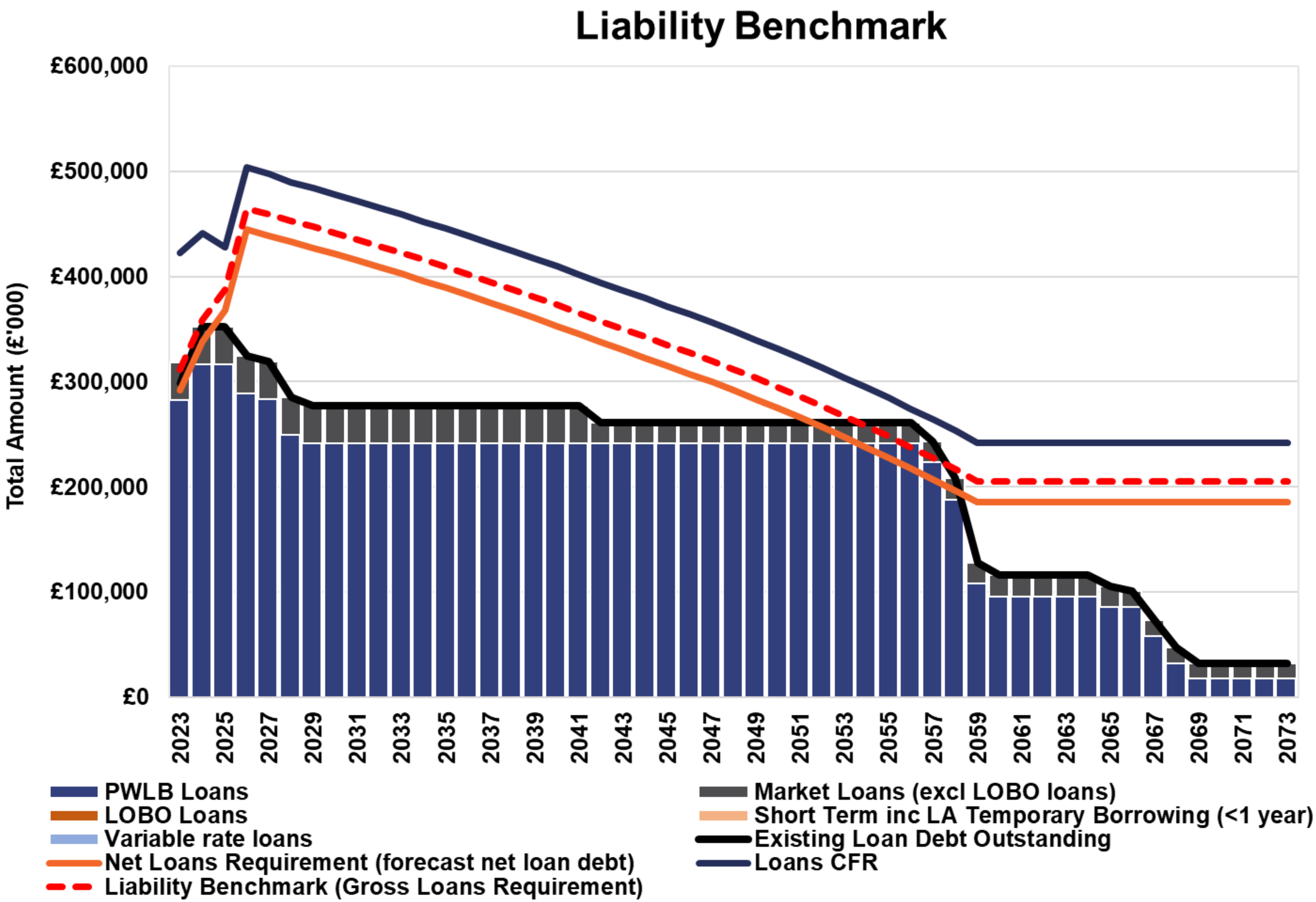
Indicator	Target	Actual
Security – potential default rate of the Council's investment portfolio based on default rates from the 3 main credit rating agencies – inclusion is recommended by CIPFA.	Max 0.05%	Max 0.04% (31 March 2024)
Liquidity – investments available within 1 week notice	£5m min.	Achieved
Liquidity – Weighted Average Life of investments	6 months	0.03 months (31 March 2024)
Yield – Investment interest return to exceed SONIA 1 Month **BID** rate (exclude CCLA)	Average SONIA 1 Month: 5.03%	Average rate of return for 2023/24 was 5.16%
Origin of investments placed - maximum investments to be directly placed with non-UK counterparties.	UK institutions 100% Non UK institutions 40%	100% 0%

Liability Benchmark

In the update to the Treasury Management Code made in December 2021, a requirement has been made for the Council to estimate and measure its liability benchmark.

The liability benchmark is a measure of how well the existing loans portfolio matches the Council's planned borrowing needs. The purpose of this prudential indicator is to compare the Council's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the red (dashed) line).

If the black line is below the red (dashed) line, the existing portfolio outstanding is less than the loan debt required, and this shows the Council will need to borrow to meet the shortfall. If the black line is above the red (dashed) line, the Council will (based on its current plans) have more debt than it needs, and the excess will have to be invested. The chart therefore tells the Council how much it needs to borrow, when, and to want maturities to match its planned borrowing needs.



Liability Benchmark
£600,000
£500,000
£400,000
£300,000
£200,000
£100,000
£0
Total Amount (£'000)
2023
2025
2027
2029
2031
2033
2035
2037
2039
2041
2043
2045
2047
2049
2051
2053
2055
2057
2059
2061
2063
2065
2067
2069
2071
2073
PWLB Loans
Market Loans (excl LOBO loans)
LOBO Loans
Short Term inc LA Temporary Borrowing (<1 year)
Variable rate loans
Existing Loan Debt Outstanding
Net Loans Requirement (forecast net loan debt)
Loans CFR
Liability Benchmark (Gross Loans Requirement)

APPENDIX F

ABBREVIATIONS USED IN THIS REPORT

CFR: capital financing requirement - the council's annual underlying borrowing need to finance capital expenditure and a measure of the council's total outstanding indebtedness.

CCLA: Church Commissioners Local Authority - manage investments for charities, religious organisations and the public sector

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

Fed: the Federal Reserve System, often referred to simply as "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a stable monetary and financial system.

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies which meet annually to discuss issues such as global economic governance, international security and energy policy consisting of United States, Canada, France, Germany, Italy, Japan and the United Kingdom.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets.

IFRS 9: is an International Financial Reporting Standard (**IFRS**) published by the International Accounting Standards Board (IASB). It addresses the accounting for financial instruments and contains three main topics: classification and measurement of financial instruments, impairment of financial assets and hedge accounting.

LG: Link Group – independent organisation which provides advice and guidance on all treasury matters including government legislation.

LIBID: the London Interbank Bid Rate is the rate bid by banks on deposits i.e., the rate at which a bank is willing to borrow from other banks. It is the "other end" of the LIBOR (an offered, hence "ask" rate, the rate at which a bank will lend).

MAH Ltd: Manchester Airport Holdings Limited - is a holding company which is owned by the ten metropolitan borough councils of Greater Manchester and an Australian investment fund IFM Investors.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing.

MRP: minimum revenue provision -a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

MTFP: A Medium Term Financial Plan is a key part of the Council's Policy and Budget Framework and sets out the strategic approach to the management of its finances.

OBR: Office for Budget Responsibility is a non-departmental public body funded by the UK Treasury that the UK government established to provide independent economic forecasts and independent analysis of the public finances

OECD: Organisation for Economic Co-operation and Development is an intergovernmental economic organisation with 37 member countries, founded in 1961 to stimulate economic progress and world trade

PEPP: Pandemic emergency purchase programme is the ECB's monetary policy measure initiated in March 2020 which is a temporary asset purchase programme of private and public sector securities.

PFI: Private Finance Initiative is a way of financing public sector projects through the private sector.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

QE: Quantitative Easing - is a monetary policy whereby a central bank (e.g. Bank of England) buys government bonds or other financial assets in order to inject money into the economy to expand economic activity.

SONIA: the Sterling Overnight Index Average. Generally, a replacement set of indices (for LIBID) for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

UK: United Kingdom.

US: United States of America.

VRP: a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition)