

<b>REPORT REFERENCE NO.</b>	<b>RC/24/9</b>
<b>MEETING</b>	<b>RESOURCES COMMITTEE</b>
<b>DATE OF MEETING</b>	<b>9 MAY 2024</b>
<b>SUBJECT OF REPORT</b>	<b>TREASURY MANAGEMENT PERFORMANCE 2023-24: QUARTER 4 &amp; ANNUAL REPORT 2023-24</b>
<b>LEAD OFFICER</b>	<b>Head of Finance (Treasurer)</b>
<b>RECOMMENDATIONS</b>	<i>That the performance in relation to the treasury management activities of the Authority for 2023-24 including the fourth quarter, as set out in this report, be noted.</i>
<b>EXECUTIVE SUMMARY</b>	<p>The Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, requires that the Authority receives a report in respect of borrowing and investment activities during the year, and compares this performance against the treasury management strategy adopted.</p> <p>The report includes a performance report relating to the final quarter of the 2023-24 financial year and a summary of annual performance.</p>
<b>RESOURCE IMPLICATIONS</b>	As indicated within the report.
<b>EQUALITY RISK AND BENEFIT ASSESSMENT</b>	An initial assessment has not identified any equality issues emanating from this report.
<b>APPENDICES</b>	<p>A. Prudential indicators 2023-24</p> <p>B. Glossary of Terms</p>
<b>BACKGROUND PAPERS</b>	Treasury Management Strategy (including Prudential and Treasury Indicators) as approved at the meeting of the Fire & Rescue Authority held on the 16 February 2024 – Agenda item DSFRAC/24/5 refers.

## **1. INTRODUCTION**

- 1.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management recommends that members be updated on treasury management activities regularly (annual, mid-year or quarterly reports). The Authority fully complies with the primary requirements of the Code, which includes:
- The creation and maintenance of a Treasury Management Policy Statement, which sets out the policies and objectives of the Authority's treasury management activities.
  - The creation and maintenance of Treasury Management Practices, which set out the manner in which the Authority will seek to achieve those policies and objectives.
  - The receipt by the Authority of an annual strategy report for the year ahead, a mid-year treasury update report and an annual review report of the previous year.
  - The delegation by the Authority of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions.
  - Delegation by the Authority of the role of scrutiny of treasury management strategy and policies to a specific named body which in this Authority is the Resources Committee.
  - Minimum reporting requirements, in addition, the Resources Committee has received quarterly treasury management update reports.
- 1.2. 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 Authority's policies previously approved by Members.
- 1.3. The Authority confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Resources Committee before they were reported to the full Authority. The Committee has been supported in their scrutiny role through regular updates and the attendance at Committee meetings by the Authority's Treasury Management advisors, Link Market Services.
- 1.4. A glossary of terms and acronyms used is provided at Appendix B of this report

## **2. OVERALL TREASURY POSITION AS AT 31 MARCH 2024**

- 2.1. The Authority's debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities.

2.2. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Authority's Treasury Management Practices.

2.3. At the end of 2023-24, the Authority's treasury management position was as follows:

SUMMARY	31st March 2023 Principal	Rate/Return	31st March 2024 Principal	Rate/Return
Total Debt				
- PWLB (All fixed rate funding)	£24.264m	4.25%	£23.771m	4.25%
-Other Long-Term Liabilities	£0.790m		£0.656m	
Total	£25.055m		£24.426m	
CFR	£25.055m		£24.426m	
Over/(under) borrowing	£0.000m		£0.000m	
Total Investments	£29.050m	4.15%	£22.470m	5.74%
<b>NET DEBT</b>	<b>£(3.995)m</b>		<b>£1.956m</b>	

2.4. The maturity structure of the debt portfolio was as follows:

	31 March 2023 actual	2023-24 original limits	31 March 2024 actual
Under 12 months	£0.493m	30% = £7.328m	£0.093m
12 months and within 24 months	£0.458m	30% = £7.328m	£2.593m
24 months and within 5 years	£3.280m	50% = £12.213	£0.767m
5 years and within 10 years	£0.274m	75% = £16.852m	£1.100m
Over 10 years	£19.758m	100% = £24.470m	£18.758m

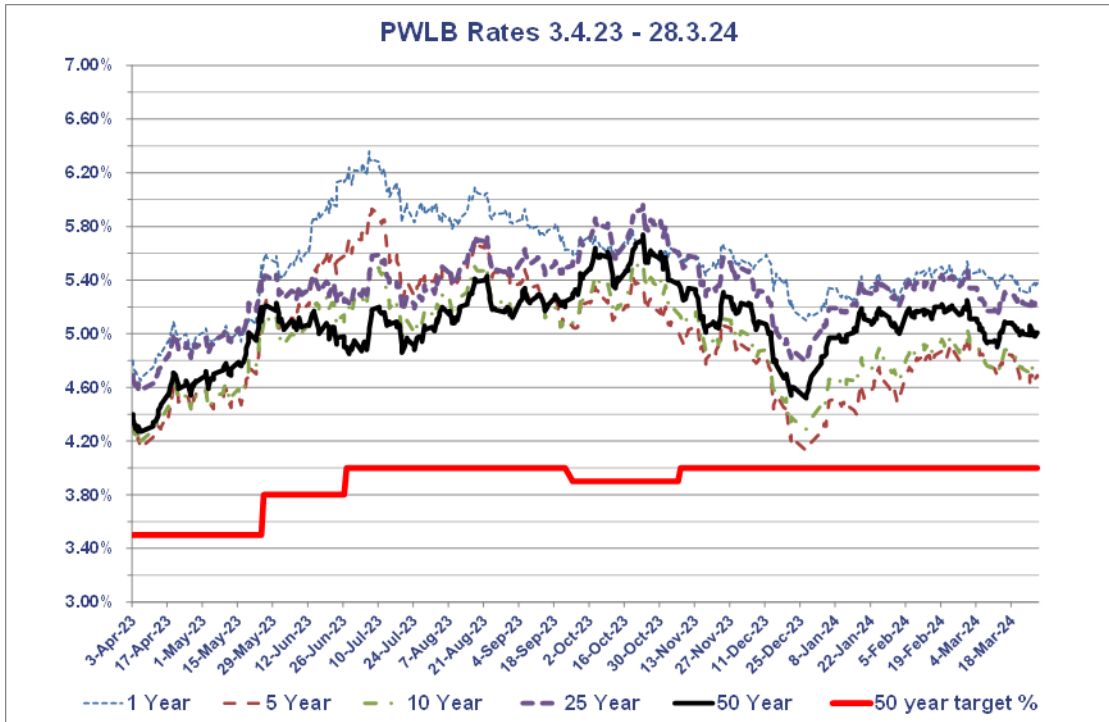
### **3. STRATEGY FOR 2023-24**

- 3.1. Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.
- 3.2. Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.
- 3.3. The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and “laddering” deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.
- 3.4. With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.
- 3.5. While the Authority has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

### **4. BORROWING**

#### **Public Works Loan Board (PWLB) borrowing rates 2023-24**

- 4.1. The graphs and tables for PWLB rates overleaf show, for a selection of maturity periods, the average borrowing rates, the high and low points in rates, spreads and individual rates at the start and the end of the financial year.



**HIGH/LOW/AVERAGE PWLB Rates for 2023-24**

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.65%	4.13%	4.20%	4.58%	4.27%
<b>Date</b>	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
<b>High</b>	6.36%	5.93%	5.53%	5.96%	5.74%
<b>Date</b>	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
<b>Average</b>	5.54%	4.99%	4.97%	5.34%	5.08%
<b>Spread</b>	1.71%	1.80%	1.33%	1.38%	1.47%

**5. DSFRA BORROWING STRATEGY**

Prudential Indicators

- 5.1. It is a statutory duty for the Authority to determine and keep under review the “Affordable Borrowing Limits”. The Authority’s approved Prudential Indicators (affordability limits) are outlined in the approved Treasury Management Strategy.
- 5.2. During the financial year the Authority operated within the treasury limits and Prudential Indicators set out in its annual Treasury Strategy Statement. The outturn for the Prudential Indicators is shown in Appendix A.

### **Authority borrowing during and at the end of 2023-24**

- 5.3. No new borrowing was taken out in 2023-24 to support capital spending and therefore, because repayments of £0.493m loan principal have been made in year, the value of loans outstanding has decreased to £23.771m by 31 March 2024. A summary of the loan (debt) position of the Authority is given in the table below. All existing borrowing has been taken out at Fixed Interest Rates.
- 5.4. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Authority should ensure that its gross external borrowing does not, except in the short term, exceed the total of the capital financing requirement in the preceding year (2022-23) plus the estimates of any additional capital financing requirement for the current (2023-24) or the following financial year. This essentially means that the Authority is not borrowing to support revenue expenditure. This indicator allowed the Authority some flexibility to borrow in advance of its immediate capital needs in 2023-24.
- 5.5. It is noted that the external borrowing figure of £25.055m as 31 March 2024 is the same as the Capital Financing Requirement (CFR), which means that there is no over-borrowing position at the year-end. The Authority has complied with this prudential indicator. The table below demonstrates how the CFR is calculated and shows the CFR for 2023-24.

Capital Financing Requirement (£m)	31 March 2023 Actual	31 March 2024 Budget	31 March 2024 Actual
Opening balance	25.665	25.055	25.055
Add borrowing applied in year	1.365	1.283	1.283
Less MRP/VRP*	1.859	1.777	1.777
Less PFI & finance lease repayments	0.117	0.135	0.135
Closing balance	25.055	24.426	24.426

- 5.6. No rescheduling was done during the year as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

Summary of loan movements during 2023-24	Amount £m
<b>Value of loans outstanding as at 1/4/2023</b>	<b>24.264</b>
Loans taken during 2023-24	0.00
Loans repaid upon maturity during year	(0.493)
Loans rescheduled during year	0.00
<b>Total value of loans outstanding as at 31/3/2024</b>	<b>23.771</b>

## 6. INVESTMENTS

### Authority Investment Strategy

6.1. The Authority's Annual Investment Strategy, which is incorporated in the Treasury Management Strategy Statement, outlines the Authority's investment priorities as follows:

- Security of Capital
- Liquidity
- Yield

6.2. The Authority will aim to achieve the optimum return (yield) on its investments commensurate with proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with highly credit rated financial institutions, using our suggested creditworthiness approach, including a minimum sovereign credit rating, and Credit Default Swap (CDS) overlay information.

### Authority Investments during and at the end of 2023-24

6.3. No institutions in which investments were made during 2023-24 had any difficulty in repaying investments and interest in full during the year and the Authority had no liquidity difficulties.

6.4. A full list of investments held as at 31 March 2024 are shown in the table below:

Investments as at 31 March 2024						
Counterparty	Maximum to be invested	Amount Invested	Maturity Date	Call or Term	Period invested	Interest rate(s)
	£m	£m				
Heleba	7.000	-3.000	26/07/2024	T	12 mths	5.97%
Heleba	7.000	-2.000	06/09/2024	T	12 mths	5.87%
Aberdeen City Council	7.000	-5.000	21/11/2024	T	12 mths	5.60%
SMBC	7.000	-2.000	08/04/2024	T	3 mths	5.33%
Lloyds	7.000	-2.000	05/07/2024	T	6 mths	5.35%
Spelthorne Borough Council	7.000	-5.000	30/04/2024	T	1 mth	7.50%
Barclays Bank	8.000	-0.150		C	Instant Access	Variable
Aberdeen Standard	8.000	-0.110		C	Instant Access	Variable
Black Rock	8.000	-3.210		C	Instant Access	Variable
<b>Total Amount Invested</b>		<b>-22.470</b>				

6.5. Funds available for investment are on a temporary basis, the level of which are dependent on the timing of precept payments, receipt of grants and progress on the Capital Programme.

- 6.6. The benchmark used to gauge performance of the investments is the Sterling Overnight Index Average (SONIA). SONIA is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.

<b>Benchmark – 3 month SONIA</b>	<b>Average level of funds available for Investment £m</b>	<b>Benchmark Return</b>	<b>Authority Performance</b>	<b>Investment Interest Earned £m</b>
<b>Quarter 1</b>	32.976	4.38%	4.87%	£0.028m
<b>Quarter 2</b>	39.607	5.09%	5.15%	£0.429m
<b>Quarter 3</b>	35.952	5.19%	5.40%	£0.958m
<b>Quarter 4</b>	29.838	5.19%	5.74%	£0.356m
<b>2023-24</b>	<b>34.593</b>	<b>4.96%</b>	<b>5.29%</b>	<b>£1.771m</b>

- 6.7. The amount of investment income earned of £1.771m has beaten the target by £1.246m as a result of a very buoyant investment market.

## **SUMMARY**

- 7.1. In compliance with the requirements of the CIPFA Code of Practice of Treasury Management, this report provides Members with a summary report of the treasury management activities during 2023-24. As is indicated in this report, none of the Prudential Indicators have been breached, and a prudent approach has been taken in relation to investment decisions taken during the year, with priority being given to liquidity and security over yield.
- 7.2. Continued uncertainty in the aftermath of the 2008 financial crisis and high inflationary pressures with rising bank base rates have seen relatively high returns compared to borrowing rates. Even so, the Authority is able to report that its returns are above the SONIA 3 month rate, the benchmark return for this type of short term investments.

**ANDREW FURBEAR**  
**Head of Finance (Treasurer)**



**APPENDIX A TO REPORT RC/24/9**

<b>PRUDENTIAL INDICATOR</b>	<b>2022-23 £m actual</b>	<b>2023-24 £m approved</b>	<b>2023-24 £m Actual</b>
<b>Capital Expenditure</b>			
TOTAL	8.254	13.086	5.977
<b>Ratio of financing costs to net revenue stream</b>			
Non – HRA	2.9%	2.92%	1.39%
<b>Capital Financing Requirement as at 31 March (borrowing only)</b>			
TOTAL	20.055	24.426	24.426
<b>Annual change in Cap. Financing Requirement</b>			
TOTAL	(0.610)	(0.628)	(0.628)
<b>TREASURY MANAGEMENT PRUDENTIAL INDICATORS</b>			
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Authorised Limit for external debt -</b>			
Borrowing	26.071	25.553	
other long term liabilities	0.947	0.823	
TOTAL	27.018	26.376	
<b>Operational Boundary for external debt -</b>			
Borrowing	24.857	24.364	
other long term liabilities	0.907	0.791	
TOTAL	25.765	25.155	
<b>Actual external debt</b>	24.264	23.771	

	<b>Actual 31<sup>st</sup> March 2023</b>	<b>upper limit %</b>	<b>lower limit %</b>
Limits on borrowing at fixed interest rates	100%	100%	70%
Limits on borrowing at variable interest rates	0%	30%	0%
<b>Maturity structure of fixed rate borrowing during 2023-24</b>			
Under 12 months	2.00%	30%	0%
12 months and within 24 months	2.00%	30%	0%
24 months and within 5 years	14.00%	50%	0%
5 years and within 10 years	1.00%	75%	0%
10 years and above	81.00%	100%	50%

**ABBREVIATIONS USED IN THIS REPORT**

*This is a list of abbreviations and definitions used within the report for reference.*

- ALMO:** an Arm's Length Management Organisation is a not-for-profit company that provides housing services on behalf of a local authority. Usually an ALMO is set up by the authority to manage and improve all or part of its housing stock.
- LAS:** Link Asset Services, Treasury solutions – the Authority's treasury management advisers.
- CE:** Capital Economics - is the economics consultancy that provides Link Asset Services, Treasury solutions, with independent economic forecasts, briefings and research.
- CFR:** capital financing requirement - the Authority's annual underlying borrowing need to finance capital expenditure and a measure of the Authority's total outstanding indebtedness.
- 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.
- ECB:** European Central Bank - the central bank for the Eurozone
- EU:** European Union
- EZ:** Eurozone -those countries in the EU which use the euro as their currency
- 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.
- FOMC:** the Federal Open Market Committee – this is the branch of the Federal Reserve Board which determines monetary policy in the USA by setting interest rates and determining quantitative easing policy. It is composed of 12 members--the seven members of the Board of Governors and five of the 12 Reserve Bank presidents.
- 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--the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom--that meets annually to discuss issues such as global economic governance, international security, and energy policy.
- Gilts:** gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e. a rise in the price of a gilt will mean that its yield will fall.
- HRA:** housing revenue account.
- IMF:** International Monetary Fund - the lender of last resort for national governments which get into financial difficulties.
- 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).
- MHCLG:** the Ministry of Housing, Communities and Local Government -the Government department that directs local authorities in England.
- 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).
- PFI:** Private Finance Initiative – capital expenditure financed by the private sector i.e. not by direct borrowing by a local authority.
- 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 an unconventional form of monetary policy where a central bank creates new money electronically to buy financial assets, such as government bonds, (but may also include corporate bonds). This process aims to stimulate economic growth through increased private sector spending in the economy and also aims to return inflation to target. These purchases increase the supply of liquidity to the economy; this policy is employed when lowering interest rates has failed to stimulate economic growth to an acceptable level and to lift inflation to target.

Once QE has achieved its objectives of stimulating growth and inflation, QE will be reversed by selling the bonds the central bank had previously purchased, or by not replacing debt that it held which matures. The aim of this reversal is to ensure that inflation does not exceed its target once the economy recovers from a sustained period of depressed growth and inflation. Economic growth, and increases in inflation, may threaten to gather too much momentum if action is not taken to 'cool' the economy.

- RPI:** the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – CPI. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.
- SONIA:** Sterling Overnight Index Average is based on actual transactions and reflects the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
- TMSS:** the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the full Authority before the start of each financial year.
- VRP:** a voluntary revenue provision to repay debt, in the annual budget, which is additional to the annual MRP charge, (see above definition).