Audit Committee		Agenda Item:
Meeting Date	17 July 2024	
Report Title	Annual Treasury Management Report 2023/24	
EMT Lead	Lisa Fillery, Director of Resources	
Head of Service	Claire Stanbury, Head of Finance and Procurement	
Lead Officers	Claire Stanbury, Head of Finance and Procurement Olga Cole, Management Accountant	
Classification	Open	

Recommendations	1. To note the Treasury Management outturn report for 2023/24.

1. Purpose of Report and Executive Summary

1.1 The Council's Treasury Management activity is underpinned by the Chartered Institute of Public Finance and Accountancy's (CIPFA's) Code of Practice on Treasury Management ("the Code"), which requires local authorities to produce annual Prudential Indicators and a Treasury Management Strategy Statement on the likely financing and investment activity. The Code also recommends that members are informed of Treasury Management activities at least twice a year.

1.2 Treasury Management is defined as "the management of the Council's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks". No Treasury Management activity is without risk; the effective identification and management of risk are integral to the Council's Treasury Management objectives.

1.3 For 2023/24 the Investments Section of the Kent County Council (KCC) Finance Department had operational responsibility for the daily treasury management duties. KCC Finance in undertaking this work had to comply with Swale Borough Council's Treasury Management Strategy. Overall responsibility for Treasury Management remained with the Council.

1.4 This report:

- is prepared in accordance with the CIPFA Treasury Management Code and the Prudential Code;
- details the implications of treasury decisions and transactions;
- gives details of the outturn position on Treasury Management transactions in 2023/24; and
- confirms compliance with Treasury limits and Prudential Indicators.

2. Background

Borrowing Requirement and Debt Management

2.1 The overall borrowing position is summarised below:

	Balance on 31/3/2023 £'000	Movement in Year £'000	Balance on 31/3/2024 £'000
Capital Financing Requirement	48,406	3,707	52,113
External Borrowing	(10,000)	0	(10,000)
Cumulative External Borrowing Requirement	**38,406**	**3,707**	**42,113**

2.2 Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be accounted for as a charge to the General Fund.

2.3 The reason for the increase in the CFR in 2023/24 is due to the increase in the unfunded capital spend.

2.4 As outlined in the treasury strategy, the Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing lower interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective. The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio and, where practicable, to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.5 Interest rates have seen substantial rises over the last two years, although these rises have now begun to plateau. On 31st December, the PWLB certainty rates for maturity loans were 4.74% for 10 year loans, 5.18% for 20-year loans and 5.01% for 50-year loans. Their equivalents on 31st March 2023 were 4.33%, 4.70% and 4.41% respectively.

2.6 The cost of short term borrowing from other local authorities has generally risen with Base Rate over the year. Interest rates peaked at around 7% towards the later part of March 2024 as many authorities required cash at the same time. These rates are expected to fall back to more normal market levels in April 2024.

2.7 The table below summarises the Council's borrowing portfolio at 31 March 2024.

Lender	Loan Value £'000	Borrowing Rate	Duration of the Loan	Borrowing Date	Loan Repayment Date
North Northamptonshire Council	5,000	6.05%	317 days	26/02/2024	08/01/2025
PWLB	5,000	5.33%	530 days	19/03/2024	31/08/2025

Investment Activity

2.8 The Council holds significant investment funds, representing income received in advance of expenditure plus balances and reserves held. During 2023/24, the Council held average daily cash balances of £23 million (£30 million for 2022/23) and our investment balances closed at £15.2 million at 31 March 2024.

2.9 The Council's budgeted investment income for 2023/24 was £226,000 and the actual income received was £1,171,000, of which £144,000 was from the Council's long-term investment in the Church, Charities and Local Authorities (CCLA) Mutual Investment Property Fund.

2.10 The table below summarises the Council's investment portfolio at 31 March 2024. All investments made were in line with the Council's approved credit rating criteria at the time of placing the investment, and still met those criteria at 31 March 2024.

Counterparty (MMF = Money Market Funds)	Long-Term Rating	Balance Invested at 31 March 2024 £'000
Morgan Stanley MMF	AAAmmf	1,770
Black Rock MMF	AAAmmf	3,000
Invesco MMF	AAAmmf	3,000
SSgA MMF	AAAmmf	1,440
Aberdeen MMF	AAAmmf	3,000
CCLA Property Fund	unrated	3,000
Total		**15,210**

2.11 The ratings above are from Fitch credit rating agency. A description of the grading is provided below:

- AAAmmf: Funds have very strong ability to meet the dual objectives of providing liquidity and preserving capital.

2.12 The treasury management position at 31st March 2024 and the changes during the year is summarised below:

Investments	Balance on 31/03/23 £'000	Movement in Year £'000	Balance on 31/03/24 £'000	Average Rate at 31/03/24 %
Money Market Funds	6,550	5,660	12,210	4.37
Long-Term Investments	3,000	0	3,000	4.79
TOTAL INVESTMENTS	**9,550**	**5,660**	**15,210**	
Borrowing				
Short-Term Borrowing	(10,000)	0	(10,000)	4.45
TOTAL BORROWING	**(10,000)**	**0**	**(10,000)**	

2.13 The long-term investment shown in the table above is the Council's investment in the CCLA Property Fund. Accounting requirements dictate that financial instruments, which include this investment, are carried in the balance sheet at fair value. The fair value for this fund is based on the market price which as at 31 March 2024 was £2.751 million.

2.14 Because CCLA fund has no defined maturity date, but funds are available for withdrawal after a notice period, its performance and continued suitability in meeting the Council's medium- to long-term investment objectives are regularly reviewed. Strategic fund investments are made in the knowledge that capital values will move both up and down on months, quarters and even years and with the expectation that over a three- to five-year period total returns should exceed cash interest rates.

2.15 In keeping with the Department for Levelling Up, Housing and Communities (DLUHC) Guidance on Investments, the Council maintained a sufficient level of liquidity through the use of Money Market Funds, overnight deposits and the use of Debt Management Agency Deposit Facility (DMADF).

2.16 The Council sought to optimise returns commensurate with its objectives of security and liquidity.

2.17 The criteria applied by the Director of Resources for the approval of a counter party for deposits are:

- credit rating - a minimum long-term of A-;
- credit default swaps;
- share price;
- reputational issues;
- exposure to other parts of the same banking group; and
- country exposure.

2.18 The investments permissible by the 2023/24 Treasury Strategy were:

Counterparty	**Time Limit**	**Cash Limits**
The UK Government	50 years	Unlimited
Local Authorities and other government entities	25 years	£3m
Major UK banks / building societies unsecured deposits*	13 months	£3m
Leeds Building Society unsecured deposits*	As per credit advice	£1.5m
Close Brothers unsecured deposits*	As per credit advice	£1.5m
Money Market Funds*	n/a**	£3m each
Strategic Pooled Funds e.g., Absolute return, Equity income, Corporate Bond Funds, Multi Asset Funds	n/a**	£3m each
CCLA Property Fund	n/a**	£3m
Registered providers (unsecured) *	5 years	£3m in aggregate
Secured Investments*	25 years	£3m in aggregate
Other Investments *	5 years	£3m in aggregate
Non treasury investments	As per credit advice	To be agreed on a case by case basis

2.19 This Council takes the view that the Capital Strategy should reflect the following principles:

- investing in sustainable, affordable and social housing to increase overall supply;
- using the ability to borrow at lower rates of interest for the benefit of the physical and social infrastructure of the borough and for broader social value; and,
- ensuring that the costs of borrowing are manageable long term within the revenue budget

2.20 The maximum permitted duration for unsecured deposits with major UK Banks and building societies is 13 months. For 2023/24 the Director of Resources in consultation with chair of Policy & Resources Committee could consider longer duration. Bonds could have been purchased with a maximum duration of five years.

2.21 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the Council, as well as other non-financial assets which the Council holds primarily for financial return. At 31 March 2024 the Council held £3,896 million of a longstanding portfolio of 11 investment properties within the borough. These investments generated £0.2 million of investment income for the Council in 2023/24 after taking account of direct costs, representing a rate of return of 5.7%.

External Context

2.22 UK inflation continued to decline from the 8.7% rate seen at the start of 2023/24. By the last quarter of the financial year headline consumer price inflation (CPI) had fallen to 3.4% in February, but was still above the Bank of England's 2% target at the end of the period. The core measure of CPI, i.e. excluding food and energy, also slowed in February to 4.5% from 5.1% in January, a rate that had stubbornly persisted for three consecutive months.

2.23 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. Of the recent monthly data, the Office for National Statistics reported a rebound in activity with economy expanding 0.2% in January 2024. While the economy may somewhat recover in Q1 2024, the data suggests that prior increases in interest rates and higher price levels are depressing growth, which will continue to bear down on inflation throughout 2024.

2.24 Labour market data provided a mixed message for policymakers. 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.

2.25 Having begun the financial year at 4.25%, the Bank of England's Monetary Policy Committee (MPC) increased Bank Rate to 5.25% in August 2023. Bank Rate was maintained at 5.25% through to March 2024. Although financial markets shifted their interest rate expectations downwards with expectations of a cut in June, the MPC's focus remained on assessing how long interest rates would need to be restrictive in order to control inflation over the medium term.

2.26 Following this MPC meeting, Arlingclose, the Council's treasury adviser, maintained its central view that 5.25% remains the peak in Bank Rate and that interest rates will most likely start to be cut later in the second half of 2024. The risks in the short-term are deemed to be to the downside as a rate cut may come sooner than expected, but then more broadly balanced over the medium term.

Credit Review

2.27 In response to an improving outlook for credit markets, in January 2024 Arlingclose moved away from its previous temporary stance of a 35-day maximum duration and increased its advised recommended maximum unsecured duration limit on all banks on its counterparty list to 100 days.

2.28 Earlier in the period, S&P revised the UK sovereign outlook to stable and upgraded Barclays Bank to A+. Moody's also revised the UK outlook to stable, Handelsbanken's outlook to negative, downgraded five local authorities, and affirmed HSBC's outlook at stable while upgrading its Baseline Credit Assessment.

2.29 In the final quarter of the financial year, Fitch revised the outlook on the UK sovereign rating to stable from negative based on their assessment that the risks to the UK's public finances had decreased since its previous review in October 2022, the time of the mini- budget.

2.30 As market volatility is expected to remain a feature, at least in the near term, as ever, the institutions and durations on the Council's counterparty list recommended by Arlingclose remains under constant review.

CIPFA Code and PWLB Lending Facility Guidance

2.31 Authorities that are purchasing or intending to purchase investment assets primarily for yield are not able to access the PWLB except to refinance existing loans or externalise internal borrowing. Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

2.32 To comply with the Prudential Code, authorities must not borrow to invest primarily for financial return. This Code also states that it is not prudent for local authorities to make investment or spending decision that will increase the Capital Financing Requirement unless directly and primarily related to the functions of the authority. Existing commercial investments are not required to be sold; however, authorities with existing commercial investments who expect to need to borrow should review the options for exiting these investments.

2.33 Borrowing is permitted for cashflow management, interest rate risk management, to refinance current borrowing and to adjust levels of internal borrowing. Borrowing to refinance capital expenditure primarily related to the delivery of a local authority's function but where a financial return is also expected is allowed, provided that financial return is not the primary reason for the expenditure. The changes align the CIPFA Prudential Code with the PWLB lending rules.

2.34 Statutory override: In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31st March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

Compliance

2.35 The Council has complied with its Prudential and Treasury Management Indicators for 2023/24 which were set as part of the Treasury Management Strategy agreed by Council in February 2023.

2.36 In Appendix I the outturn position for the year against each Prudential Indicator is set out.

2.37 The Head of Finance and Procurement confirms that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Treasury Advisers

2.38 Arlingclose has been the Council's treasury advisers since May 2009. Officers of the Council meet with Arlingclose regularly and high quality and timely information is received from them.

Capital Strategy

2.39 The Prudential Code includes a requirement for local authorities to provide a Capital Strategy, a summary document approved by full Council covering capital expenditure and financing, treasury management and non-treasury investments. The Council's Capital Strategy for 2023/24, complying with CIPFA's requirement, was approved by Council on 22 February 2023.

3. Proposal

3.1 Members are asked to note the report.

4. Alternative Proposals

4.1 No alternative proposals have been considered and compliance with the CIPFA Code is mandatory.

5. Consultation Undertaken

5.1 Our treasury advisors, Arlingclose, have been consulted.

6. Implications

Issue	Implications
Corporate Plan	Supports delivery of the Council's objectives.
Financial, Resource and Property	As detailed in the report
Legal, Statutory and Procurement	CIPFA produce a framework for managing treasury activities, called a 'Code'. Councils are legally required to have regard to this Code and members of CIPFA are expected to comply with its requirements. This report fulfils the Council's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the DLUHC Guidance
Crime and Disorder	Not relevant to this report
Environment and Climate/ Ecological Emergency	Not relevant to this report
Health and Wellbeing	Not relevant to this report
Safeguarding of Children, Young People and Vulnerable Adults	Not relevant to this report

Issue	Implications
Risk Management and Health and Safety	Not relevant to this report
Equality and Diversity	Not relevant to this report
Privacy and Data Protection	Not relevant to this report

7. Appendices

7.1 Appendix I: Treasury Management and Prudential Indicators

8. Background Papers

None

Treasury Management and Prudential Indicators for 2023/24 - Appendix I

Introduction

The Local Government Act 2003 requires the Council to have regard to the Chartered Institute of Public Finance and Accountancy's Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of local authorities are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the Council has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

This report compares the approved indicators with the outturn position for 2023/24. Actual figures have been taken from, or prepared on a basis consistent with, the Council's Statement of Accounts

Capital Expenditure: The Council's capital expenditure and financing may be summarised as follows.

Capital Expenditure and Financing	2023/24 Actual £'000
Total Capital Expenditure	**11,020**
Source of Funding	
Capital grants and other contributions	3,780
Earmarked reserves	623
Borrowing	4,789
Capital receipts	1,800
Direct Revenue Funding	28
Total Financing	**11,020**

Capital Financing Requirement: The Capital Financing Requirement (CFR) measures the Council's underlying need to borrow for a capital purpose.

Capital Financing Requirement	31/03/24 Estimate £'000	31/03/24 Actual £'000	31/03/24 Difference £'000
Total CFR	53,996	52,113	(1,883)
External Borrowing	(30,000)	(10,000)	20,000
Cumulative External Borrowing Requirement	**23,996**	**42,113**	**18,117**

External borrowing: as at 31 March 2024 the Council had £10 million of external borrowing

Operational Boundary for External Debt: The Operational Boundary is based on the Council's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the Council's estimates of capital expenditure, the capital financing requirement and cash flow requirements, and is a key management tool for in-year monitoring. Other long-term liabilities comprise finance leases, and other liabilities that are not borrowing but form part of the Council's debt.

Authorised Limit for External Debt: The Authorised Limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the Council can legally owe. The Authorised Limit provides headroom over and above the Operational Boundary for unusual cash movements.

Authorised Limit and Total Debt	**31/03/24 Boundary £'000**	**31/03/24 Actual Debt £'000**	**Complied**
Borrowing	55,000	10,000	✓
Other Long-Term Liabilities	2,000	0	✓
Total Authorised Limit	**57,000**	**10,000**	✓

The Director of Resources confirms that there were no breaches to the Authorised Limit and the Operational Boundary during 2023/24.

Ratio of Financing Costs to Net Revenue Stream: This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs, net of investment income.

Ratio of Financing Costs to Net Revenue Stream	**31/03/24 Estimate %**	**31/03/24 Actual %**	**Difference %**
General Fund Total	6.62	0.47	6.15

Treasury Management and Prudential Indicators for 2023/24 - Appendix I

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing were:

	31/03/24 Actual %	Upper Limit %	Lower Limit %	Complied
Under 12 months	50	100	0	✓
12 months and within 24 months	50	100	0	✓
24 months and within 5 years	0	100	0	✓
5 years and within 10 years	0	100	0	✓
10 years and above	0	100	0	✓

Principal Sums Invested for Periods Longer than 364 days: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2023/24 £'000
Actual Principal Invested Beyond Year End	3,000
Limit on Principal Invested Beyond Year End	10,000
Complied	✓

Investment Benchmarking

Average Actual Return on Investments 2023/24	Original Estimate Return on Investments 2023/24	Average Bank Rate 2023/24	Average 7-day SONIA Rate 2023/24
4.37%	0.92%	4.75%	4.96%

SONIA is the average of the interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.