



**Report Title: Treasury Management Annual Report 2023/24**

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## **1. Introduction**

- 1.1 Two reports are produced annually on treasury management. The Treasury Management Strategy and Statement is approved by Council prior to the commencement of the financial year, and subsequently, the Treasury Management Annual Report provides Members with a summary of actual activity during the year 2023/24. The report is required to comply with both the "Code of Practice on Treasury Management in Local Government" and the Council's own Treasury Management Policy Statement.
- 1.2 The Code requires the Section 151 Officer to ensure that the treasury management function operates in accordance with treasury management practices adopted by Council. There are no issues of non-compliance with these practices that need be brought to Member's attention.
- 1.3 Under the Prudential Code for Capital Finance, the Council is required to prepare a number of prudential indicators against which treasury management performance is to be measured.
- 1.4 The details of all borrowing and investment transactions for 2023/24, together with the performance of the treasury management function against prudential indicators are given below.

## **1.5 Borrowing**

### **1.5.1**

<b>TM Summary</b>	<b>31/03/2023 Balance £m</b>	<b>2023/24 Movement £m</b>	<b>31/03/2023 Balance £m</b>
Long-term borrowing	18,062,561	-1,094,523	16,968,038
Short-term borrowing	16,006,333	3,500,000	19,506,333
<b>Total borrowing</b>	<b>34,068,894</b>	<b>2,405,477</b>	<b>36,474,371</b>

- 1.5.2 **Long Term** - The Authority is able to borrow on a long term basis from the Public Works Loans Board (PWLb). At the beginning of the year the value of the outstanding loans was £18.063m, comprising £13.082m relating to the HRA, and £4.980m relating to the general fund. £88k of principle was repaid in year, with £1.006m of long-term borrowing reclassified to short term borrowing, as the time to maturity fell under 365 days, and no additional long-term borrowing was undertaken, leaving the balance at £16.968m.
- 1.5.3 **Short Term** (Less than 365 days in duration) - There was £18.5m of short-term borrowing undertaken during 2023/24 (2023/24 £15m), in lieu of long-term borrowing. £1.006m of long term borrowing was reclassified to short-term, as the time until maturity fell under 365 days, and £1.006m of previously reclassified long-term borrowing was repaid.

#### 1.5.4 Cost of Borrowing

Interest paid on all loans during 23/24 as follows:

Loan £000's	Loan Type	Maturity Date	Interest Rate	Interest £000's
500	Long Term	29/03/2052	4.1	21
4,392	Long Term	30/06/2055	2.66	119
14,089	Long Term	Various	3.17*	447
2,000	Short Term	09/08/2023	1.95	14
8,000	Short Term	24/01/2024	4.2	276
5,000	Short Term	26/02/2024	4.1	185
4,000	Short Term	12/07/2024	5.6	49
3,000	Short Term	28/03/2024	5.45	30
2,000	Short Term	05/02/2025	5.95	12
5,000	Short Term	05/02/2025	5.95	29
3,000	Short Term	30/09/2024	5.6	2
4,500	Short Term	13/01/2025	5.98	16
1,000	Temporary	16/08/2023	5.18	1
1,000	Temporary	01/12/2023	5.2	1
500	Temporary	15/01/2024	5.4	1
			TOTAL	1,203

#### \* Average Interest rate for loans

#### 1.6 Investments

During 2023/24, the Council was in a position where it often had temporary cash surpluses to invest. When considering investments the Council must consider the following factors;

- Security – the Authority has a counterparty list, based on credit ratings, within its Investment Strategy that is approved prior to the commencement of the financial year. The current list and basis of approval is attached at Appendix C;
- Liquidity – because of the fluctuation of cash flows, there is always a need to have a mix of investments that are realisable when required;
- Yield – probably the least important consideration as often higher yields mean greater risks.

Given the current economic climate, and the attendant volatility and uncertainty in the financial markets, security has to be the most important factor of the three listed above.

For 2023/24 surplus cash was invested in the following ways.

**Special Interest Bearing Account** – This account is held with National Westminster Bank plc. It can be used for deposits up to £5 million and presently pays interest at 1.45%.

**Money Market Deposits** – Used for larger amounts, up to £1.5 million. The list of institutions approved for investment was agreed at Committee on 7 February 2023 and is included again for reference in **Appendix C**. The investments fall into two categories;

- Money on Call – These investments run for a minimum of 7 days after which they can be recalled at any time. Interest rates are variable and can fluctuate during the life of the investment;
- Fixed Deposits – Investments which mature at a pre-arranged date. The interest rate is fixed for the life of the investment.

**Debt Management Office Deposit Fund** – There is no limit to amounts deposited, due to the absolute security of the fund. Amounts are deposited for a maximum of six months.

The total interest received for the year to 31 March 2024 on temporary investments amounted to £165,802 (2022/23 £92,168). A summary of the total amount invested in 2023/24 is given at **Appendix A**.

## 1.7 Prudential Indicators

The Local Government Act 2003 requires Councils to comply with the Prudential Code for Capital Finance in Local Authorities when carrying out their budgeting and treasury management activities. Fundamental to this is the calculation of a number of prudential indicators which provide the basis for management and monitoring of borrowing and investments. These indicators were agreed by Council on 22 February 2023.

**The Capital Financing Requirement (CFR)** – This represents the Council’s underlying need to borrow for capital purposes, based on the cumulative value of capital expenditure not fully paid for. The CFR will change year on year in accordance with the value of capital spending.

The key control over treasury activities is to ensure that over the medium term, net borrowing will only be for capital purposes. The Authority must ensure that net external borrowing does not, except for short periods, exceed the total of the CFR. A comparison of the estimate against the actuals is shown in the table below.

	<b>2023/24 Original Estimate £000's</b>	<b>2023/24 Revised Estimate £000's</b>	<b>2023/24 Actuals £000's</b>
Gross Borrowing	34,474	36,474	36,474
Investments	0	0	(1,000)
<b>Net Borrowing 31<sup>st</sup> March</b>	<b>34,474</b>	<b>36,474</b>	<b>35,474</b>
<b>Total CFR 31<sup>st</sup> March</b>	<b>41,146</b>	<b>42,020</b>	<b>41,496</b>

**The Section 151 Officer reports that the Council complied with the requirement to keep borrowing below the relevant CFR in 2023/24 and no difficulties are foreseen for the current or future years.**

**Borrowing Levels** – The following two indicators control the overall level of borrowing;

- **The Authorised Limit** – This represents the limit beyond which borrowing is prohibited, and needs to be set and revised by Members. It reflects the level of borrowing which, while not desired, could be afforded in the short term, but is not sustainable. It is the expected maximum borrowing need with some headroom for

unexpected movements. This is the statutory limit determined under section 3(1) of the Local Government Act 2003;

- **The Operational Boundary** – This indicator is based on the probable external debt during the course of the year. It is not a limit and actual borrowing could vary around the boundary for short times during the year. It should act as a barometer to ensure the authorised limit is not breached;
- **The actual borrowing compared to the Authorised and Operational limits agreed by Council are as follows.**

	<b>2023/24 Original Limit £000's</b>	<b>2023/24 Revised Limit £000's</b>	<b>2023/24 Actual (Max) £000's</b>
Authorised Limit	45,000	45,000	35,474
Operational Boundary	40,000	40,000	35,474

**Ratio of Financing Costs to Net Revenue Stream** – This indicator compares net financing costs (borrowing costs less investment income) to net revenue income from revenue support grant, business rates, housing revenue account subsidy, Council tax and rent income. The purpose of the indicator is to show how the proportion of net income used to pay for financing costs is changing over time.

	<b>2023/24 Original Estimate %</b>	<b>2023/24 Revised Estimate %</b>	<b>2023/24 Actual %</b>
General Fund	14.7	8.6	8.7
HRA	13.3	12.9	12.2

The above indicator shows that within the General Fund, financing costs are equivalent to 8.7% of the net revenue income. This is lower than the original estimate due to the change in the MRP calculation.

In the case of the HRA there is net interest payable which is equivalent to 12.2% of the net revenue income. The decrease is due to the increase in interest attributable to the HRA.

**Limits on Activity** – The following indicators constrain the activity of the treasury function to within certain limits, thereby reducing the risk of an adverse movement in interest rates impacting negatively on the Council's overall financial position.

- **Upper Limits on Variable Rate Exposure** – This indicator identifies a maximum Limit for variable interest rates;
- **Maturity Structures of Borrowing** – These gross limits are set to reduce the Council's exposure to large fixed rate sums falling due for refinancing;
- **Total Principal Funds Invested** – This limit is set to reduce the need for early sale of investments and is based on the availability of investments after each year-end.

	2023/24 Original Indicators		2023/24 Revised Indicators		2023/24 Actual Maturity Structure	
	%		%		%	
Fixed Interest Rates Limit	100		100		100	
Variable Interest Rates Limit	100		25		0	
Maturity Structure of Borrowing	Lower	Upper	Lower	Upper	Lower	Upper
Under 12 Months	0	50	0	50	0	53
12 Months to 2 Years	0	50	0	50	0	3
2 Years to 5 Years	0	50	0	50	0	8
5 Years to 10 Years	0	100	0	100	0	14
10 Years & Above	0	100	0	100	0	22

The Prudential Code requires indicators to be set for the maturity structure of fixed borrowings only.

## Appendix A

### Total investments placed during the period 1 April 2023 to 31 March 2024

	<b>Cumulative No. Of Investments To 31 March</b>	<b>Total Value Invested To 31 March</b>	<b>Average Interest Rate</b>	<b>Average Duration</b>	<b>Interest Earned (Accrued)</b>
	<b>£ 000's</b>	<b>£ 000's</b>	<b>%</b>		<b>£ 000's</b>
<b>British Clearing Banks</b>					
National Westminster Bank PLC	211	85,430	1.45%	5 days	18
<b>Local Authorities</b>					
Derbyshire Country Council	1	3,000	4.25%	6 months	97
Kent Police & Crime Commissioner	1	1,500	5.21%	7 weeks	11
Spellthorne Borough Council	1	1,000	8.00%	2 weeks	1
<b>Government Bodies</b>					
Debt Management Office	44	118,700	5.19%	2 days	39
	<b>258</b>	<b>209,630</b>			<b>166</b>

**Schedule Of PWLB Loans (HRA Self – Financing Settlement)**

<b>Principal (£)</b>	<b>Rate of Interest (%)</b>	<b>Date of Maturity</b>
1,006,333	2.82	28/03/2025
1,006,333	2.92	28/03/2026
1,006,333	3.01	28/03/2027
1,006,333	3.08	28/03/2028
1,006,333	3.15	28/03/2029
1,006,333	3.21	28/03/2030
1,006,333	3.26	28/03/2031
1,006,333	3.30	28/03/2032
1,006,333	3.34	28/03/2033
1,006,333	3.37	28/03/2034
1,006,333	3.40	28/03/2035
1,006,333	3.42	28/03/2036
1,006,333	3.44	28/03/2037
<b>13,082,334</b>	<b>Total</b>	

**Schedule Of PWLB Loans (General Fund)**

<b>Principal (£)</b>	<b>Rate of Interest (%)</b>	<b>Date of Maturity</b>
500,000	4.10	29/03/2052
4,392,036	2.66	29/06/2055
<b>4,892,036</b>	<b>Total</b>	

**Short Term loans (General Fund)**

<b>Principal (£)</b>	<b>Rate of Interest (%)</b>	<b>Date of Maturity</b>
2,000,000	5.95	05/02/2025
5,000,000	5.95	05/02/2025
4,500,000	5.98	13/01/2025
<b>11,500,000</b>	<b>Total</b>	

**Short Term loans (HRA)**

<b>Principal (£)</b>	<b>Rate of Interest (%)</b>	<b>Date of Maturity</b>
4,000,000	5.60	12/07/2024
3,000,000	5.60	30/09/2024
<b>7,000,000</b>	<b>Total</b>	

## **Appendix C**

### **INVESTMENTS STRATEGY 2023/24 – 2025/26**

#### **1.0 Introduction**

This strategy is written in accordance with guidance issued under section 15 (1) (a) of the Local Government Act 2003, the Department of Levelling Up and Housing and Communities (DLUHC) Guidance on Local Authority Investments (3<sup>rd</sup> Edition) effective from 1 April 2018, , the revised CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes (2021) and the revised CIPFA Prudential Code (2021).

The objectives of this strategy are to:

- Security - facilitate investment decisions which ensure that the Council's investment sums remain secure
- Liquidity - ensure the liquidity of investments so that the Council has sufficient cash resources available to carry out its functions at all times
- Optimum Yield - achieve the maximum return on investments after taking into account security and liquidity

#### **2.0 Current Investments**

Surplus funds arising from day to day operations are invested based on the most up to date forecasts of interest rates and in accordance with the Council's cash flow requirements in order to gain maximum benefit from the Council's cash position throughout the year. In the current financial climate only specified investments will be considered as set out below.

#### **3.0 Investments: Loans**

In accordance with relevant guidance, all investments will be placed with counterparties included on the Council's approved list. Institutions with which specified investments will be made include:

- UK government institutions and other local authorities
- institutions which have been awarded a high quality credit rating by a credit rating agency

The length of time an investment can be place for is specified below under each category of counterparty, normally this will be no longer than 364 days.

Non-Specified Investments are any investment not meeting the definition of a specified investment above. The Authority does not intend to make any investments denominated in foreign currencies, nor any that are



defined as capital expenditure by legislation, such as company shares. Non-specified investments will therefore be limited to long-term investments, i.e. those that are due to mature 12 months or longer from the date of arrangement, and investments with bodies and schemes not meeting the definition on high credit quality.

The Council's Treasury Management Practice note 1 (3) states that 'The Section 151 Officer will be responsible for preparing for the Council a list of institutions in which the Council's funds may be invested. This list will be supported by details of the criteria employed to assess the various credit standings of counterparties'. The following credit ratings will be considered:

- Long-term ratings – these range from the highest rating of AAA to the lowest rating of D. As the title suggests, this indicator reflects the long-term stability of the institution.
- Short-term ratings - These have a time horizon of less than 12 months and therefore place greater emphasis on the liquidity necessary to meet financial commitments in a timely manner. As most of the Council's investments are expected to be for less than 364 days, this is of particular importance. The ratings are F1 (highest credit quality), F2 (good credit quality), F3 (fair credit quality) and B to D (representing various levels of potential default).
- Individual ratings – These range from the highest of A to the lowest of F. This rating is only assigned to banks and attempts to assess how it would be viewed if it were entirely independent and could not rely upon external support.
- Support ratings – These range from 1 to 5 with 1 being the highest. It is a judgement on whether a bank would receive support should this become necessary. It is assumed that any such support would come from the sovereign state or institutional owners.

The Council's counterparty list needs to provide security for the amounts invested whilst containing a sufficient number of institutions with which to place funds. For the purpose of this strategy in respect of Categories 1 and 2 below, only counterparties that meet all of the following criteria will be considered for investment.

- UK banks
- Building societies with asset bases in excess of £6 billion.
- By reference to all three major credit rating agencies (Fitch, Standard and Poor's, Moody's) only those that reach the minimum standard for the lowest agency rating set out.

### Category 1

The minimum ratings that will be considered for all agencies are set out below:

Term	Credit Agency		
	Fitch	Moody's	S & P
Short	F1	P1	A1
Long	AA-	AA3	AA-
Individual	C	D	
Support	3		

For any organisation that meets the above criteria, up to £1.5m may be invested at any one time for a maximum duration of 364 days.

**Any building society that meets the above criteria must also have an asset base in excess of £6 billion.**

### Category 2

The minimum ratings that will be considered for all agencies are set out below:

Term	Credit Agency		
	Fitch	Moody's	S & P
Short	F1	P1	A1
Long	A	A2	A1
Individual	C	D	
Support	3		

For any organisation that meets the above criteria, up to £1m may be invested at any one time for a maximum duration of maximum duration of 364 days.

**Any building society that meets the above criteria must also have an asset base in excess of £6 billion.**

Other counterparties that can be used and any restrictions applicable are set out below.

### Debt Management Office

Investments of a maximum duration of 6 months can be made with this Government department and are unrestricted in value.

### Public Authorities in England, Scotland and Wales

Investments totalling up to £5m at any one time with a maximum duration of three years can be made with these bodies. These include local government, fire and police authorities.

The Council exercises due diligence by assessing the organisation's financial stability. This is achieved by reviewing their credit status, most recent audited financial statements, auditor's report, budget report and current news which is financial in nature. All decisions are signed off the by the Section 151 Officer or the Deputy Section 151 Officer.

### Money Market Funds

Investments of up to £1.5m per fund at one time can be made provided they are AAA rated.

Credit ratings are monitored on a daily basis using Arlingclose credit rating service by the Section 151 Officer who will determine the amendments to be made to the counterparty list when credit ratings change.

The proposed counterparty list for investments is given at Annex 1.

The period for which investments are placed will be based on the Council's cash flow forecasts and estimates of movements in interest rates. The Council generally does not expect to place investments for longer than 364 days. This situation will be kept under review by the Section 151 Officer should a longer-term investment opportunity occur. Long-term investments will only be made where it is clear that surplus cash resources are not required for the day-to-day financing of the Council's activities. The maximum period for any long-term investments will be the three-year planning cycle covered by this strategy.

## **4.0 Policy on the Use of External Service Providers**

External advisors will be used when appropriate e.g. to undertake independent valuations prior to acquisition, asset valuation or when there is a lack of expertise in-house regarding an industry.

The Authority uses Arlingclose as an external treasury advisor but still recognise that responsibility for treasury management decisions remains with the Council at all times. Whilst it is recognised that undue reliance should not be placed on external advisors, it is valuable to be able to access specialist skills and resources.

## **5.0 Scheme of Delegation**

Full Council

- Approval of annual strategy
- Review of treasury management policy and procedures, including making recommendations to responsible body

Policy, Finance and Development Committee

- Approval of annual treasury outturn report
- Approval of mid year treasury management updates
- Mid year treasury management updates

Section 151 Officer

- Day to day management of treasury management, within agreed policy
- Appointment of external advisors, within existing Council procurement procedures and standing orders.

## **6.0 Role of Section 151 Officer**

The Section 151 Officer has day to day responsibility for running the treasury management function.

## **7.0 Ethical Investment Strategy**

The Council aims to be aware of ethical issues within its investment strategy. Where any member of the Council becomes concerned about such issues, these matters should be reported to the Section 151 Officer. Where necessary, the Section 151 Officer will then present a response to the concerns raised to the next meeting of the Policy, Finance and Development Committee.

**EXTERNAL INVESTMENT OF FUNDS - APPROVED INSTITUTIONS****Category 1**

<b>Restrictions</b>	
<b>Max Amount £m</b>	1.5
<b>Duration</b>	364 days
<b>Asset Base (Building Societies Only)</b>	£6 bn

**Category 2**

<b>Restrictions</b>	
<b>Max Amount £m</b>	1
<b>Duration</b>	364 days
<b>Asset Base (Building Societies Only)</b>	£6 bn

The following institutions will also be classed as Category 2 although they currently may not meet the exact criteria.

Barclays Bank Plc

Lloyds Bank Plc

HSBC Plc

Santander UK Plc

National Westminster Bank Plc

Royal Bank of Scotland Plc

Bank of Scotland Plc

Nationwide Building Society

**Debt Management Office**

<b>Restrictions</b>	
<b>Max Amount £m</b>	N/A
<b>Duration</b>	6 months

Operated by a National Government Department

**Public Authorities in England, Scotland and Wales**

<b>Restrictions</b>	
<b>Max Amount £m</b>	5
<b>Duration</b>	3 Years

All public authorities (including local government, fire and police authorities)

in England, Wales and Scotland

**Money Market Funds**

<b>Restrictions</b>	
<b>Max Amount £m</b>	1.5
<b>Duration</b>	N/A

Funds must be AAA-rated and operated by a company regulated by the Financial Services Authority. The Section 151 Officer, under delegated powers, will choose the appropriate fund(s).