Appendix A: Annual Treasury Management Report 2023/24

1. Introduction and 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 the year. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (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. During 2023/24 the minimum reporting requirements were that the full Council should receive the following reports: an annual treasury strategy in advance of the year (February), a mid-year treasury update report, and an annual treasury report. In addition, this Council has received quarterly treasury management update reports. Scrutiny to all treasury management reports was provided by the Audit & Regulatory Committee before being reported to the full Council.

1.3. The regulatory environment places responsibility on Members for the review and scrutiny of Treasury Management policy and activities. This report provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by Members.

1.4. Treasury Limits and Treasury management and Prudential Indicators were set within the Treasury Management Strategy 2023/24. The Council has complied with all indicators. Details of these are embedded throughout this report. Member training on treasury management issues is scheduled for July 2024 in order to support members' scrutiny role.

2. The Council's capital expenditure & borrowing requirement for the year

2.1. The Council undertakes capital expenditure on long-term assets. These activities may either be financed: through the application of capital or revenue resources (including capital receipts, capital grants, revenue contributions), which does not impact on the Council's borrowing need, or by external borrowing, where there is insufficient internal resource or where a decision is taken to finance expenditure externally.

2.2. Capital expenditure constitutes one of the required prudential indicators. The table below shows the provisional outturn on capital expenditure for 2023/24 and how this was financed:

	31 March 2023	**2023/24**	**31 March 2024**
	Actual £000	Budget £000	Provisional Outturn £000

	31 March 2023	2023/24	31 March 2024
General fund	15,769	11,542	9,367
Housing Revenue Account (HRA)	5,816	6,224	7,675
Total capital expenditure	**21,585**	**17,766**	**17,042**
Financed by:			
Grants and contributions	9,585	2,485	4,201
Reserves	0	0	460
Capital receipts	1,037	1,819	1,355
Minimum Repairs Reserve (HRA)	2,268	2,182	2,439
HRA contribution	3,147	3,842	3,693
Unfinanced capital expenditure/ borrowing need	**5,548**	**7,438**	**4,894**

2.3. The underspend on the general fund programme reflects the net impact of capital programme projects which are either behind schedule or have progressed quicker than expected. The significant variances to the capital programme outturns are described in more detail in the Quarter 4 Finance Provisional outturn report presented to the Corporate Select Committee.

2.4. The Council's underlying need to borrow for capital expenditure is termed the Capital Financing Requirement (CFR). It represents the cumulative capital activity of the Council in the current and previous years which is as yet unfinanced, i.e. has not yet been paid for by revenue or other resources.

2.5. The 2023/24 capital expenditure (provisional outturn) is partly funded by external contributions, reserves, capital receipts and the HRA contributions; the remaining general fund expenditure has created a provisional outturn borrowing need of £4,894,000, which increases the CFR.

2.6. The Treasury Management team plans the Council's cash position to ensure sufficient cash is available to meet capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Public Works Loan Board or the money markets), or utilising temporary cash resources within the Council.

2.7. The Council's underlying borrowing need (CFR) is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP) to reduce the CFR. This is effectively a repayment via revenue of the cumulative borrowing need. The 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) through a Voluntary Revenue Provision (VRP). MRP of £1,438,000 has been applied during the year to reduce the CFR.

2.8. The Council's 2023/24 MRP Policy was approved (as required by the Department for Levelling Up, Housing and Communities (DLUHC) guidance) as part of the Treasury Management Strategy Statement 2023/24 in February 2023.

2.9. The Council's movement on CFR during the year compared to the budget, and also the previous year represents a key prudential indicator:

	31 March 2023	**2023/24**	**31 March 2024**
Capital Financing Requirement	Actual £000	Budget £000	Provisional Outturn £000
Opening balance	80,296	85,827	84,517
Unfinanced capital expenditure/ borrowing need	5,548	7,438	4,894
Less MRP/VRP	-1,327	-1,463	-1,438
Closing balance	**84,517**	**91,802**	**87,973**

2.10. Borrowing activity is constrained by Prudential Indicators for gross borrowing and the CFR, and by the Authorised Limit. In order to ensure that borrowing levels are prudent over the medium term and only for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total of the CFR in the current year (2023/24) plus the estimates of any additional CFR for the next two financial years. This maintains the control that the Council is not borrowing to support revenue expenditure. The indicator allows the Council some flexibility to borrow in advance of its immediate capital needs. The Council has complied with the prudential indicator, maintaining an under borrowed position in the provisional outturn and two year forecast:

	31 March 2024	**31 March 2025**	**31 March 2026**
	Provisional £000	Forecast* £000	Forecast* £000
Gross borrowing position	63,777	66,277	68,777
CFR	87,973	91,228	89,595
Over/ (under) borrowed	**(24,196)**	**(24,951)**	**(20,818)**

** Per MTFP February 2024, updated for current year provisional outturn borrowing need*

2.11. The Authorised Limit is set in the Treasury Management Strategy in advance of each year as required by s3 of the Local Government Act 2003; once set, the Council does not have power to borrow above this level. The Operational Boundary, also set in the Treasury Management Strategy, is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary are acceptable subject to the authorised limit not being breached. The table below shows the Council has maintained gross borrowing within its authorised limit and operational boundary.

2.12. The 'financing costs as a proportion of net revenue stream' is used as an indicator to identify the trend in the cost of capital (borrowing costs, net of investment income) against the net revenue stream of the Council.

	2023/24	**31 March 2024**
	Budget £000	Provisional Outturn £000
Authorised limit	**102,443**	**102,443**
Maximum gross borrowing position during the year	63,777	63,777
Operational boundary	**99,643**	**99,643**
Average gross borrowing position	62,777	63,506
Financing costs as a proportion of net revenue stream	6%	4%
% reduced due to increase investment income and reduced borrowing costs		
HRA Ratio of financing costs to net revenue stream	17%	14%
% reduced due to increased income and reduced borrowing costs		

3. The current treasury position

3.1. The Council's treasury management debt and investment position is organised by the treasury team in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting and through officer activity in accordance with the Council's Treasury Management Practices. The table below shows the Council's treasury position at the end of 2023/24 and a comparison with the previous year:

	2023/24	**2022/23**

	Principal at 31 March £000	*Average annual principal £000*	Average annual interest rate/ return	Principal at 31 March £000	*Average annual principal £000*	Average annual interest rate/ return
Debt						
PWLB	50,277	*50,333*	3.87%	50,277	*50,277*	3.87%
Market Loans	8,500	*8,529*	4.25%	9,500	*12,258*	4.55%
Local Authority Loans	5,000	*4,644*	4.41%	2,000	*137*	4.50%
Total	**63,777**	*63,506*	3.96%	**61,777**	*62,672*	4.00%
Capital Financing Requirement	*87,973*			*84,517*		
Over/ (under) borrowed	*-24,196*			*-22,740*		
Treasury management investments	-13,761	-21,197	**4.89%**	-16,488	-29,141	**1.89%**
Net Debt	50,016			45,289		

4. The 2023/24 Treasury Management Strategy & Economic Conditions

4.1. The Bank of England base rate (bank rate) increased from 4.25% at the start of the year to 4.50% on 11 May, to 5.00% on 22 June, and to 5.25% on 3 August where it remained for the rest of the year.

4.2. The Council's investment income budget was set with the expectation of a peak at 4.50%, returning to 4.00% by Spring 2024. Therefore, there was the potential of improved investment income, although it would be influenced by the size of the investment portfolio available and decisions on cash flow, use of reserves and other funding.

4.3. Forecast PWLB and intra local authority external borrowing interest rates were high during the year in the context of the last 10 years, therefore, long-term external borrowing commitments were avoided.

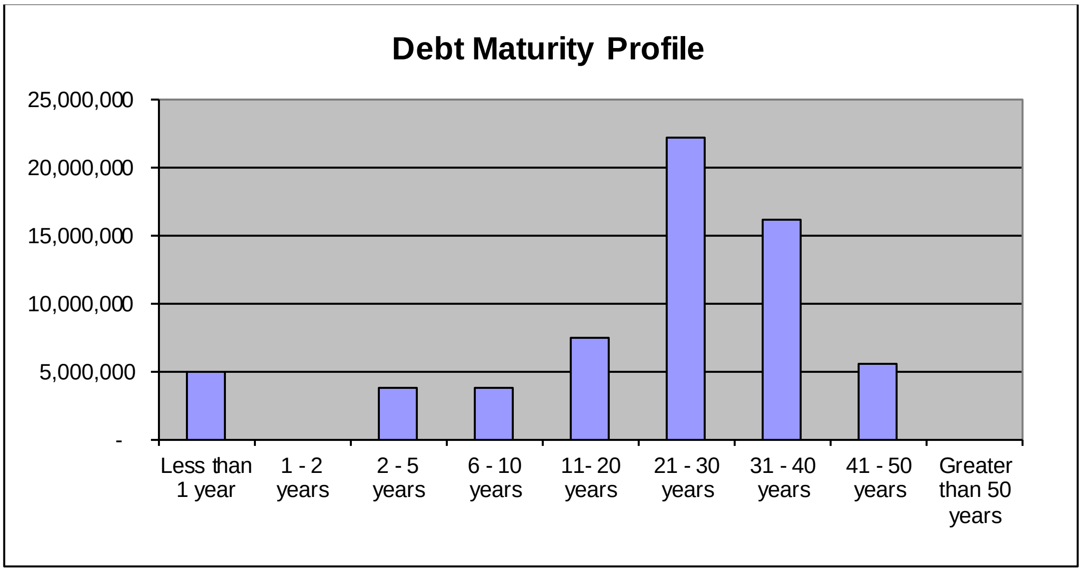
5. Borrowing Outturn

5.1. External borrowing activity during 2023/24 and the maturity profile at year end are shown in the tables below:

Amount	**Lender**	**Interest Rate**	**Term**	**Month**

Amount	Lender	Interest Rate	Term	Month
£61,777,304	***External borrowing 1 April 2023***			
Matured Loans				**Maturing**
£1,000,000	FMS LOBO	5.94%	25 years	April
£2,000,000	Fareham Borough Council	4.50%	70 days	May
£3,000,000	**Total**			
New Loans				**Starting**
£5,000,000	West Yorkshire Combined Authority	4.40%	331 days	May
£5,000,000	**Total**			
-£2,000,000	*Net increase in external borrowing*			
£63,777,304	***External borrowing 31 March 2024***			
£36,353,063	HRA Share 57%			
£27,424,241	General Fund Share 43%			
	Average borrowing during the year			
£50,332,900	PWLB	3.87%		
£8,528,767	Market Loans	4.25%		
£4,643,836	Local Authority Loans	4.41%		
£63,505,503	**Total**	**3.96%**		
£36,198,137	HRA Share 57%			
£27,307,366	General Fund Share 43%			

5.2. Attention must be given to the maturity profile of the loans to ensure maturity dates are evenly spread and the Council is not exposed to a substantial re-financing requirement at any one time, when interest rates are high. The graph below illustrates the maturity profile of the current portfolio of loans.



<table>
<tr><th rowspan="2">Maturity structure of borrowing</th><th colspan="2">Fixed rate</th><th colspan="2">Variable rate</th></tr>
<tr><th>Upper limit set 2023/24</th><th>As at 31 March 2024</th><th>Upper limit set 2023/24</th><th>As at 31 March 2024</th></tr>
<tr><td>under 12 months</td><td>60%</td><td>8%</td><td>100%</td><td>0%</td></tr>
<tr><td>12 months to 2 years</td><td>60%</td><td>0%</td><td>50%</td><td>0%</td></tr>
<tr><td>2 to 5 years</td><td>60%</td><td>6%</td><td>0%</td><td>0%</td></tr>
<tr><td>5 to 10 years</td><td>60%</td><td>6%</td><td>0%</td><td>0%</td></tr>
<tr><td>10 to 20 years</td><td rowspan="4">90%</td><td>12%</td><td>0%</td><td>0%</td></tr>
<tr><td>20 to 30 years</td><td>35%</td><td>0%</td><td>0%</td></tr>
<tr><td>30 to 40 years</td><td>25%</td><td>0%</td><td>0%</td></tr>
<tr><td>40 to 50 years</td><td>8%</td><td>0%</td><td>0%</td></tr>
</table>

5.3. A LOBO (Lender Option Borrower Option) loan of £1,000,000 from FMS matured on 3 April 2023. The Council no longer has any LOBO loans within its portfolio. A £2,000,000 local authority loan matured on 16 May 2023 and a new local authority loan of £5,000,000 commenced on the same day as anticipated in the budget. The Council has not borrowed in advance of need.

5.4. The Council maintains internal borrowing, temporarily utilising spare cash balances and reducing the need for external borrowing as there is a net saving on financing costs with loss of interest income being smaller than external borrowing costs. The treasury team keeps under constant review in climate of rises and fluctuations.

5.5. The general fund provisional outturn is £95,123 overspent due to a smaller capital borrowing requirement in 2022/23, the impact of which is a smaller Minimum Revenue Provision (MRP) charge than anticipated of £65,366, allocation of borrowing costs to The Springs of £103,226, offset by a larger net credit to the HRA of £257,175 for interest earned on the HRA reserves balances.

6. Investment Performance & Portfolio

6.1. The investment performance of the Treasury Management function is dependent upon a number of factors, including the size of available investment balances; the market interest rates available; the timing of capital spend; and the restrictions placed on the Council by its approved Lending List. The Council achieved an average interest rate of 4.89% on its investment portfolio:

	Q1	**Q2**	**Q3**	**Q4**	**2023-24**

	Q1	Q2	Q3	Q4	2023-24
Long term investments > 364 days	n/a	n/a	n/a	n/a	n/a
Short term investments < 364 days	5.22%	5.22%	5.69%	5.55%	5.46%
Instant Access Cash	3.87%	4.63%	4.92%	4.49%	4.54%
Total	**4.37%**	**4.82%**	**5.23%**	**4.92%**	**4.89%**
Bank of England base rate at end of period	*5.00%*	*5.25%*	*5.25%*	*5.25%*	

6.2. The Council manages its investments in-house, investing only with institutions that meet the Council's approved minimum lending criteria. The Lending List is constructed based on credit ratings provided by the three main credit agencies supplemented by additional market data, using the Link Creditworthiness analysis (see Annex A for lending limits applied in 2023/24).

6.3. Money was invested during the year with nine institutions. All investments were placed in line with the Council's approved lending limits. The table below summarises the Council's investments during the financial year including the average daily investment, interest earned and the associated interest rates. Interest rates vary depending on the length and timing of investments. The investment funds include those held in the Council's instant access accounts. The average daily investment during 2023/24 was £21.2million.

Financial Institution	ESG linked	Country of Domicile	Duration	Interest earned	Average daily investment	Rate of return
Money market funds	No	UK	Instant access	£448,397	£8,853,644	5.06%
Standard Chartered	Yes	UK	31-184 days	£198,831	£3,671,233	5.42%
Handelsbanken	No	UK	Instant access	£130,694	£3,310,574	3.95%
Nationwide Building Society	No	UK	75-153 days	£67,277	£1,249,315	5.39%
Barclays	Yes	UK	65 and 95 day notice	£60,335	£1,166,027	5.17%
Santander notice account	No	UK	180 day notice	£62,146	£1,044,478	5.95%
NatWest Bank	No	UK	Instant access	£20,356	£1,038,923	1.96%
Lloyds RFB	No	UK	40-183 days	£33,830	£610,959	5.54%
Goldman Sachs	No	UK	92 days	£14,254	£252,055	5.66%
Total				**£1,036,120**	**£21,197,208**	**4.89%**

Financial Institution	ESG linked	Country of Domicile	Duration	Interest earned	Average daily investment	Rate of return
ESG proportion	22.82%			£259,165	£4,837,260	5.36%
Barclays	*Linked to Barclays' Green Bond Purchasing Programme which covers 'a variety of thematic projects including energy efficiency, renewable energy, green transport, sustainable food, agriculture and forestry, waste management and greenhouse gas emission reduction'.*					
Standard Chartered	*Standard Chartered operate this product under their 'Green and Sustainable Product Framework', which includes 'No poverty; zero hunger; good health and well-being; quality education; gender equality; clean water and sanitation; affordable and clean energy; decent work and economic growth; industry, innovation and infrastructure; reduced inequalities; sustainable cities and communities; responsible consumption and production; climate action; life below water; life on land; peace, justice and strong institutions; partnerships for the goals'.*					

6.4. The Council budgeted to receive £699,260 in investment income in 2023/24 under the expectation that the Bank of England base rate would peak at 4.50% and return to 4.00% by Spring 2024. However, the base rate increased to 5.25% and remained at this level for the rest of the year; investment income opportunities followed this same trend. Therefore, a provisional surplus of £351,175 is reported against the budget.

6.5. As agreed, no interest has been charged during the year on the £250,000 loan to the Buxton Crescent Heritage Trust.

6.6. Investments held at the 31 March 2024 are shown in the table below. All investments are for a period of one year or less:

Financial Institution	ESG linked	Country of Domicile	Principal invested at 31 March 2024	Fixed/ variable
Money market funds	No	UK	£4,750,000	Variable
Standard Chartered	Yes	UK	£3,000,000	Fixed
Santander	No	UK	£2,500,000	Variable
Nationwide Building Society	No	UK	£2,000,000	Fixed
NatWest Bank	No	UK	£1,511,000	Variable
Total			**£13,761,000**	
ESG proportion			£3,000,000	21.80%

	2023/24	31 March 2024
	Treasury Management Strategy	Actual
Principal sums invested >365 days	£5,000,000	£0

ANNEX A: Current Lending Limits

	UK			International	
	Individual		Group	Individual	
Category (per Link's creditworthiness model)	**Principal Limit**	**Maximum Length**	**Principal Limit**	**Principal Limit**	**Maximum Length**
NatWest (the Council's main bank account)	£9.25m	1 year	n/a	n/a	n/a
Money market funds	£9.25m	1 year	£14.06mm	n/a	n/a
Yellow	£9.25m	5 years	n/a	n/a	n/a
Purple	£9.25m	2 years	£14.06mm	£7.40m	2 years
Orange	£7.40m	1 year	£11.10m	£6.66m	1 year
Red	£6.66m	6 months	£9.99m	£5.55m	6 months
Green	£5.55m	100 days	£8.51m	£4.44m	100 days
No colour	-	Not to be used		-	Not to be used
Local Authority	£2.00m	1 year	£9.25m	n/a	n/a