



Annual Treasury Management Report 2023/24

1 Introduction and Background

- 1.1 The Council is required through 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 full Council should receive 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 & Accounts 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 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 Treasury Limits and Treasury management and Prudential Indicators were set within the Treasury Management Strategy 2023/24. The Council has complied with all indicators, and 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 2023/24

- 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 borrowing where there is insufficient internal resource or where a decision is taken to finance expenditure externally.
- 2.2 The capital expenditure outturn constitutes one of the required prudential indicators. The table below shows provisional outturn on capital expenditure for 2023/24 and how this was financed:

	31 March 2023	2023/24	31 March 2024
	Actual	Budget	Provisional Outturn
	£000	£000	£000
Capital expenditure	1,634	7,107	6,588
Financed by:			
External contributions	925	3,946	5,658
Capital reserves	65	926	870
Capital Receipts	25	0	0

Unfinanced capital expenditure: borrowing need	619	2,235	60
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- 2.3 Any variances to the capital programme outturn compared to the budget or reprofiling of the programme to future years will be considered as part of the quarter 4 finance report to the Finance & Performance committee and to Cabinet.
- 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 prior 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 mostly funded by external contributions and capital reserves. the remainder has created a provisional outturn borrowing need of £60,000, 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 revenue repayment 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 £223,000 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 of 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 CFR for the year is shown below, and represents a key prudential indicator.

Capital Financing Requirement	31 March 2023	2023/24	31 March 2024
	Actual	Budget	Provisional Outturn
	£000	£000	£000
Opening balance	10,272	11,164	10,680
Unfinanced capital expenditure/ borrowing need/ (repayment)	619	2,235	60
Less MRP	(211)	(233)	(223)
Closing balance	10,680	13,166	10,517

- 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 essentially means 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.
- 2.11 The table below highlights the Council's borrowing position against the CFR and shows that the Council has complied with the prudential indicator, remaining in a forecast under borrowed position:

	31st March 2024	31st March 2025	31st March 2026
	Provisional Outturn	Forecast*	Forecast*
	£000	£000	£000
Gross borrowing position	7,604	11,604	15,604
CFR	10,517	17,517	23,652
Over/ (under) borrowed	(2,913)	(5,913)	(8,048)

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

- 2.12 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, 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.
- 2.13 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. The negative percentage shows that financing costs are a net income.

	2023/24	31 March 2024
	Budget	Provisional Outturn*
	£000	£000
Authorised limit	22,687	22,687
Maximum gross borrowing position during the year	7,604	7,604
Operational boundary	20,687	20,687
Average gross borrowing position	7,604	6,856

Financing costs as a proportion of net revenue stream	(4.75%)	(6.57%)

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:

2022/23				2023/24		
Principal at 31 March	Average annual principal	Average annual interest rate/ return		Principal at 31 March	Average annual principal	Average annual interest rate/ return
£000	£000		Debt	£000	£000	
4,604	4,604	2.06%	PWLB	4,604	4,604	2.06%
3,000	4,785	1.09%	Local Authority Loans	3,000	2,252	3.73%
7,604	9,389	1.57%	Total	7,604	6,856	2.61%
10,680			Capital Financing Requirement*	10,517		
(3,076)			Over/ (under) borrowed	(8,048)		
(10,000)	(10,000)	3.07%	Capital Loan (service investment - Housing) Your Housing Limited	(10,000)	(10,000)	3.07%
(16,370)	(23,262)	1.95%	Treasury management investments	(13,150)	(18,656)	4.79%
(18,766)			Net Debt/ (income)	(15,546)		

4 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 and use of reserves and other funding.

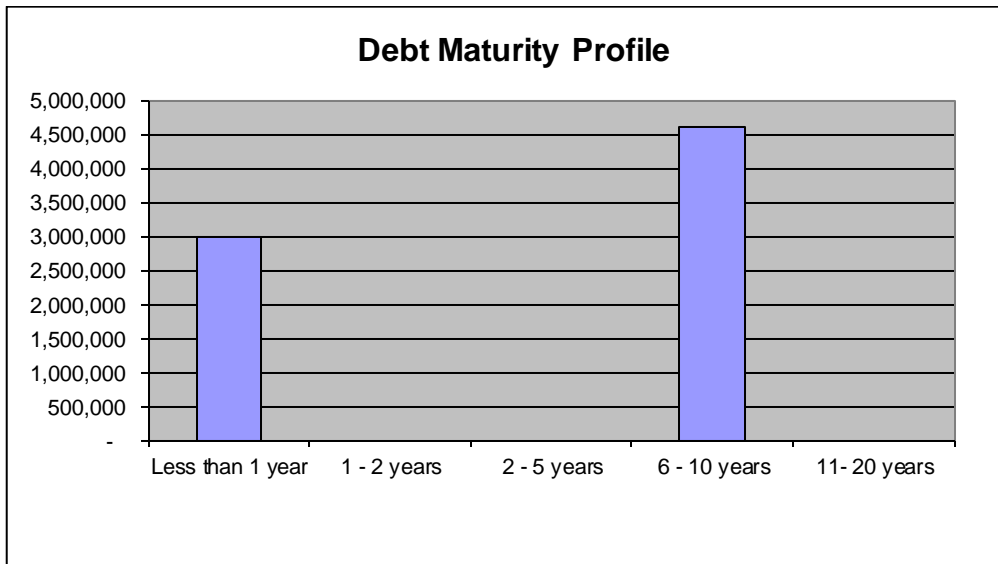
4.3 Forecast PWLB and intra local authority external borrowing interest rates were high during the year in the context of the last 10 years. Therefore wherever possible the Council would avoid medium to long term borrowing commitments by utilising spare cash balances as internal funding, or short-term borrowing with a view to reviewing borrowing requirements should the rates begin to decrease. The practice of internal borrowing has served well over recent years to make net savings on financing costs with loss of interest income being smaller than external borrowing costs, which has remained the case. This was kept under review in the climate of rises and fluctuations.

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
£7,604,400	External borrowing 1 April 2023			
Matured Loans				Maturing
£3,000,000	Oxfordshire County Council	1.25%	3 years	July
£3,000,000	Total			
New Loans				Starting
£3,000,000	Tendring District Council	5.70%	9 months	October
£3,000,000	Total			
£0	<i>Net decrease in external borrowing</i>			
£7,604,400	External borrowing 31 March 2024			
Average borrowing during the year				
£4,604	PWLB	2.06%		
£2,252	Local Authority Loans	3.73%		
£6,856	Total	2.61%		

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.



Maturity structure of borrowing	Fixed rate		Variable rate	
	Upper limit set 2023/24	As at 31 March 2024	Upper limit set 2023/24	As at 31 March 2024
under 12 months	100%	39%	100%	0%
12 months to 2 years	100%	0%	50%	0%
2 to 5 years	100%	0%	0%	0%
5 to 10 years	70%	61%	0%	0%
more than 10 years	70%	0%	0%	0%

5.3 The cost of borrowing in the year was £404,868 compared to the annual budget of £549,510. The reduced local authority borrowing during August, September and October achieved an underspend of £144,642.

6 Capital Loan (Service Investment – Housing)

6.1 Interest of £307,000 was earned in line with the budget on the £10million capital loan (service investment – housing) made to Your Housing Limited in February 2022 to support the maintenance of and provision of affordable housing within the Staffordshire Moorlands District at a fixed rate of 3.07% (including a 0.80% risk premium).

7 Investment Performance & Portfolio

7.1 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.

7.2 The Council achieved an overall average interest rate of 4.79% on its investment portfolio:

	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	4.25%	5.15%	5.54%	5.46%	5.17%
Instant Access Cash	3.62%	4.39%	4.66%	4.84%	4.43%
Total	3.93%	4.73%	5.11%	5.15%	4.79%
Bank of England Base rate at end of period	5.00%	5.25%	5.25%	5.25%	5.25%

7.3 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 (Annex A: lending limits applied in 2023/24).

7.4 Money was invested with eight institutions during the year. All investments were placed in line with the Council's approved lending limits. The table below summarises the institutions that the Council invested funds with during the financial year. It also indicates the average daily investment, interest earned and the associated average interest rates. Interest rates vary depending on the length and timing of investments. The investment funds include those held short-term in the Council's instant access accounts. The average daily investment during 2023/24 was £18.7million.

Financial Institution	ESG linked	Country of Domicile	Duration	Interest earned	Average daily investment	Rate of return
Money market funds	No	UK	Instant access	£241,639	£4,768,000	5.07%
Standard Chartered	Yes	UK	31-182 days	£213,830	£4,241,096	5.04%
Handelsbanken	No	UK	Instant access	£164,559	£3,843,683	4.28%
Nationwide Building Society	No	UK	75-182 days	£77,812	£1,539,726	5.05%
Barclays	Yes	UK	65 and 95 day notice	£75,847	£1,504,110	5.04%
Santander	No	UK	95-180 days	£66,325	£1,151,238	5.76%
Lloyds Bank	No	UK	40-183 days	£33,830	£610,959	5.54%
NatWest Bank	No	UK	Instant access	£19,676	£997,059	1.97%

Total				£893,518	£18,655,871	4.79%
ESG proportion	30.80%			£289,676	£5,745,205	5.04%
<i>Barclays</i>	<i>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'.</i>					
<i>Standard Chartered</i>	<i>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'.</i>					

7.5 The short average maturity of investments during the year enabled increasing average yields on investments as opportunities improved following base rate rises. The budget was set with an expectation of modest interest rate returns during the year. The investment income for the year was £1,201,445 against the budget of £1,103,440 resulting in a surplus of £98,005.

7.6 Investments held at the end of the year 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	£5,450,000	Variable
Santander	No	UK	£2,500,000	Variable
Standard Chartered	Yes	UK	£1,500,000	Fixed
Barclays	Yes	UK	£1,500,000	Variable
NatWest Bank	No	UK	£1,200,000	Variable
Nationwide Building Society	No	UK	£1,000,000	Fixed
Total			£13,150,000	
ESG proportion	22.81%		£3,000,000	

	2023/24	31 March 2024
	Treasury Management Strategy	Actual
Principal sums invested >365 days	£3,500,000	£0

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)	£12.54m	1 year	n/a	n/a	n/a
Money market funds	£8.25m	1 year	£1.54m	n/a	n/a
Yellow	£8.25m	5 years	n/a	n/a	n/a
Purple	£8.25m	2 years	£12.54m	£6.60m	2 years
Orange	£6.60m	1 year	£9.90m	£5.94m	1 year
Red	£5.94m	6 months	£8.91m	£4.95m	6 months
Green	£4.95m	100 days	£7.95m	£3.96m	100 days
No colour	-	Not to be used		-	Not to be used
Local Authority	£2.00m	1 year	£8.25m	n/a	n/a