

THE VALE OF GLAMORGAN COUNCIL

EXTRAORDINARY CORPORATE PERFORMANCE AND RESOURCES  
SCRUTINY COMMITTEE: 2<sup>ND</sup> OCTOBER, 2024

REFERENCE FROM CABINET: 18<sup>TH</sup> JULY, 2024

**“C78 ANNUAL TREASURY MANAGEMENT REPORT 2023/24 (EL/PR)  
(SCRUTINY – CORPORATE PERFORMANCE AND RESOURCES) –**

The Leader presented the report, the purpose of which was to present to Cabinet the annual review report on Treasury Management 2023/24.

The Leader further advised that Treasury Management training would be made available for all Elected Members again this year as it was such an important area of work for the Council.

This was a matter for Executive decision.

Cabinet, having considered the report and all the issues and implications contained therein

RESOLVED – T H A T the annual report on Treasury Management 2023/24 be endorsed and that the report be referred to Corporate Performance and Resources Scrutiny Committee for consideration prior to referral to Full Council for Approval.

Reason for decision

To accept and refer the report to the relevant Scrutiny Committee and Full Council.”

Attached as Appendix – Report to Cabinet: 18<sup>th</sup> July, 2024

Meeting of:	<b>Cabinet</b>
Date of Meeting:	<b>Thursday, 18 July 2024</b>
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Annual Treasury Management Report 2023/24
Purpose of Report:	To present to Cabinet the annual review report on Treasury Management 2023/24
Report Owner:	Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Matt Bowmer, Head of Finance / Section 151 Officer
Elected Member and Officer Consultation:	This report does not require Ward Member consultation.
Policy Framework:	This is a matter for Executive decision by Cabinet and for referral to Full Council for Approval
<p><b>Executive Summary:</b></p> <p>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 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010).</p> <p>During 2023/24, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year are to be found in the main body of this report.</p> <p>The Council's borrowing requirement increased £3.170M in 2023/24 giving a total Capital Financing Requirement of £198.792M on 31st March 2024. At the same date, the Council held £143.312M of Gross External Borrowing. The Council was therefore under borrowed by £55.480M as of 31st March 2024.</p> <p>The Head of Finance confirms that borrowing was only undertaken for capital purposes and the statutory borrowing limits (the Authorised and Operational limits), were not breached.</p> <p>The Council's External Borrowing was well within the Authorised Limit and Operational Boundary set for 2023/24.</p>	

The Council borrowed £5M for 5 years from the PWLB to finance capital expenditure for the Housing Revenue Account (HRA). This loan was subject to a 60-basis point deduction from the standard interest rate.

The Council financed new Capital Expenditure of £3.937M from internal borrowing.

The Council's debt portfolio as of 31st March 2024 was as follows:

<b>Debt Portfolio</b>	<b>31st March 2024</b>
	<b>Principal</b>
	<b>£M</b>
Public Works Loan Board (PWLB)	137.076
Concessionary Loans	0.500
Town Centre Loans	0.550
Salix Loans	1.186
Market Loans	4.000
<b>Total Debt</b>	<b>143.312</b>

The Council spent £86.120M during 2023/24 and most of that was financed by Capital Grant, S106 and Reserves.

The Council held investments of £34.195M on 31st March 2024.

The Council's investment portfolio as of 31st March 2024 was as follows:

<b>Investment Portfolio</b>	<b>31st March 2024</b>
	<b>Principal</b>
	<b>£M</b>
Debt Management Account Deposit Facility	0.000
Local Authorities	27.500
Federated Hermes Money Market Fund	6.625
CCLA Money Market Fund	0.050
Treasury Bills	0.000
Lloyds Instant Access Deposit Account	0.020
<b>Total Investments</b>	<b>34.195</b>

The Bank of England interest rate peaked at 5.25% in August 2023. Cuts are now expected later in the year 2024/25 as inflation has continued to fall, hitting the Bank of England's target rate of 2%.

As a result of the higher investment rates available in the market throughout 2023/24 investment returns have increased significantly from £1.687M in 2022/23 to £3.476M in 2023/2024 whereas total debt interest charges have increased by a smaller amount from £7.987M 2022/2023 to £8.975M in 2023/2024.

Consequently, financing costs as a proportion of net stream for both Council tax and Housing Rents are below the 2023/2024 originally budgeted amount.

## **Recommendation**

1. That Cabinet endorses the annual report on Treasury Management 2023/24 and that the report be referred to Corporate Performance Resources Scrutiny Committee for consideration prior to referral to Full Council for Approval.

## **Reason for Recommendation**

1. To accept and refer the report to the relevant Scrutiny Committee and Full Council.

### **1. 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 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management (the Code), the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) and the Welsh Government (WG) revised guide on Local Government Investments (April 2010).
- 1.2 During 2023/24 the reporting requirements were that Full Council should receive the following reports:
  - An Annual Treasury Strategy in advance of the year (Council 06/03/2023, minute no 778).
  - A Mid-year Treasury Update Report (Council 04/12/2023, minute no 576).
  - An Annual Review Report comparing actual activity to the strategy (this report).
- 1.3 The Quarter 1 monitoring was received by Cabinet on 7th September 2023 (Minute no C89). There is not a requirement to present this report to Full Council.
- 1.4 The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities This Council confirms that it has complied with this requirement under the Code and has given prior scrutiny to all the above treasury management reports before they were reported to the Full Council. Member training on treasury management issues was undertaken on 5th February 2024 to support Members' scrutiny role.
- 1.5 This annual outturn Treasury Management Report covers.
  - The Economy/Interest rates in 2023/24
  - The Strategy for 2023/24
  - Compliance with Treasury Limits and Prudential Indicators
  - The Borrowing Outturn for 2023/24
  - The Investment Outturn for 2023/24

## The Economy and Interest Rates 2023/24

### UK Economy

- 1.6** The following information has been prepared by the Authority's Treasury Management Advisors Link Asset Services and sets out the changing conditions under which Treasury Management operations were carried out.
- 1.7** Interest rate forecasts at the time of approval of the Treasury Management and Investment Strategy in March 2023 can be found at Appendix 1.
- 1.8** Against a backdrop of stubborn inflationary pressures and global instability, UK interest rates have continued to be volatile right across the curve, from Bank Rate through to 50-year gilt yields, for all of 2023/24.
- 1.9** Markets have sought an end to central banks' on-going phase of keeping restrictive monetary policy in place on at least one occasion during 2023/24. but to date only the Swiss National Bank has cut rates and that was at the end of March 2024.
- 1.10** UK, Eurozone (EZ) and US 10-year yields have all stayed stubbornly high throughout 2023/24. The table below provides a snapshot of the conundrum facing central banks, inflation is easing, albeit gradually, but labour markets remain very tight by historical comparisons, making it an issue of fine judgment as to when rates can be cut.

Table 1 – Economic Indicators

	UK	Eurozone	US
<b>Bank Rate</b>	5.25%	4.000%	5.25-5.50%
<b>GDP</b>	-0.3% quarter/quarter Quarter 4 (-0.2% year/year)	+0.0% quarter/quarter Quarter 4 (0.1% year/year)	2.0% Quarter 4 Annualised
<b>Inflation</b>	3.4% year/year (February 2024)	2.4 year/year (March 2024)	3.20% year/year (February 2024)
<b>Unemployment Rate</b>	3.9% (January 2024)	6.4% (February 2024)	3.9% (February 2024)

- 1.11** In their March 2024 meeting The Monetary Policy Committee (MPC) left interest rates unchanged at 5.25% for the fifth time in a row but for the first time there were no MPC members voting to raise interest rates. Therefore, the Bank of England's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target. However, although the MPC noted that "the restrictive stance of monetary policy is weighing on activity in the real economy, is leading to a looser labour market and is bearing down on inflationary pressures", conversely it noted that key indicators of inflation persistence remain

elevated, and policy will be “restrictive for sufficiently long” and “restrictive for an extended period”.

- 1.12** The UK economy has started to perform a little better in Quarter 1 2024 but is still recovering from a shallow recession through the second half of 2023. Quarter 4 2023 saw negative GDP growth of -0.3% while year/year growth was also negative at -0.2%.
- 1.13** The Consumer Price Index (CPI) measure of inflation which peaked at 11.1% in October 2022 is now forecast to slide below Government’s 2% target rate in Quarter 2 2024 and is set to remain below that Bank of England benchmark for the next couple of years. Core CPI was still 4.5% in February 2024 and ideally, needs to fall further.
- 1.14** The impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.
- 1.15** From a fiscal perspective the further cuts to national insurance tax (from April 2024) announced in the March 2024 Budget will boost real household disposable income by 0.5 to 1.0%. Real household disposable income rose by 1.9% in 2023 and is forecast to rise by 1.7% in 2024 and by 2.4% in 2025. These rises in real household disposable income combined with the earlier fading of the drag from previous rises in interest rates, means Gross Domestic Product (GDP) growth of 0.5% is envisaged in 2024 and 1.5% in 2025. However, The Bank of England is less optimistic than that seeing growth struggling to get near 1% over the next two to three years.

## **USA Economy**

- 1.16** Despite the markets willing the Federal Open Market Committee (FOMC) to cut rates as soon as June 2024, the continued resilience of the economy to inflationary pressures is providing a significant headwind to a change in monetary policy. Markets currently anticipate three rate cuts this calendar year, but two or less would not be out of the question. Currently, policy remains flexible but primarily data driven.
- 1.17** In addition, the Federal Bank (Fed) will want to reduce its inflated \$16 trillion balance sheet at some point. Just because the \$ is the world’s foremost reserve currency (China owns over \$1 trillion) does not mean the US can continually run a budget deficit. The mix of stubborn inflation and significant treasury issuance is keeping treasury yields high.
- 1.18** Inflation in the US is currently a little above 3%. The market is not expecting a recession, but whether rates staying high for longer is conducive to a soft landing for the economy is uncertain, hence why the consensus is for rate cuts this year and into 2025 although forecasting how many and when is difficult.

## **Eurozone Economy**

- 1.19** Although the EZ inflation rate has fallen to 2.4%, the European Central Bank (ECB) will still have further work to do to dampen inflation expectations. However, with growth steadfastly in the slow lane (GDP flatlined in 2023) a June 2024 rate cut from the current 4% looks probable.

## **Treasury Management Strategy 2023/24**

- 1.20** During 2023/24 inflationary pressures following the fallout from the Russian Invasion of Ukraine, the Israeli invasion of Gaza and Cost of Living Crisis continued to have a significant impact on the Council's treasury management activities.
- 1.21** The Consumer Price Index (CPI) rate of inflation hit a 40 year high of 11.1% in October 2022 but due money tightening by the Bank of England this rate has fallen to 3.2% with Bank rate at 4.25% at the start of the period under review, April 2023.
- 1.22** Bank rate peaked at 5.25% in August 2023 and has remained at that rate to date.
- 1.23** The Council's annual Treasury Management and Investment Strategy for 2023/24 was written in January 2023 against a backdrop of bank rates in the range of 4.50% in April 2023 falling to 4.00% by March 2024. Rates did not follow the path originally forecast and revised quarterly forecast rates for 2023/24 can be found at Appendix 1. The spread of interest rates throughout 2023/24 can also be found at Appendix 1.
- 1.24** The upward sloping yield curve that has prevailed throughout 2023/24 has meant that Local Authorities have continued to be faced with the challenge of the proactive investment of surplus cash and this has 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.
- 1.25** As a result of the higher investments rates available in the market throughout 2023/24 investment returns have increased significantly from £1.687M in 2002/23 to £3.476M in 2023/24. A full breakdown of these investment returns is detailed later in this report.
- 1.26** Funds available for investment continued to be placed with the Debt Management Office (DMO), other Local Authorities, Money Market Funds (MMFS,) the Lloyds Instant Access Deposit Account and Treasury Bills.
- 1.27** Money Market Funds (MMFs) were the most beneficial investment tool during 2023/24 as not only did they permit instant access to the funds invested, the rates of return were also calculated daily and moved simultaneously with the upward movement in interest rates. Since rates peaked at 5.25% money market rates

have remained competitive whereas returns from other investment tools have fallen due to excess liquidity in the economy.

- 1.28** Cash flow forecasting continued to be problematic as it was difficult to profile the Council's financial commitments with the grant monies received from the Welsh Government to help households during the cost-of-living crisis.
- 1.29** The Section 151 Officer continued to adopt a cautious approach with respect to treasury management investment operations. The Council's primary objectives for the management of its investments are to give priority to the security and liquidity of its funds before seeking the best rate of return.
- 1.30** Investment balances have continued to be kept to a minimum through the agreed strategy of using reserves and balances to support internal borrowing, rather than borrowing externally from the financial markets especially when borrowing rates elevated.
- 1.31** External borrowing was only undertaken to finance capital expenditure for the Housing Revenue Account (HRA) as this loan was subject to a 60-basis point deduction from the standard interest rate. This loan was borrowed shorter term (5 years) as it is forecast that interest rates will fall to more favourable levels during that period.
- 1.32** This reduction of the Council's investments balances was still considered the most prudent option available to the Council at times of elevated credit risk caused by global instability and the continuing uncertainty of Brexit.
- 1.33** The Council's primary objective for the management of its debt is to ensure its long-term affordability. Most of its loans have therefore been borrowed from the Public Works Loan Board at long term fixed rates of interest. Borrowing long term with fixed interest rates provides certainty to the budget setting process.
- 1.34** The Section 151 Officer advises that all treasury management activity undertaken during the financial year complied with the approved strategy, the CIPFA Code of Practice, and the relevant legislative provisions.

## **2. Key Issues for Consideration**

### **The Council's Capital Expenditure and Financing**

- 2.1** The Council undertakes Capital Expenditure on long term assets. These activities may either be financed immediately through capital or revenue resources e.g., capital receipts, capital grants etc. Alternatively, the activities can give rise to a borrowing need which would create an increase in the Council's Capital Financing Requirement (CFR).



**2.2** The Treasury Strategy for 2023/24 was set assuming planned expenditure of £103.968M split (£58.949M General Fund and £45.019M HRA). The final budget for 2023/24 is £103.829M (£56.243M General Fund and £47.586M HRA). Capital Outturn is £88.620M, a variance of £15.209M which is largely due to significant slippage. Slippage of £15.013M has been requested £8.292M for General Fund and £6.721M for HRA.

**2.3** The table below shows the Council's capital expenditure and how it is financed.

**Table 2 - In Year Movement in Capital Financing Requirement**

	2023/24	2023/24	2023/24
	General Fund	HRA	Total
	£M	£M	£M
Total Capital Expenditure	47.755	40.865	88.620
Financed in Year	(44.303)	(35.380)	(79.683)
Minimum Revenue Provision	(4.146)	(1.621)	(5.767)
Movement in Capital Finance Requirement/Unfinanced Capital Expenditure*	(0.694)	3.864	(3.170)

\*This is capital expenditure that will be funded by a reduction in the Council's borrowing requirement.

### **The Council's Overall Borrowing Need**

**2.4** The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend.

**2.5** Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies, (such as the Government, through the Public Works Loan Board [PWL], or the money markets), or utilising temporary cash resources within the Council.

**2.6** 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 of the General Fund and Housing Revenue Account (HRA) borrowing need. This differs from the treasury management arrangements

which ensure that cash is available to meet capital commitments. External debt can also be borrowed or repaid at any time, but this does not change the CFR.

- 2.7** The Council's 2023/24 MRP Policy, (as required by Welsh Government), was approved as part of the Treasury Management Strategy Report 2023/24 by Full Council on 6<sup>th</sup> March 2023.

### **Gross Borrowing and the Capital Financing Requirement (CFR)**

- 2.8** 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 Capital Financing Requirement in the preceding year (2022/23) plus the estimates of any additional CFR for the current year (2023/24) and the next two financial years. The Council has fully complied with this prudential indicator in 2023/24.
- 2.9** The table below highlights the Council's Gross External Borrowing position against the CFR.

Table 3 – Borrowing against the CFR

	<b>31 March 2023</b>	<b>31 March 2024</b>	<b>31 March 2024</b>
	<b>Actual</b>	<b>Budget</b>	<b>Actual</b>
	<b>£M</b>	<b>£M</b>	<b>£M</b>
CFR General Fund	119.159	126.943	118.465
CFR HRA	76.463	104.078	80.327
Total CFR	195.622	231.021	198.792
<b>Gross External Borrowing Position</b>	(148.482)	(198.382)	(143.312)
Under/(Over) Borrowing of CFR	<b>47.140</b>	<b>32.639</b>	<b>55.480</b>

- 2.10** The table above shows that from April 2023 to March 2024 there was an increase in the total loans raised to finance the capital expenditure after providing for the Minimum Revenue Provision (MRP). The amount outstanding fell well below the 2023/24 estimate. This was mainly due to the slippage of capital programme into 2024/25 and future years. Consequently, total external borrowing also fell well below the 2023/24 estimate as firstly there was less new capital expenditure to finance and secondly, where possible this expenditure was funded from reserves and balances in the context of high interest rates for external borrowing. In addition, maturing external debt was also refinanced from internal borrowing due to the unfavourable markets rates prevailing. This internal borrowing position will not be able to be maintained in the Medium Term as reserve balances are expected to reduce and therefore external funding will need to be sought as borrowing rates start to fall.

### 2.11 The Authorised Limit

The Authorised Limit is the affordable borrowing limit required by Section 3 of the Local Government Act 2003. Once it has been set, the Council does not have the power to borrow above this level.

### 2.12 The Operational Boundary

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or above the boundary is acceptable subject to the Authorised Limit not being breached.

2.13 The Council's performance against the above indicators in 2023/24 is set out in the table below.

### 2.14 Authorised Limit / Operation Boundary v Gross Borrowing

Table 4 – Borrowing Limits

	2023/24
	£M
Authorised Limit	235.790
Maximum Gross Borrowing Position in Year	148.314
Operational Boundary	220.558
Average Gross Borrowing Position	145.261

### 2.15 Interest Rate Exposure

This indicator sets out the maximum limit for fixed interest and variable interest rate exposure, the majority of the Council's borrowing is classified as fixed rate as this enables the Council to manage its budgeting and minimises its exposure to interest rate fluctuations. The Variable rate exposure reflects the Council's investments and this is why it is set at £0.

Table 5 – Interest Rate Exposure

	2022/23	2023/24
	£M	£M
Upper Limit for Fixed Interest Rate Exposure	144.382	139.312
Upper Limit for Variable Rate Exposure expressed as an absolute value	0	0

### 2.16 Actual Financing Costs as a Proportion of Net Revenue Stream

This indicator identifies the trend in the cost of capital (borrowing and long-term obligation costs net of investment income) against the net revenue stream.

### 2.17 Financing Costs as a proportion of Net Revenue Stream

Table 6 – Financing Proportions

	Non HRA (Council Tax)	HRA (Rents)
	%	%
2023/24 Budget	2.88	22.51
2023/24 Actual	1.99	20.47

### Treasury Position

**2.18** The Council’s treasury management debt and investment position is organised by the treasury management service 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 detailed in the Council’s Treasury Management Practices.

**2.19** At the beginning and the end of 2023/24, the Council's treasury position was as follows.

Table 7 – Debt Portfolio

Debt Portfolio	31st March 2023		31st March 2024	
	Principal	Rate Payable	Principal	Rate Payable
	£M	%	£M	%
<b>Fixed Rate Funding</b>				
PWLB	141.808	4.466	137.076	4.382
Concessionary Loans	0.500	0.000	0.500	0.000
Town Centre Loans	0.550	0.000	0.550	0.000
Salix Loans	1.524	0.000	1.186	0.000
<b>Variable Rate Funding</b>				
Market Loans	4.000	4.500	4.000	4.500
Temporary Loan	0.100	2.238	0.000	
<b>Total Debt</b>	<b>148.482</b>		<b>143.312</b>	
CFR	(195.622)		(198.792)	
<b>Over/(Under) Borrowing</b>	<b>(47.140)</b>		<b>(55.480)</b>	

Table 8 - Movement in Net Debt

	31st March 2023	31st March 2024	Movement
	£M	£M	£M
Total Debt	148.482	143.312	5.170
Total Investments	(93.920)	(34.195)	(59.725)
<b>Net Debt</b>	<b>54.562</b>	<b>109.117</b>	<b>(54.555)</b>

## Maturity Structure of Debt Portfolio

**2.20** The Maturity Structure of the Debt Portfolio (excluding accrued interest and accounting adjustments) is set out below.

Table 9 – Maturity Profile

	2023/24	2023/24	2023/24
	Original Limits	Actual*	Actual
	%	£M	%
Less than one year	20	7.961	5.56
Between one and two years	20	6.355	4.43
Between two and five years	30	22.578	15.75
Between five and ten years	40	23.440	16.36
Between ten and twenty years	100	49.433	34.49
Between twenty and thirty years	100	18.290	12.76
Between thirty and forty years	100	9.255	6.46
Between forty and fifty years	100	6.000	4.19
<b>Total</b>		<b>143.312</b>	<b>100.00</b>

**2.21** The above table shows that the Council's debt portfolio has a good spread of maturities and that in each period the amount of maturing debt falls well within the percentages of total debt permitted within the treasury management approved strategy.

### Borrowing Outturn 2023/24

**2.22** The total charges for interest and principal including for prudential borrowing during the year 2023/24 were £8.869M and £5.767M, respectively.

**2.23** The Council raised two new loans in 2023/24. The first loan was to finance supported borrowing in the sum of £3.452M which was part of the Council's General Capital Funding for 2023/24. This was financed by internal borrowing. An average rate of interest was charged to reflect the use of capital resources. The second loan for £5.485M was prudentially borrowed to fund the Housing Revenue Account (HRA). The Council externally borrowed £5M from the Public Works Loan Board (PWLB) and the balance was funded from revenue. The PWLB loan was advanced at 4.38% and was subject to a 60-basis point deduction from the standard interest rate which is initiative to support the development of new housing stock.

**2.24** Loans borrowed from the Public Works Loan Board (PWLB) are intended to assist Local Authorities in meeting their long-term borrowing requirements.

- 2.25** During 2023/24 the Council maintained an under-borrowed position. This meant that the capital borrowing need (the Capital Financing Requirement) was not fully funded with external loan debt as cash supporting the Council's reserves, balances and cash flow were used as an interim measure. This avoided the cost of carry on any new long-term borrowing that was not immediately used to finance capital expenditure. The amount of under borrowing increased during 2023/24, however it should be noted that this position cannot be maintained in the medium term in the context of additional maturities and the planned use of the Council's reserves.
- 2.26** The policy of avoiding new borrowing by running down spare cash balances, has served well over the last few years. However, these available cash balances have now been nearly exhausted, and most of the capital expenditure and the refinancing of maturing debt will be financed by external borrowing in 2024/25. The situation is being kept under review by the Section 151 Officer.
- 2.27** Market loans represent non PWLB loans. This debt comprises of one Lenders Option/ Borrowers Option (LOBO) loan for £4.000M which will mature on the 23rd of February 2054.
- 2.28** The Concessionary Loan for £0.500M will mature in August 2024. This loan was advanced by Welsh Government and is interest free.
- 2.29** The Town Centre Loan for £0.550M is repayable on the 31st of March 2035. The loan is interest free and advanced by Welsh Government.
- 2.30** The loans advanced by Salix and Salix SEELS are to fund the street lighting energy reduction scheme and the installation of a new boiler at Stanwell Comprehensive School. These are repayable over 10 and 9.1 years in equal instalments. The loans are interest free funding.
- 2.31** Temporary Loans represent loans that have no fixed maturity date. This loan was borrowed from the Welsh Church Act Trust Fund. The Trust requested repayment of the loan during 2023/24 and the funds were returned on the 13<sup>th</sup> of November 2023.

#### **Borrowing In Advance of Need**

- 2.32** The Council is under borrowed on 31st March 2024 and has not borrowed in advance of its needs during 2023/24.

#### **Debt Rescheduling**

- 2.33** The Council did not undertake any rescheduling activities during 2023/24 as the average differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

## Investment Outturn for 2023/24

- 2.34** All investment activity during 2023/24 conformed to the approved strategy and the Council managed not to experience any liquidity difficulties in year.

### Internally Managed Investments

- 2.35** The Council manages its investments in house and can invest with those institutions which meet the minimum credit rating criteria and are included on the approved lending list as laid out in the investment strategy. The Council currently invests short term for a range of periods from overnight to 364 days, dependent on its cash flows, its interest rate view, and the interest rates/periods on offer. A laddering approach to investments was undertaken through most of the period under review to take advantage of the rising interest rate environment.
- 2.36** Investment movements for 2023/24 are summarised as follows.

Table 10 – Investment Movements

Investment Portfolio	Actual 31st March 2023	Actual Return	Actual 31st March 2024	Actual Return	Interest 2023/24
	£M	%	£M	%	£'000S
Debt Management Account Deposit Facility	27.400	1.58	0.00	4.37	0.389
Local Authorities	47.250	1.61	27.500	4.83	1.939
Federated Hermes Money Market Fund	9.000	0.13	6.625	5.05	0.446
CCLA Money Market Fund	2.000	0.19	0.050	4.91	0.311
Treasury Bills	8.250	0.25	0.000	4.81	0.388
Lloyds Instant Access Deposit Account	0.020	0.60	0.020	0.88	0.002
<b>Total</b>	<b>93.920</b>		<b>34.195</b>		<b>3.475</b>

All interest amounts stated in the above table are inclusive of accrued interest.

- 2.37** Investment interest was better than anticipated and links to the revenue outturn generated surplus for the Council.

- 2.38 Deposits placed with Local Authorities and the DMO were for periods between overnight and 364 days.
- 2.39 Deposits placed with Money Market Funds and the Lloyds Accounts had instant access and were drawn down when needed to meet the Council's financial commitments.
- 2.40 Treasury Bills during 2023/24 were invested for periods of three and six months.
- 2.41 The Section 151 Officer will continue to keep the borrowing and investment strategies under review.

### **3. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?**

- 3.1 The Treasury Management and Investment Strategy ensures that the financial plans of the Council are sustainable into the future and do not adversely impact on future generations.
- 3.2 The Treasury and Investment Strategy underpins the financial management of the Council and its ability to achieve its well-being objectives as set out in the Corporate Plan.

### **4. Climate Change and Nature Implications**

- 4.1 Councils and the UK Government are widely implemented on policy on the response the Climate change.
- 4.2 Money Market Funds selected by the Council regularly monitor the environmental, social and governance (ESG) risk management activities with whom they invest.

### **5. Resources and Legal Considerations**

#### **Financial**

- 5.1 Money is borrowed for capital purposes and interest is charged to revenue accounts.

#### **Employment**

- 5.2 There are no direct employment issues relating to this report

#### **Legal (Including Equalities)**

- 5.3 Compliance with the Local Government Act 2003 and CIPFA's "Code of Practice for Treasury Management in the Public Services" is mandatory.



## **6. Background Papers**

- 6.1** CIPFA's Code of Practice for Treasury Management in the Public Services" (2021 Edition), "The Prudential Code" (2021 Edition) and WG guidance on Local Authority investments.



# Annual Treasury Management Report 2023/24

## Appendix 1

## The UK Economy and Interest Rates 2023/24

### 1.7

Forecasts at the time of approval of the Treasury Management and Investment Strategy in March 2023.

<b>Link Group Interest Rate View as at 7<sup>th</sup> February 2023S</b>													
	Mar-2023	Jun-2023	Sep-2023	Dec-2023	Mar-2024	Jun-2024	Sep-2024	Dec-2024	Mar-2025	Jun-2025	Sep-2025	Dec-2025	Mar-2026
Bank Rate	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.50	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.50	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5yr PWLB	4.00	4.00	3.90	4.10	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10yr PWLB	4.20	4.20	4.10	4.30	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25yr PWLB	4.60	4.60	4.40	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50yr PWLB	4.30	4.30	4.20	4.20	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

## Treasury Management Strategy 2023/24

### 1.23

Quarterly interest rates forecast throughout 2023/24.

<b>Quarter 1 Link Group Interest Rate View as at 24<sup>th</sup> May 2023</b>													
	Jun-2023	Sep-2023	Dec-2023	Mar-2024	Jun-2024	Sep-2024	Dec-2024	Mar-2025	Jun-2025	Sep-2025	Dec-2025	Mar-2026	JUN 2026
Bank Rate	4.75	5.00	5.00	4.75	4.50	4.00	3.50	3.25	2.75	2.50	2.50	2.50	2.50
3 month ave earnings	4.80	5.00	5.00	4.80	4.50	4.00	3.50	3.30	2.80	2.50	2.50	2.50	2.50
6 month ave earnings	5.10	5.20	5.10	4.90	4.50	3.90	3.40	3.20	2.90	2.60	2.60	2.60	2.60
12 month ave earnings	5.40	5.40	5.30	5.00	4.50	3.90	3.40	3.20	2.90	2.70	2.70	2.70	2.70
5yr PWLB	5.00	5.00	5.00	4.80	4.50	4.10	3.70	3.50	3.30	3.20	3.20	3.10	3.10
10yr PWLB	5.00	5.00	5.00	4.80	4.40	4.10	3.80	3.60	3.50	3.40	3.30	3.30	3.30
25yr PWLB	5.30	5.30	5.20	5.10	4.80	4.50	4.20	4.00	3.80	3.70	3.60	3.60	3.60
50yr PWLB	5.10	5.10	5.00	4.90	4.60	4.30	4.00	3.80	3.60	3.50	3.40	3.40	3.40

<b>Quarter 2 Link Group Interest Rate View as at 25<sup>TH</sup> September 2023</b>													
	Dec-2023	Mar-2024	Jun-2024	Sep-2024	Dec-2024	Mar-2025	Jun-2025	Sep-2025	Dec-2025	Mar-2026	JUN 2026	Sep 2026	Dec 2026
Bank Rate	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.00	2.75	2.75	2.75	2.75	2.75
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.00	2.80	2.80	2.80	2.80	2.80
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.10	2.90	2.90	2.90	2.90	2.90
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.20	3.00	3.00	3.00	3.00	3.00
5yr PWLB	5.10	5.00	4.90	4.70	4.40	4.20	4.00	3.90	3.70	3.70	3.60	3.60	3.50
10yr PWLB	5.00	4.90	4.80	4.60	4.40	4.20	4.00	3.80	3.70	3.60	3.60	3.50	3.50
25yr PWLB	5.40	5.20	5.10	4.90	4.70	4.40	4.30	4.10	4.00	3.90	3.80	3.80	3.80
50yr PWLB	5.20	5.00	4.90	4.70	4.50	4.20	4.10	3.90	3.80	3.70	3.60	3.60	3.60

<b>Quarter 3 Link Group Interest Rate View as at 6<sup>th</sup> November 2023</b>													
	Dec-2023	Mar-2024	Jun-2024	Sep-2024	Dec-2024	Mar-2025	Jun-2025	Sep-2025	Dec-2025	Mar-2026	JUN 2026	Sep 2026	Dec 2026
Bank Rate	5.25	5.25	5.25	5.00	4.50	4.00	3.50	3.25	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	5.30	5.00	4.50	4.00	3.50	3.30	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.60	5.50	5.40	5.10	4.60	4.10	3.60	3.40	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.80	5.70	5.50	5.20	4.70	4.20	3.70	3.50	3.30	3.30	3.30	3.30	3.30
5yr PWLB	5.00	4.90	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.60	3.50	3.50	3.50
10yr PWLB	5.10	5.00	4.80	4.70	4.40	4.20	4.00	3.80	3.70	3.70	3.60	3.60	3.30
25yr PWLB	5.50	5.30	5.10	4.90	4.70	4.50	4.30	4.20	4.10	4.10	4.00	4.00	4.00
50yr PWLB	5.30	5.10	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.80	3.80	3.80

<b>Quarter 4 Link Group Interest Rate View as at 8<sup>th</sup> January 2024</b>													
	Mar-2024	Jun-2024	Sep-2024	Dec-2024	Mar-2025	Jun-2025	Sep-2025	Dec-2025	Mar-2026	JUN 2026	Sep 2026	Dec 2026	Mar-2027
Bank Rate	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

### Spread of Interest Rates 2023/24

	<b>Bank Rate</b>	<b>Sonia</b>	<b>1 Month</b>	<b>3 Months</b>	<b>6 Months</b>	<b>12 Months</b>
<b>High</b>	5.25	5.19	5.39	5.48	5.78	6.25
<b>High Date</b>	03/08/24	28/03/24	19/09/23	30/08/23	07/07/23	07/07/23
<b>Low</b>	4.25	4.18	4.17	4.31	4.46	4.47
<b>Low Date</b>	03/04/23	04/04/23	03/04/23	03/04/23	06/04/23	06/04/23
<b>Average</b>	5.03	4.96	5.02	5.13	5.23	5.25
<b>Spread</b>	1.00	1.01	1.22	1.17	1.33	1.77