AGENDA ITEM:

POLICY AND RESOURCES COMMITTEE: 25 June 2024

COUNCIL: 17 July 2024

Report of:	**Director of Finance and Resources**
Relevant Lead Member:	**Mark Anderson**
Contact for further information:	**Mr J Smith (Extn.5093)**

SUBJECT: TREASURY MANAGEMENT AND PRUDENTIAL INDICATOR PERFORMANCE 2023-24

Borough wide interest

1.0 PURPOSE OF THE REPORT

1.1 To inform Members of the Treasury Management performance and Prudential Indicators for the year ended 31 March 2024.

2.0 RECOMMENDATIONS FOR P&R COMMITTEE

2.1 That the investment performance in 5.3 be noted.

2.2 That the prudential indicators set out in 8.1 be noted.

3.0 RECOMMENDATIONS FOR COUNCIL

3.1 That the investment performance in 5.3 be noted.

3.2 That the prudential indicators set out in 8.1 be agreed.

4.0 BACKGROUND

4.1 Treasury Management covers the management of the Council's cash flows, banking, investments and borrowing. Given the large sums of money involved it is an important area of the Council's finances and is subject to a specific set of rules and regulations.

4.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, which has been adopted by the Council, requires a number of reports to be made to Council on Treasury Management activities. This includes details of performance during the year and the exercise of powers delegated to the Director of Finance and Resources.

4.3 The introduction of the Prudential Code for Capital Finance has allowed Councils to determine their own level of borrowing, taking account of a set of prudential indicators. The general principle is that borrowing is to be affordable, prudent and by conclusion sustainable.

5.0 INVESTMENT PERFORMANCE

5.1 Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was required. Starting in April 2023 at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by the end of the financial year.

5.2 Our treasury advisors, Link, expect the MPC will begin a series of reductions to the Bank Rate starting in quarter 2 of 2024/25 and into 2025/26 as inflationary pressures recede. The base rate is then expected to remain steady at 3% beyond 2025/26. The forecast rate cuts will obviously negatively impact returns on investments during 2024-25.

Bank Rate	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
25.03.24	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
08.01.24	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
Change	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00

5.3 The Council’s treasury management 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 detailed in the summary, and through officer activity detailed in the Council’s Treasury Management Practices. At the end of 2023/24 the Council‘s investment position was as follows:

INVESTMENT PORTFOLIO	31.3.23 Actual £000	31.3.23 Actual %	31.3.24 Actual £000	31.3.24 Actual %
Treasury investments				
Banks	5,000	45%	2,700	100%
Building Societies - rated	1,000	9%	0	0%
Building Societies – unrated		0%		0%
Local authorities	<u>5,000</u>	45%	<u>0</u>	0%
DMADF (H M Treasury)		0%		0%
etc				
Total managed in house	11,000	100%	2,700	100%
Bond funds				
Property funds				
Cash fund managers				
Total managed externally	0	0%	0	0%
TOTAL TREASURY INVESTMENTS	11,000	100%	2,700	100%

Non Treasury investments				
Third party loans				
Subsidiaries	1,300	100%	1,300	100%
Companies				
Property				
etc				
TOTAL NON TREASURY INVESTMENTS	1,300	100%	1,300	100%

Treasury investments	11,000	89%	2,700	68%
Non Treasury investments	1,300	11%	1,300	33%
TOTAL OF ALL INVESTMENTS	12,300	100%	4,000	100%

The maturity structure of the investment portfolio was as follows:

	31.3.23 Actual £000	31.3.24 Actual £000
Investments		
Longer than 1 year		
Up to 1 year	12,300	4,000
Total	12,300	4,000

The gross interest earned was as follows:

	31.3.23 Actual £0	31.3.24 Actual £0
Gross interest earned	476,111	785,220

5.4 As part of the ongoing exercise to achieve best value in treasury management we continue to monitor performance of the Council's investment activities against a benchmark, 3-month average SONIA (Sterling Overnight Index Average). The average interest rate earned by the Council on its investments was 4.726%, which exceeded the benchmark rate of 4.6352%.

5.5 At its meeting in February 2020 the Council approved the use of Property Funds, Corporate Bonds, Infrastructure investments and longer term borrowing with local authorities and UK based banks and building societies with high credit ratings. However, given the reduction in funds available for investment and current market conditions, and the lack of in-house expertise investments of this type have not been pursued to date.

5.6 The criteria for providing a pool of high-quality investment counterparties, (both specified and non-specified investments) is:

Type of Counterparty	Maximum loan by Council	Maximum Period
Major British Based Banks and Subsidiaries with at least A- credit rating.	£5m	Up to £5m 364 days Up to £3m 3 years
British Based Building Societies. – Only those with at least A- credit rating as advised by Link.	£5m	Up to £5m 364 days Up to £3m 3 years
Other Local Authorities, where agreed.	£5m	Up to 5 years
Property Funds, Corporate Bonds, Infrastructure Investments	£3m	Up to 3 years for Corporate, and 5 years for Property and Infrastructure
Money Market Funds AAA rated	£3m	N/A Callable deposits

6.0 COUNCIL BORROWING

6.1 At the start of the financial year the Council had outstanding long-term borrowing of £88.212m, from the Public Works Loan Board which was related to HRA self-financing.

6.2 By the end of the financial year the position had remained unchanged. Total interest payments of £3.06m were made in 2023/24 to service the HRA self-financing debt.

6.3 During 2023/24, the Council maintained an under-borrowed position. This meant that the capital borrowing need, (the Capital Financing Requirement), was not funded with loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as investment returns were initially low and minimising counterparty risk on placing investments also needed to be considered. However, several large capital projects such as the Skelmersdale Town Centre redevelopment, the proposed construction of new leisure centres and the HRA business plan will require external borrowing to be taken out and this position has been reflected in the budgets previously agreed by Council.

7.0 EXERCISE OF DELEGATED POWERS

7.1 The current counterparties list is set out in 4.6 above. This shows the types of organisations that have been approved for investment purposes, and the maximum amount and loan period for investing with a single organisation. This is in accord with the previously agreed Treasury Management Protocol which has been reported to Members.

7.2 The Director of Finance and Resources has delegated powers to take out new debt and repay existing debt. These powers ensure that the Council can obtain the best possible deals in a market where conditions can change rapidly. However, this facility was not utilised during the year.

8.0 PRUDENTIAL CODE PERFORMANCE

8.1 The actual Prudential Indicators for the financial year 2023-24 are set out below. The overall information conveys a healthy financial position, and this confirms that the Council has a good financial standing. Also detailed is the maturity structure of outstanding debt.

1. PRUDENTIAL INDICATORS Extract from budget and rent setting report	2022/23 actual £'000	2023/24 original £'000	2023/24 actual £'000
Capital Expenditure (note 1 & 5)			
Non - HRA	7,709	11,156	7,191
HRA (applies only to housing authorities)	13,097	14,431	11,581
TOTAL	20,806	25,587	18,772
Ratio of financing costs to net revenue stream (note 2)			
Non - HRA	-0.61%	-1.08%	-1.38%
HRA (applies only to housing authorities)	12.02%	10.88%	10.85%
Gross borrowing requirement General Fund			
in year borrowing requirement	228	5,438	1,833
Gross borrowing requirement HRA (*where relevant*)			
in year borrowing requirement	4,890	6,997	2,540
Gross debt	88,212	88,212	88,212
CFR (note 3 & 5)			
Non – HRA	25,198	18,048	26,631
HRA (applies only to housing authorities)	90,935	125,023	93,101
TOTAL	116,134	143,071	119,732
Annual change in Cap. Financing Requirement			
Non – HRA	1,935	4,906	1,433
HRA (applies only to housing authorities)	2,506	10,692	2,166
TOTAL	4,441	15,598	3,599

2. TREASURY MANAGEMENT INDICATORS	2022/23 actual £'000	2023/24 original £'000	2023/24 actual £'000
Authorised Limit for external debt (note 4)-			
borrowing	88,212	153,071	88,212
other long term liabilities	0	500	0
TOTAL	88,212	153,571	88,212
Operational Boundary for external debt -			
borrowing	88,212	143,071	88,212
other long term liabilities	0	0	0
TOTAL	88,212	143,071	88,212
Actual external debt	88,212	88,212	88,212

Notes
1. This Indicator demonstrates that there is effective control of the capital programme and that expenditure is incurred in line with resources approved.
2. This is a measure of the interest paid on borrowing / debt taking account of the interest earned on investments as a percentage of the overall Council tax or HRA expenditure requirement.
3. The capital financing requirement measures the Authority's underlying need to borrow in order to fund its capital programme.
4. The Director of Finance and Resources has delegated authority to borrow up to the limits detailed above and to affect movement to these figures for borrowing and other long term liabilities. Such changes will be reported to Council at the meeting following the change. The Council undertook borrowing of £88.212m on 28th March 2012 and had no other long term liabilities at the end of financial year 2023-24. Hence, the Authority is comfortably within the parameters detailed.
5. The capital outturn and capital financing figures may be subject to small variations as the year end accounts have not been completed at the time of writing.

Maturity analysis of loans	Average Rate %	Interest Payable £'000	2023/2024 £'000	2022/2023 £'000
Between 5 and 10 years	3.01	132.76	8,821	8,821
Between 10 and 15 years	3.30	145.55	8,821	8,821
Between 15 and 20 years	3.44	303.45	8,821	8,821
Between 20 and 25 years	3.50	308.74	8,821	8,821
Between 25 and 30 years	3.53	621.89	17,642	17,642
Between 30 and 35 years	3.52	620.13	17,642	17,642
Between 35 and 40 years	3.50	617.48	17,642	17,642
Between 40 and 45 years	3.48	306.98		
Total	3.47	3,056.99	88,212	88,212

8.2 The purpose of the indicators is to ensure that financing costs associated with capital activities are managed in a prudent, affordable and by definition, sustainable manner.

8.3 The Council aims to achieve this objective by undertaking a robust annual budget setting cycle. During this process, Budget Holders detail the revenue implications of any capital decisions, while the capital process identifies the resources available to fund the capital programme. This ensures that strategic resource planning and option appraisal of bids are fully reviewed prior to setting the programme.

8.4 The HRA net revenue position is at the level detailed primarily due to the interest payments of £3.057m on the self-financing debt. However, it must be borne in mind that the Council does not now have to pay housing subsidy to the Government, which was some £6m p.a. and consequently is in a much better financial position.

8.5 As a result of the self-financing payment, there is another relevant indicator that requires reporting the maturity structure of borrowing. This details the differing amounts of debt, the dates of maturity and the associated interest costs relating to the payment of £88.212m. By structuring the debt on a long-term basis that the Council benefitted from the low interest charges that were available at the time.

This enables the HRA to develop a business plan with the backdrop of a clear financial picture relating to its debt.

9.0 SUSTAINABILITY IMPLICATIONS

9.1 There are no significant sustainability implications associated with this report and in particular no significant impact on Crime and Disorder.

10.0 FINANCIAL AND RESOURCE IMPLICATIONS

10.1 There are no significant financial or resource implications arising from this report.

11.0 RISK ASSESSMENT

11.1 The formal reporting to Council of Treasury Management performance and Prudential Indicators for Capital Finance is part of the overall framework set out in the Code of Practice to ensure that the risks associated with this activity are effectively controlled.

12.0 HEALTH AND WELLBEING IMPLICATIONS

12.1 There are no health and wellbeing implications arising from this report.

Background Documents

The following background documents (as defined in Section 100D (5) of the Local Government Act 1972) have been relied on to a material extent in preparing this Report.

Date	Document	File Ref
2017	CIPFA Updated Prudential Code for Capital Finance in Local Authorities	Accountancy Office
2017	CIPFA Updated Treasury Management Code of Practice	Accountancy Office

Equality Impact assessment

The decision does not have any direct impact on members of the public, employees or elected members and/or stakeholders. Therefore, no Equality Impact Assessment is required.

Appendices

None