

<b>This report is public</b>	
<b>Treasury Management Report – Annual Performance Report 2023/24</b>	
<b>Committee</b>	Council
<b>Date of Committee</b>	15 July 2024
<b>Portfolio Holder presenting the report</b>	Portfolio Holder for Finance and Resources, Councillor Lesley McLean
<b>Date Portfolio Holder agreed report</b>	1 July 2024
<b>Report of</b>	Assistant Director of Finance (Section 151 Officer), Michael Furness

## **Purpose of report**

To receive information on treasury management performance and compliance with treasury management policy for 2023-24 as required by the Treasury Management Code of Practice.

To demonstrate that all treasury management activities undertaken during the financial year 2023-24 complied with the CIPFA Code of Practice, the council's approved Treasury Management Strategy and that all Prudential Indicators were met during the reporting period.

## **1. Recommendations**

Council resolves:

- 1.1 To note the contents of this Treasury Management Annual Performance Report and the Capital Prudential indicators attached in appendix 1.

## **2. Executive Summary**

- 2.1 In 2012 the council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the council to approve Treasury Management semi-annual and annual reports.
- 2.2 The council's Treasury Management strategy for 2023-24 was approved by full Council on 27 February 2023. The Treasury indicators have been included in this report as per the 2021 CIPFA Treasury Management in the Public Services Code of Practice.

2.3 The council's Capital Strategy covering capital expenditure and non-treasury investments, complying with CIPFA's requirement, was approved by Council on 27 February 2023. As per 2021 CIPFA Prudential Code for Capital Finance in Local Authorities the Prudential indicators have been attached in Appendix 1.

## Implications & Impact Assessments

Implications	Commentary			
<b>Finance</b>	There are no financial implications arising directly from any outcome of this report. Joanne Kaye, Head of Finance (D151), 15 May 2024			
<b>Legal</b>	The presentation of the report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators. Shahin Ismail, Legal Services Manager, 15 May 2024			
<b>Risk Management</b>	It is essential that this report is considered by the Audit Committee as it demonstrates that the risk of not complying with the council's Treasury Management Policy has been avoided. This and any other risks related to this report will be managed through the service operational risk and escalated to the leadership risk register as and when necessary. Celia Prado-Teeling, Performance and Insight Team Leader, 17 May 2024			
Impact Assessments	Positive	Neutral	Negative	Commentary
<b>Equality Impact</b>		X		
<b>A</b> Are there any aspects of the proposed decision, including how it is delivered or accessed, that could impact on inequality?				N/A
<b>B</b> Will the proposed decision have an impact upon the lives of people with protected characteristics, including employees and service users?				N/A
<b>Climate &amp; Environmental Impact</b>				N/A

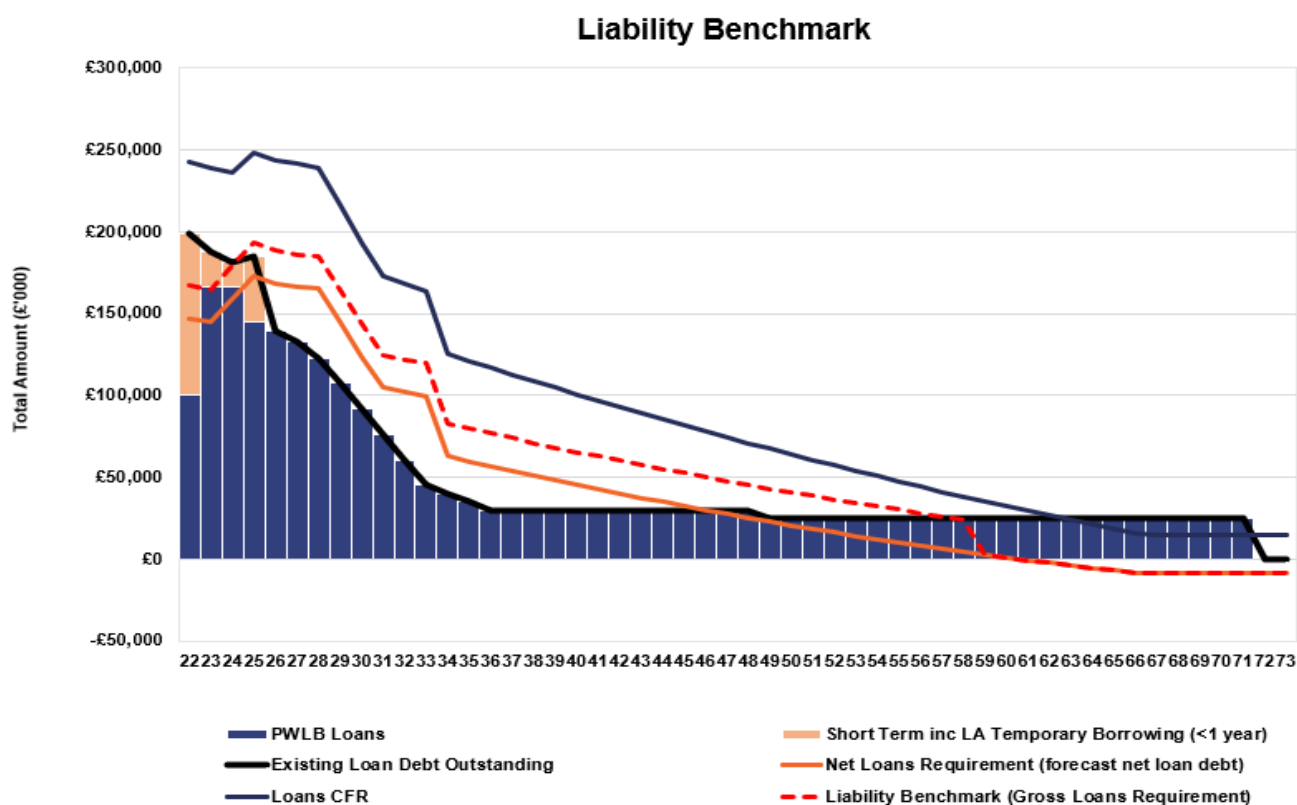
<b>ICT &amp; Digital Impact</b>				N/A
<b>Data Impact</b>				N/A
<b>Procurement &amp; subsidy</b>				N/A
<b>Council Priorities</b>	N/A			
<b>Human Resources</b>	N/A			
<b>Property</b>	N/A			
<b>Consultation &amp; Engagement</b>	N/A			

## Supporting Information

### 3. Background

- 3.1 The council has continued to pursue its strategy of keeping borrowing and investments below their underlying levels, sometimes known as internal borrowing, in order to reduce risk and borrowing costs. As at the end of March 2024 the council had borrowing of £181m and investments of £22m – a net borrowing position of £159m (31/03/23: £144m) This change is primarily due to a £17m reduction in surplus cash from government grant balances available to be invested which have subsequently been spent.
- 3.2 It is a statutory duty for the council to determine and keep under review the affordable borrowing limits. During the year ending 31 March 2024, the council has operated within the treasury and prudential indicators set out in the council's Treasury Management Strategy Statement for 2023/24. The Assistant Director of Finance reports that no difficulties are envisaged for the current or future years in complying with these indicators.
- 3.3 The Liability benchmark is a prudential indicator which shows the Capital Financing Requirement, loan requirements and committed loans in a 50-year forecast. The graph below demonstrates that the council is expecting its loans to decrease in line with the Capital Financing Requirement. It also demonstrates that the council is not in an overborrowed position. The shortfall between the Capital Financing Requirement and net loan requirement is made up of internal borrowing from reserves and working capital.

Table 1: Liability benchmark



## 4. Details

### Borrowing performance for year ending 31 March 2024

- 4.1 The council requires external borrowing to fund its capital programme and had a total debt of £181m at the report date. The increased cost of borrowing has resulted in the council moving from an equal mix of short and long-term borrowing to predominantly medium to long term loans from the Public Works Loan Board (PWLB) to provide interest rate certainty. This move was made in July 2022 while rates were still comparatively low and has resulted in an average interest rate of just 2.19% for the financial year.
- 4.2 The council's chief objective when borrowing is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required.

Table 2: Borrowing Position for year ended 31 March 2024

	Borrowing Amount £m	Average Interest Rate	Interest Paid Budget £m	Interest Paid Actual £m	Variance to Date £m
April 2023 to March 2024	172 (average)	2.19%	3.779	3.762	(0.017)
As at 31/03/24	181	2.45%	-	-	-

\* Interest payable relates to external loans only, excluding finance lease and other interest

4.3 As a comparison, the table below shows average borrowing rates.

Table 3: High / Low / Average PWLB Rates for 01/04/2023 – 31/03/2024

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>Low</b>	4.65%	4.13%	4.20%	4.58%	4.27%
<b>Date</b>	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
<b>High</b>	6.36%	5.93%	5.53%	5.96%	5.74%
<b>Date</b>	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
<b>Average</b>	5.54%	4.99%	4.97%	5.34%	5.08%
<b>Spread</b>	1.71%	1.80%	1.33%	1.38%	1.47%

Source: Link

4.4 Interest payable for the full year is just below the budget. Only one loan was secured in 23/24, at the rate of 5.45%, which is below the 1-year average PWLB rate. A full list of current borrowing at 31 March 2024 is shown below:

Table 4: Borrowing

<b>Lender</b>	<b>Principal Borrowed £m</b>	<b>Maturity Date</b>
PWLB 7-year maturity	21	19/10/2024
West Midlands Combined Authority 1-year maturity	15	13/02/2025
PWLB 6-year maturity	6	25/09/2025
PWLB 7-year maturity	6	19/09/2026
PWLB 5-year maturity	10	26/07/2027
PWLB 10-year maturity	10	31/05/2028
PWLB 6-year maturity	5	26/07/2028
PWLB 7-year maturity	10	26/07/2029
PWLB 10-year maturity	6	25/09/2029
PWLB 8-year maturity	10	26/07/2030
PWLB 11-year maturity	6	19/09/2030
PWLB 9-year maturity	16	26/07/2031
PWLB 10-year maturity	15	26/07/2032
PWLB 15-year maturity	5	31/05/2033
PWLB 15-year maturity	5	25/09/2034
PWLB 16-year maturity	5	19/09/2035
PWLB 30-year maturity	5	31/05/2048
PWLB 50-year maturity	25	10/11/2071
<b>TOTAL</b>	<b>181</b>	

4.5 The council monitors its exposure to refinancing risk with the maturity structure of borrowing indicator. While it is important to have flexibility to navigate changing market conditions is it critical that loan repayments are spread appropriately. The lower limit has been considered but kept at zero to ensure that the council is not forced into taking borrowings in a particular category that would lock it into an unfavourable borrowing situation. The percentages of loans that need to be refinanced under 12 months has increased to 19.89% as the £21m PWLB loan

taken in 2017 is maturing in October 2024. The medium to long term loans taken in July 2022 will start maturing in July 2027.

Table 5: Maturity structure of borrowing

Refinancing rate risk indicator	Upper limit	Lower limit	Actual structure
Under 12 months	50%	0%	19.89%
12 months and within 24 months	50%	0%	3.31%
24 months and within 5 years	60%	0%	17.13%
5 years and within 10 years	70%	0%	37.57%
10 years and above	80%	0%	22.10%

## Investment performance for year as of 31 March 2024

- 4.6 Funds available for investment are on a temporary basis because the council prioritises keeping borrowing to a minimum and only invests surplus funds retained to meet its commitments. The level of funds available is mainly dependent on the timing of precept payments, receipt of grants and funding of the Capital Programme.
- 4.7 The council has seen an increase in interest income in line with rises in the Bank of England base rate. The short-dated money market investments have performed better than budgeted throughout this year. Table 6 below shows the investment position during and at the end of the reporting period.

Table 6: Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
April 23 to March 2024	24 (average)	5.21%	(1.375)	(1.459)	(0.084)
As at 31/03/24	22	5.93%	-	-	-

- 4.8 As a comparison Table 7 below shows average money-market rates keeping in mind that the council has an average investment period of 30 days.

Table 7: Average Investment Rates for the reporting period

	Bank Rate	SONIA	1 mth	3 mth	6 mth	12 mth
High	5.25	5.19	5.39	5.48	5.78	6.25
High Date	03/08/2023	28/03/2024	19/09/2023	30/08/2023	07/07/2023	07/07/2023
Low	4.25	4.18	4.17	4.31	4.46	4.47
Low Date	03/04/2023	04/04/2023	03/04/2023	03/04/2023	06/04/2023	06/04/2023
Average	5.03	4.96	5.02	5.13	5.23	5.25
Spread	1.00	1.01	1.22	1.17	1.33	1.77

\*SONIA (Sterling Overnight Index Average) is an interest rate benchmark published by the Bank of England.  
Source: [Link](#)

- 4.9 While maintaining a balance between security, liquidity and yield the council is always looking for ways to invest sustainably (or green investments). This must be

done within the criteria laid out in the approved Treasury Management Strategy with counterparties that meet the council's investment criteria.

The council continues to invest in Standard Chartered Bank's sustainable fixed deposit (aligned to the United Nations' Sustainable Development Goals) while three of the Money Market funds meet the criteria pursuant to Article 8 of the Sustainable Finance Disclosure Regulation (Regulation EU/2019/2088). These are highlighted in green in Table 8. A full list of current investments is shown in Table 8 below:

Table 8: Investments

Counterparty	Principal Deposited £m	Maturity Date / Notice period
<b>Fixed Term Deposits</b>		
Eastleigh Borough Council	3.00	11/04/2024
Bedford Borough Council	2.00	22/04/2024
Babergh District Council	3.00	22/05/2024
West Berkshire District Council	5.00	22/05/2024
<b>Money Market Funds</b>		
Legal & General Investment Management	3.40	Same day
Federated Investors UK	3.00	Same day
Northern Trust Asset Managements	2.27	Same day
CCLA Investment Management Limited	0.02	Same day
Goldman Sachs Asset Management	0.23	Same day
<b>TOTAL</b>	<b>21.92</b>	

4.10 Compliance with investment limits are detailed in Table 9 below:

Table 9: Investment Limits

Counterparty	2023/24 Limit £m	Complied?
UK Central Government	Unlimited	Yes
Other Local Authorities	5 each	Yes
Any group of organisations under the same ownership	5 per group	Yes
Approved counterparties – Banks/Building Societies	3 each	Yes
Any group of pooled funds under the same management	5 per manager	Yes
Money Market Funds total	15 in total	Yes

4.11 The council has set limits for long term Treasury Management Investments in its strategy. This indicator seeks to support control of liquidity risk and reduce the potential need to have to make an early exit from an investment in order to recover



funds. The indicator relates solely to the council's investments for treasury management purposes.

Table 10: Limits for Long Term Treasury Management Investments

	2023/24 Limit set £m	Complied?
Limit on principal invested beyond year end	5	Yes

## Non-treasury investment activity

- 4.12 The definition of investments in CIPFA's revised Treasury Management Code now covers all the financial assets of the council. This is replicated in the government's Statutory Guidance on Local Government Investments, in which the definition of investments is further broadened to also include all such assets that provide a financial return.
- 4.13 As of 31 March 2024, the council holds £102.4m of investments that qualify under the code in the form of shares (£35.6m) and loans (£66.8m) to subsidiary companies and other organisations, primarily Graven Hill and Crown House. This year the council received its first dividend from Graven Hill of £0.5m.
- 4.14 The loan elements of these non-treasury investments generate a higher rate of return than that earned on treasury investments due to the commercial nature of the loans issued. Table 11 below shows the investment position for this reporting period.

Table 11: Non-treasury Investment Position

	Investment Amount £m	Average Interest Rate	Interest Earned Budget £m	Interest Earned Actual £m	Variance to Date £m
April 23 to March 2024	70.96 (average)	7.04%	(5.070)	(5.649)	(0.579)
As at 31/03/24	66.20	6.21%	-	-	-

## Overall performance

- 4.15 The overall performance for the 2023/24 financial year is:

Table 12: Overall Treasury Position

	Budget 23/24 £m	Actual 23/24 £m	Variance to date £m
Borrowing costs	3.779	3.762	(0.017)
Finance lease and other interest	0.253	0.924	0.671
Treasury income	(1.375)	(1.459)	(0.084)
Non-treasury income	(5.070)	(5.649)	(0.579)
Transferred to Reserves	1.447	1.447	0
<b>Total cost/(income)</b>	<b>(0.966)</b>	<b>(0.975)</b>	<b>(0.009)</b>



- 4.16 There were two budget variances worth noting at year end. The variance within Finance Leases and Other Interest relates predominantly to the interest due to be accrued to S106 funds held which was at a higher interest rate than budgeted. This was offset by the unbudgeted dividend from Graven Hill of £0.500m within Non-treasury income.
- 4.17 While the Treasury budget shows that it delivered a small surplus for the year, £1.447m was also transferred to the Market Risk Reserve and the Interest Rate Equalisation Reserve during 2023/24, meaning there was a surplus before approved in-year transfers to reserves on Treasury Management activities of £1.456m.

### Interest rate forecast

- 4.18 The council has appointed Link Group as its treasury advisors and part of their service is to assist the council to formulate a view on interest rates. The latest forecast sets out a view that short, medium and long-dated interest rates will be elevated for the next year, as the Bank of England seeks to further reduce inflation. The Medium Term Financial Strategy has been prepared according to these forecasts.

Table 13: Link Forecast Rates published on 25 March 2024

Link Group Interest Rate View	25.03.24												
	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
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
5 yr 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
10 yr 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
25 yr 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
50 yr 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

## 5. Alternative Options and Reasons for Rejection

- 5.1 The following alternative options have been identified and rejected for the reasons as set out below.

Option 1: To request further information on the performance reported.

## 6 Conclusion and Reasons for Recommendations

- 6.1 This report details the Treasury Performance for the council for the year ending 31 March 2024. It is submitted to the Council for information as required by the Treasury Management Code of Practice.

## Decision Information

<b>Key Decision</b>	N/A
<b>Subject to Call in</b>	N/A
<b>If not, why not subject to call in</b>	N/A
<b>Ward(s) Affected</b>	N/A

## Document Information

<b>Appendices</b>	
<b>Appendix 1</b>	Prudential Indicators
<b>Background Papers</b>	None
<b>Reference Papers</b>	<a href="#">Treasury Management Strategy 2023-2024</a> <a href="#">Treasury Management 2023-2024 Mid-Year Review</a> <a href="#">Treasury Management Report - Q3 2023/2024 (December 2023)</a>
<b>Report Author</b>	Janet du Preez – Finance Business Partner – Treasury and Insurance
<b>Report Author contact details</b>	<a href="mailto:Janet.du-preez@cherwell-dc.gov.uk">Janet.du-preez@cherwell-dc.gov.uk</a> 01295 221606