Report of:	Meeting	Date
Councillor Lesley McKay, Resources Portfolio Holder and Clare James, Director of Finance and Governance (S.151 Officer)	Council	12 September 2024

Treasury Management Outturn Report 2023/24

1. Purpose of report

1.1 To report on the overall position and activities in respect of Treasury Management for the 2023/24 financial year.

2. Council priorities

2.1 Delivery of high quality, value for money services that meet the needs of our customers.

3. Recommendation

3.1 That the Annual report on Treasury Management Activity for the 2023/24 financial year be approved.

4. Background

4.1 This 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 Chartered Institute of Public Finance and Accounting (CIPFA) Code of Practice on Treasury Management (the Code) and the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code).

4.2 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 (considered by Cabinet (14/02/2023) and recommended to Council; approved by Council (07/03/2023)).

- A mid-year (minimum) treasury update report (reviewed and noted by Council (30/11/2023)).
- An annual review following the end of the year describing the activity compared to the strategy (this report).

5. Key issues and proposals

5.1 The Council's Capital Expenditure and Financing

5.1.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.) which has no resultant impact on the Council's borrowing need, or;
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

5.1.2 The actual capital expenditure forms one of the required prudential indicators. The table below shows the actual capital expenditure and how this was financed.

Description	2022/23 Actual (£000)	2023/24 Budget (£000)	2023/24 Actual (£000)
Capital expenditure	13,357	18,122	17,712
Financed in year	13,357	18,122	17,712
Unfinanced capital expenditure	0	0	0

**Please note the outturn position for both years is Council unaudited.*

5.2 Overall Treasury Position as at 31 March 2024

5.2.1 The Council's treasury position, at the beginning and end of the 2023/24 financial year, was as follows:

	31/03/23 Principal (£000)	Rate/ Return (%)	Avg Life (Yrs)	31/03/24 Principal (£000)	Rate/ Return (%)	Avg Life (Yrs)
Total Debt	15	0	0	13	0	0
Total Investments	(46,001)	1.83	0	(38,008)	4.76	0
Net debt / (investment)	(45,986)	-	-	(37,995)	-	-
Total Debt	15	0	0	13	0	0
Capital Financing Requirement (CFR)	(10,975)	-	-	(10,879)	-	-
Over / (under) borrowing	(10,960)	-	-	(10,866)	-	-

5.3 <u>The Treasury Management Strategy for 2023/24</u>

Economic updates based on information provided by Link:

5.3.1 *Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory and realised that tighter monetary policy was called for. This started in April at 4.25% and Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.*

5.3.2 *The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this 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 as duration was extended - became an on-going feature of the investment landscape.*

5.3.3 *With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023.*

5.3.4 *The more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued* *to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided good returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March. While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.*

5.4 The Borrowing Requirement and Debt

Economic updates based on information provided by Link:

5.4.1 *The Council's underlying need to borrow for 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. It represents the 2023/24 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources. 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 [PWLB], or the money markets), or utilising temporary cash resources within the Council.*

	31/03/23 Actual (£000)	**31/03/24 Budget (£000)**	**31/03/24 Actual (£000)**
CFR	10,975	10,879	10,879
Less external borrowing	-	-	-
Borrowing requirement	**10,975**	**10,879**	**10,879**
Reserves and Balances	33,394	32,474	36,525
Borrowing/ (investment) need	**(22,419)**	**(21,595)**	**(25,646)**

5.5 Borrowing strategy and control of interest rate risk

Economic updates based on information provided by Link:

5.5.1 *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 loan debt as cash supporting the Council's reserves, balances and cash flow was used as an interim measure. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened. The Council has sought to minimise the taking on of long-term borrowing at elevated levels (>4%) and has focused on a policy of internal borrowing.*

5.5.2 *Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%. By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine*.

5.5.3 *PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.*

5.5.4 *Since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid, then* *because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. Rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable*.

5.5.5 *Gilt yields have generally been on a continual rise since the start of 2021, peaking in the autumn of 2023. Currently, yields are broadly range bound between 3.5% and 4.25%. At the close of the day on 28 March 2024, all gilt yields from 1 to 50 years were between 3.81% and 4.56%, with the 1 year being the highest and 6-7 years being the lowest yield. There is likely to be a fall in gilt yields and PWLB rates across the whole curve over the next one to two years as Bank Rate falls and inflation (on the Consumer Price Index measure) moves below the Bank of England's 2% target. Generally, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.*

5.5.6 *The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.*

5.5.7 Due to the elevated cost of borrowing long-term and the ability to internally borrow, no borrowing was undertaken during the year.

5.6 Investment Outturn

5.6.1 **Investment Policy** – the Council's investment policy is governed by MHCLG investment guidance, which has been implemented in the annual investment strategy approved by Full Council on 7 March 2024. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data (such as rating outlooks, credit default swaps, bank share prices etc.).

5.6.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

Investments held by the Council.

- The Council maintained an average balance of £49,348,931 of internally managed funds.
- The internally managed funds earned an average rate of return of 4.76%.
- The comparable performance indicator is the average 7-day SONIA rate, which was 4.96%.

- Total investment income was £2,349,123 compared to a budget of £2,000,000.

5.6.3 The equated investments are analysed in the table below:

	Equated Investment Principal (£)	Estimated Interest Due (£)	Rate of Return (%)	Bench-mark Return (%)
Santander 95 Day Corp Notice	1,282,191	75,649	5.90%	4.84%
Bank of Scotland (Call Account)	4,711,400	228,340	4.85%	4.96%
Nat West - Liquid Select	4,837,529	93,958	1.90%	4.96%
Handelsbanken Instant Access	254,795	10,447	4.10%	4.96%
Handelsbanken 3 month	1,512,330	80,305	5.30%	4.84%
Prime Rate	7,835,617	393,163	5.00%	4.96%
LGIM	7,802,740	390,916	5.00%	4.96%
Deutsche	5,435,616	265,904	4.90%	4.96%
Insight	6,887,671	342,765	5.00%	4.96%
Santander 35D	679,452	29,848	4.40%	4.93%
Qatar 3 month	5,468,493	292,332	5.30%	4.84%
Qatar 6 month	1,627,398	85,413	5.30%	4.64%
Flintshire 6 month	534,247	30,973	6.00%	4.64%
Wirral 3 month	479,452	29,110	6.25%	4.84%
Total	**49,348,931**	**2,349,123**	**4.76%**	

5.7 Other Issues / Updates

Economic updates based on information provided by Link:

5.7.1 *Following the consultation undertaken by the Ministry for Housing, Communities and Local Government [MHCLG] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31 March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.* (There is currently no impact on Wyre.)

5.7.2 The implementation of IFRS16, bringing currently off balance sheet leased assets onto the balance sheet, comes in to effect from 1 April 2024. This is expected to have limited impact on Wyre's accounts.

6. Alternative options considered and rejected

6.1 Not applicable.

Financial, Legal/MO and Climate Change implications	
Finance	Considered in detail above.
Legal/MO	The approval of the recommendation will ensure that the statutory requirements have been complied with.
Climate Change	The report has no impact on Climate Change.

Other risks/implications: checklist

If there are significant implications arising from this report on any issues marked with a ✓ below, the report author will have consulted with the appropriate specialist officers on those implications and addressed them in the body of the report. There are no significant implications arising directly from this report, for those issues marked with a x.

risks/implications	✓ / x
community safety	x
equality and diversity	x
health and safety	x

risks/implications	✓ / x
asset management	x
ICT	x
data protection	x

Processing Personal Data

In addition to considering data protection along with the other risks/ implications, the report author will need to decide if a 'privacy impact assessment (PIA)' is also required. If the decision(s) recommended in this report will result in the collection and processing of personal data for the first time (i.e. purchase of a new system, a new working arrangement with a third party) a PIA will need to have been completed and signed off by Data Protection Officer before the decision is taken in compliance with the Data Protection Act 2018.

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List of background papers:		
name of document	date	where available for inspection
N/A		

List of appendices

Appendix 1 – Prudential and Treasury Indicators

Appendix 1

1. Prudential Indicators	2022/23	2023/24	2023/24	2024/25
	Actual	**Estimate**	**Actual**	**Estimate**
	£000	**£000**	**£000**	**£000**
Capital Expenditure	13,357	18,122	17,712	19,952
Ratio of financing costs to net revenue stream	0.50%	0.50%	0.50%	0.50%
Gross Borrowing requirement General Fund	15	50	13	50
Gross debt	15	50	13	50
CFR	10,975	10,879	10,879	10,784
Annual change in CFR	(95)	(95)	(95)	(90)
2. Treasury Management Indicators	**2022/23**	**2023/24**	**2023/24**	**2024/25**
	Actual	**Estimate**	**Actual**	**Estimate**
	£000	**£000**	**£000**	**£000**
Authorised Limit for external debt borrowing	20,000	20,000	20,000	20,000
Other long-term liabilities	100	100	100	100
Total	**20,100**	**20,100**	**20,100**	**20,100**
Operational Boundary for external debt borrowing	-	14,914	-	15,889
Other long-term liabilities	-	50	-	50
Total	**-**	**14,964**	**-**	**15,939**
Actual external debt	15	50	13	50