

Annual Treasury Management Review 2023/24

Maldon District Council

July 2024

Contents

Purpose.....	3
Executive Summary	4
1. The Council’s Capital Expenditure and Financing	5
2. The Council’s Overall Borrowing Need	6
3. Treasury Position as of 31st March 2024	8
4. The Strategy for 2023/24.....	10
5. Investment Outturn.....	11
6. The Economy and Interest Rates	13
7. Other Issues.....	14
Appendix A: Investment Portfolio	15

Annual Treasury Management Review 2023/24

Purpose

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 CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2023/24 the minimum reporting requirements were that the Council should receive the following reports:

- an annual treasury strategy in advance of the year (Council 22/02/2023)
- a mid-year, (minimum), treasury update report (Strategy & Resources 09/11/2023)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

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.

This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by the Strategy and Resources Committee before they were reported to Council. Member training on treasury management issues is undertaken for each set of elected members. The last session was held in January 2024.

Executive Summary

During 2023/24, the Council complied with its legislative and regulatory requirements. The key prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are as follows:

Prudential and treasury indicators	31.3.23 Actual £000	31.3.24 Budget £000	31.3.24 Actual £000
Capital expenditure	1,093*	1,186	928
Capital Financing Requirement (including leases):	226	0	44
External debt including leases	226	0	44
Investments	5,000	5,000	5,000
• Longer than 1 year	22,000	20,000	19,500
• Under 1 year	27,000	25,000	24,500
• Total			
Net Investment	26,774	25,000	24,456

* The reported capital expenditure for 2022/23 did not include the embedded lease in relation to waste vehicles, which gave rise to the Capital Financing Requirement of £226k.

Other prudential and treasury indicators are to be found in the main body of this report. The Chief Finance Officer confirms that the statutory borrowing limit, (the authorised limit), was not breached.

1. The Council's Capital Expenditure and Financing

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.

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

£m General Fund	31.3.23 Actual	2023/24 Budget	31.3.24 Actual
Capital expenditure	1,093*	1,186	928
Financed in year	1,093	1,186	884
Unfinanced capital expenditure	0	0	44

* The reported capital expenditure for 2022/23 did not include the embedded lease in relation to waste vehicles, which gave rise to the Capital Financing Requirement of £226k in the previous table.

2. The Council's Overall Borrowing Need

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.

Reducing the CFR – 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 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.

The total 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) each year through a Voluntary Revenue Provision (VRP).

The Council's 2023/24 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 22/02/2023.

The Council's CFR for the year is shown below, and represents a key prudential indicator. It includes PFI and leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is actually required against these schemes as a borrowing facility is included in the contract.

CFR (£m): General Fund	2022/23 Actual	2023/24 Budget	2023/24 Actual
Opening CFR	452	226	226
Capital Expenditure	1,093	1,186	928
Total	1,545	1,412	1,154
Financed by:			
MRP	226	226	226
External sources (Government & Other Grants)	629	831	679
Capital Receipts	464	355	194
Revenue Contribution	0	0	11
Total Financing	1,319	1,412	1,110
Closing CFR	226	0	44

Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorised limit.

Gross borrowing and the CFR – 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 capital financing requirement in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. This essentially means that the Council is not borrowing to support revenue expenditure. This indicator allowed the Council some flexibility to borrow in advance of its immediate capital needs in 2023/24. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

	31.3.23 Actual	31.3.24 Budget	31.3.24 Actual
Gross borrowing position	£0.226m	£0.000m	£0.044m
CFR	£0.226m	£0.000m	£0.044m
Under / over funding of CFR	£0.000m	£0.000m	£0.000m

The CFR in the table above reflects payments embedded in the lease of vehicles with the Council's Waste contract with Suez (2022/23) and the outstanding amount of a Hire Purchase agreement with John Deere (2023/24)

The authorised limit - the authorised limit is the "affordable borrowing limit" required by s3 of the Local Government Act 2003. Once this has been set, the Council does not have the power to borrow above this level. The table below demonstrates that during 2023/24 the Council has maintained gross borrowing within its authorised limit.

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 over the boundary are acceptable subject to the authorised limit not being breached.

Actual financing costs as a proportion of net revenue stream - this indicator identifies the trend in the cost of capital, (borrowing and other long term obligation costs net of investment income), against the net revenue stream.

	2023/24
Authorised limit	£16.5m
Maximum gross external debt position during the year	£0.226m
Operational boundary	£7.0m
Average gross external debt position	£0.135m
Financing costs as a proportion of net revenue stream	0.01%

3. Treasury Position as of 31st March 2024

The Council's treasury management debt and investment position is organised by the treasury management service 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 detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

INVESTMENT PORTFOLIO	31.3.23 Actual £000	31.3.23 Actual %	31.3.24 Actual £000	31.3.24 Actual %
Treasury investments				
Banks	2,270	10.1%	2,658	10.6%
Building societies - rated	2,000	6.2%	2,000	7.9%
Building societies – unrated	0	0.0%	0	0.0%
Local authorities	10,000	43.4%	6,000	23.8%
DMADF (H M Treasury)	0	0.0%	0	0.0%
Total managed in house	14,270	59.7%	10,658	42.4%
Bond funds	2,000	6.2%	2,000	7.9%
Property funds	3,000	9.3%	3,000	11.9%
Cash fund managers	8,000	24.8%	9,500	37.8%
Total managed externally	13,000	40.3%	14,500	57.6%
TOTAL TREASURY INVESTMENTS	27,270	100%	25,158	100%

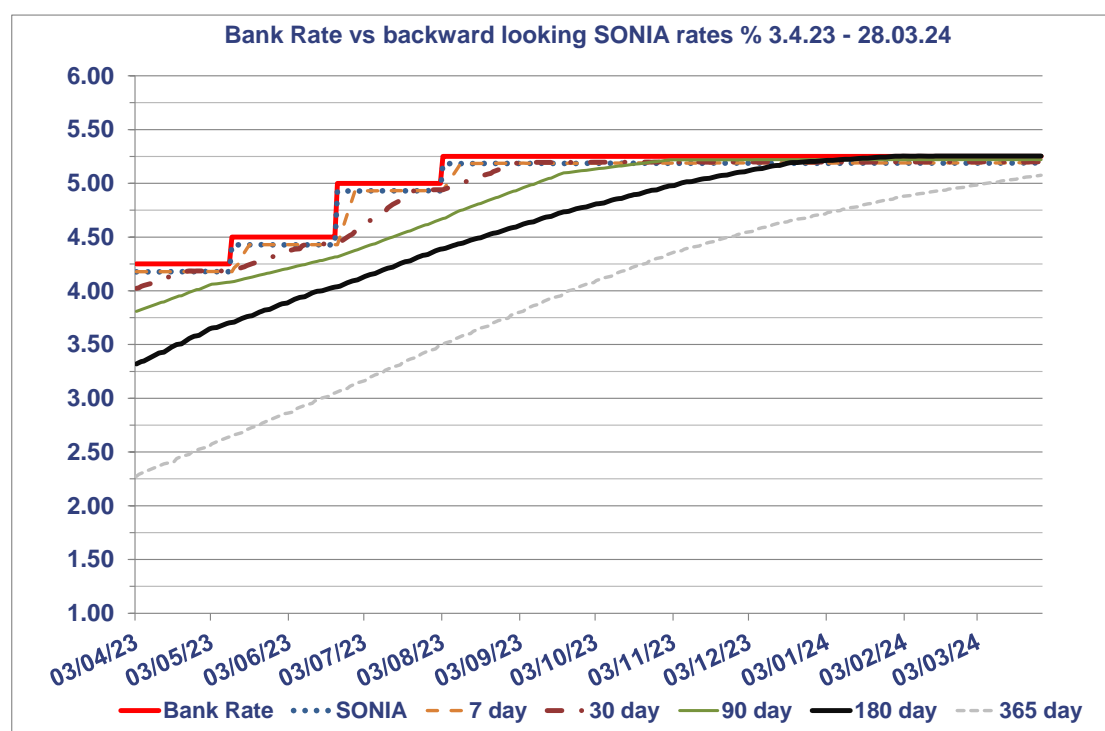
The maturity structure of the investment portfolio was as follows:

	31.3.23 Actual £000	2023/24 Budget £000	31.3.24 Actual £000
Investments			
Longer than 1 year	5,000	5,000	5,000
Up to 1 year	22,270	20,000	20,158
Total	27,270	25,000	25,158

4. The Strategy for 2023/24

4.1 Investment strategy and control of interest rate risk

Investment Benchmarking Data – Sterling Overnight Index Averages (Backward-looking) 2023/24



FINANCIAL YEAR TO QUARTER ENDED 28/03/2024							
	Bank Rate	SONIA	7 day	30 day	90 day	180 day	365 day
High	5.25	5.19	5.19	5.20	5.22	5.25	5.08
High Date	03/08/2023	28/03/2024	28/03/2024	26/03/2024	25/03/2024	22/03/2024	28/03/2024
Low	4.25	4.18	4.18	4.02	3.81	3.32	2.27
Low Date	03/04/2023	04/04/2023	11/04/2023	03/04/2023	03/04/2023	03/04/2023	03/04/2023
Average	5.03	4.96	4.96	4.93	4.84	4.64	3.93
Spread	1.00	1.01	1.01	1.18	1.41	1.94	2.80

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.

Starting April at 4.25%, 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.

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.

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. However, 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 decent 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.

4.2 Borrowing strategy

No external borrowing was planned at the time of approving the Treasury and Capital Strategies in February 2023 but the above interest rate forecasts were provided by Link Group to inform the Council what the cost of borrowing was likely to be should borrowing have become necessary.

Forecasts at the time of approval of the treasury management strategy report for 2023/24 were as follows

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
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	4.20	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	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

5. Investment Outturn

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

Resources – the Council's cash balances comprise revenue and capital resources and cash flow monies. The Council's core cash resources comprised as follows:

Balance Sheet Resources (£m)	31.3.23	31.3.24
Balances	5,081	5,095
Earmarked reserves	8,387	8,594
Provisions	100	100
Usable capital receipts	1,683	1,489
Total	14,151	15,278

Investments held by the Council

- The Council maintained an average balance of £27.294m of investment funds.
- The invested funds earned an average rate of return of 3.98%.
- This compares with a budget assumption of £25m investment balances earning an average rate of 3%.
- Total investment income was £1.449m compared to a budget of £0.750m.

Investments held by fund managers

The Council uses 5 external fund managers to invest part of its cash balances. The performance of the managers against the benchmark return was:

Fund Manager	Investments Held (£m)	Average Return (%)	Benchmark (%) *
Federated	£5.000	6.0	3.0
Goldman Sachs	£0.000	6.0	3.0
Deutsche	£4.500	6.0	3.0
CCLA	£3.000	4.7	3.0
Ninety One	£2.000	4.0	3.0
		5.0	3.0

This compares with a budgeted 2023/24 assumption of average investment balances of £25m at 3% investment return. Performance during the year has been better than estimated when setting the budget, as investment balances were maintained at a higher level and interest rates were increased and held higher by the Bank of England than anticipated.

6. The Economy and Interest Rates

UK Economy

Against a backdrop of stubborn inflationary pressures, the Russian invasion of Ukraine, and war in the Middle East, 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.

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.

UK, 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.

	UK	Eurozone	US
Bank Rate	5.25%	4%	5.25%-5.5%
GDP	-0.3%q/q Q4 (-0.2%/y/y)	+0.0%q/q Q4 (0.1%/y/y)	2.0% Q1 Annualised
Inflation	3.4%/y/y (Feb)	2.4%/y/y (Mar)	3.2%/y/y (Feb)
Unemployment Rate	3.9% (Jan)	6.4% (Feb)	3.9% (Feb)

7. Other Issues

1. IFRS 9 fair value of investments

English authorities: Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] 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 31st 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.

The Council has 2 Pooled Funds that are valued at Fair Value at 31 March each year.

<i>Fund</i>	<i>Invested Amount £000</i>	<i>Fair Value £000</i>	<i>Capital Gain/(Loss) £000</i>
CCLA - Lamit Property fund	3,000	2,675	(325)
Ninety One (INVESTEC) - Diversified Income Fund	2,000	1,753	(247)
Total	5,000	4,428	572

Both pooled funds are lower in fair value than the amounts originally invested. This means that had they been redeemed on 31 March the investment market would have dictated that the Council will have only received £4.472m instead of the £5m invested. A statutory over-ride means this loss will not be charged to the Council's Comprehensive Income and Expenditure account. The statutory over-rise remains in existence until 31 March 2025. After that point there is a risk that any loss in value would impact negatively on the General Fund reserve is that override is lifted. Conversely, an increase in value would be a positive impact on the General Fund. This is being monitored closely.

These investments are still held as long-term investments and the nature of them mean their values rise above the invested amount and fall below frequently over time. E.g. On 31 March 2022 they were valued at £5.223m. Also, Investment returns on these funds are received every year. In the last financial year £220k was received. These pooled funds are very unlikely to be needed on short notice by the Council, so the timing of divesting from these investments can be strategically decided for the greatest benefit for the Council.

Appendix A: Investment Portfolio

Investments held as of 31st March 2024 compared to our counterparty list:

	31-Mar-24
	Actual Portfolio
	£m
Treasury investments:	
UK Banks	
- Natwest	1
- Barclays	2
Building societies (unsecured)	
- Nationwide	2
Certificate Deposit	0
Money Market Funds	
- Federated	5
- Deutsche	4
-	
Local Authorities	
- Telford & Wrekin	2
- Wirral	2
- Barking & Dagenham	2
Other Financial Intermediaries	
- CCLA Lamit	3
- Ninety One	2
Debt management office	0
Total treasury investments	25

ABBREVIATIONS USED IN THIS REPORT

CFR: capital financing requirement - the Council's annual underlying borrowing need to finance capital expenditure and a measure of the Council's total outstanding indebtedness.

CIPFA: Chartered Institute of Public Finance and Accountancy – the professional accounting body that oversees and sets standards in local authority finance and treasury management.

CPI: consumer price index – the official measure of inflation adopted as a common standard by the UK and countries in the EU. It is a measure that examines the weighted average of prices of a basket of consumer goods and services, such as transportation, food and medical care. It is calculated by taking price changes for each item in the predetermined basket of goods and averaging them.

DLUHC: the Department for Levelling Up, Housing and Communities - the Government department that directs local authorities in England.

ECB: European Central Bank - the central bank for the Eurozone

EU: European Union

EZ: Eurozone -those countries in the EU which use the euro as their currency

GDP: gross domestic product – a measure of the growth and total size of the economy.

G7: the group of seven countries that form an informal bloc of industrialised democracies - the United States, Canada, France, Germany, Italy, Japan, and the United Kingdom - that meets annually to discuss issues such as global economic governance, international security, and energy policy.

Gilts: gilts are bonds issued by the UK Government to borrow money on the financial markets. Interest paid by the Government on gilts is called a coupon and is at a rate that is fixed for the duration until maturity of the gilt, (unless a gilt is index linked to inflation); while the coupon rate is fixed, the yields will change inversely to the price of gilts i.e., a rise in the price of a gilt will mean that its yield will fall.

HRA: housing revenue account.

MPC: the Monetary Policy Committee is a committee of the Bank of England, which meets for one and a half days, eight times a year, to determine monetary policy by setting the official interest rate in the United Kingdom, (the Bank of England Base Rate, commonly called Bank Rate), and by making decisions on quantitative easing/tightening.

MRP: minimum revenue provision - a statutory annual minimum revenue charge to reduce the total outstanding CFR, (the total indebtedness of a local authority).

PFI: Private Finance Initiative – capital expenditure financed by the private sector i.e., not by direct borrowing by a local authority.

PWLB: Public Works Loan Board – this is the part of H.M. Treasury which provides loans to local authorities to finance capital expenditure.

RPI: the Retail Price Index is a measure of inflation that measures the change in the cost of a representative sample of retail goods and services. It was the UK standard for measurement of inflation until the UK changed to using the EU standard measure of inflation – Consumer Price Index. The main differences between RPI and CPI is in the way that housing costs are treated and that the former is an arithmetical mean whereas the latter is a geometric mean. RPI is often higher than CPI for these reasons.

SONIA: the Sterling Overnight Index Average. Generally, a set of indices for those benchmarking their investments. The benchmarking options include using a forward-looking (term) set of reference rates and/or a backward-looking set of reference rates that reflect the investment yield curve at the time an investment decision was taken.

TMSS: the annual treasury management strategy statement reports that all local authorities are required to submit for approval by the Full Council before the start of each financial year.
