

TREASURY MANAGEMENT OUTTURN 2023/24

Date: 19th June 2024

Report of: Chief Officer - Financial Services

Report to: Executive Board

Will the decision be open for call in? Yes No

Does the report contain confidential or exempt information? Yes No

Brief Summary

- 1.1 This report sets out for Members' approval the Treasury Management Outturn report for 2023/24.
- 1.2 This report shows that net external debt as at 31st March 2024 was £2,494m which is £17m lower than the February 2024 forecast. This movement is due to higher than anticipated revenue balances of £12m and a decrease in assumed treasury borrowing of £5m for the capital programme. The level of debt and liabilities should be viewed in the context of the Council's long-term assets which were valued at £6.680bn as at 31st March 2023 net of PFI and leased assets. The equivalent total asset value at 31st March 2024 is not yet available, as the Council's 2023/24 draft accounts are not yet completed.
- 1.3 The level of debt has remained within the Authorised Limit and Operational Boundary as approved by the Council in February 2024.
- 1.4 The average rate of interest paid on the Council's external debt was 3.41% for 2023/24 up slightly from 3.22% recorded in 2022/23.
- 1.5 The outturn position for debt costs within the revenue budget was an underspend of £17.8m after taking account of the application of £10.2m surplus capital receipts to redeem debt, thereby reducing the required level of MRP. The remaining £7.6m underspend arose primarily because of opportunities to borrow at lower interest rates than anticipated during the year, a lower than anticipated overall borrowing requirement lower than anticipated MRP and higher than budgeted for capitalisation of PFI lifecycle costs due to the impact of inflation. External interest income was also higher than had been budgeted for, as interest rates rose during the year.

Recommendations

That the Executive Board:

- 2.1 Note the Treasury Management outturn position for 2023/24 and that treasury activity has remained within the treasury management strategy and policy framework

What is this report about?

- 3.1 This Treasury Management Outturn Report for 2023/24 provides a final update on loans undertaken to fund the capital programme requirements for both General Fund and HRA. Treasury activity during the year was conducted within the approved borrowing limits for the year and resulted in an overall saving to the revenue budget of £17.8m.

What impact will this proposal have?

- 4.1 The 2023/24 treasury management strategy was approved by Executive Board on 8th February 2023. This report provides members with a final update on Treasury Management strategy and operations in 2023/24.

How does this proposal impact the Three Pillars of the Best City Ambition?

Health and Wellbeing Inclusive Growth Zero Carbon

- 5.1 The Best City Ambition, underpinned by the three pillars, can only be delivered if the council maintains a sustainable financial position both now and in the longer-term. The Treasury Management strategy contributes to this financial sustainability and secures funding to support the Council's Policies and City Priorities as set out in the Council's capital programme, which is framed around these priorities. More information on how the capital programme contributes to the Council's priorities is given in the 'Financial Health Monitoring 2023/24 - Outturn financial year ended 31st March 2024' report, which is included elsewhere in this agenda.

What consultation and engagement has taken place?

Wards Affected:

Have ward members been consulted? Yes No

- 6.1 This report is an update on strategy as presented to Executive Board in February 2024, as such no consultation has taken place. However, consultation with the Council's treasury advisors takes place regularly throughout the year.
- 6.2 The borrowing requirement is an outcome of the capital programme which has been the subject of consultation and engagement as outlined in the February capital programme report approved by full Council.

What are the resource implications?

- 7.1 This update on the treasury strategy recognises the borrowing necessary to fund the capital programme requirements of both General Fund and HRA. The revenue costs of borrowing are included within the revenue budgets of the General Fund and HRA.
- 7.2 A surplus of £17.8m has been generated, taking into account the application of £10.2m of surplus capital receipts to redeem debt, thus reducing MRP. The remaining savings were primarily because of opportunities to borrow at lower interest rates than anticipated during the year, a lower than anticipated overall borrowing requirement and higher than budgeted for capitalisation of PFI lifecycle costs due to the impact of inflation, and lower than anticipated. External interest costs were £3.5m below budget, of which £4.2m was

attributable to the general fund and the HRA reporting an increase in external interest costs of £0.7m. The MRP charge for the year was £1.9m lower than had been budgeted for, largely as a result of slippage in the 2022/23 capital programme. External interest income was also £2.0m higher than had been budgeted for, as interest rates continued to rise during the year. The value of PFI lifecycle costs capitalised was £1.4m higher than had been budgeted for. Other net budget movements accounted for an adverse movement of £1.9m

What are the key risks and how are they being managed?

- 8.1 This report sets out the performance against the 2023/24 Treasury strategy. The execution of the strategy and associated risks are kept under regular review through:
- Monthly reports to the officer led Finance Performance Group.
 - Reporting to Executive Board at least 3 times per year.
 - Quarterly strategy meetings with the Chief Officer Financial Services and the Council's treasury advisors and
 - Regular market, economic and financial instrument updates, and access to real time market information.
- 8.2 The above monitoring mitigates the directorate level risk of "Failure to recover money invested in other financial institutions" and in addition the Treasury Management Strategy is linked to the corporate risk on 'Financial Forecasting'.

Review of Strategy 2023/24

- 8.3 Table 1 shows that net borrowing in 2023/24 was £2,494m, £17m lower than the February 2024 forecast. This movement is due to higher than anticipated revenue balances of £12m, and a decrease in assumed treasury borrowing of £5m for the capital programme. The actual movement in the capital programme is explained in the Financial Outturn report elsewhere on the agenda.

TABLE 1

	2023/24 Nov 23 Report	2023/24 Feb 24 Report	2023/24 This Report
	£m	£m	£m
ANALYSIS OF BORROWING 2023/24			
Net Borrowing at 1 April	2,397	2,397	2,397
New Borrowing for the Capital Programme – GF	124	87	92
New Borrowing for the Capital Programme – HRA	26	25	15
Debt redemption costs charged to Revenue (Incl HRA)	(64)	(63)	(63)
Reduced/(Increased) level of Revenue Balances	65	65	53
Net Borrowing at 31 March	2,548	2,511	2,494
Capital Financing Requirement*			2,843
Other long term liabilities capital financing requirement			485
Net Borrowing 31st March comprised as follows			
Long term Fixed	2,214	2,262	2,368
Variable (less than 1 Year)	15	15	0
New Borrowing	139	114	97
Short term Borrowing	220	160	74
Total External Borrowing	2,588	2,551	2,539
Less Investments	40	40	45
Net External Borrowing	2,548	2,511	2,494
% borrowing funded by short term and variable rate loans	14%	11%	7%
Limit for variable rate Borrowing	40%	40%	40%

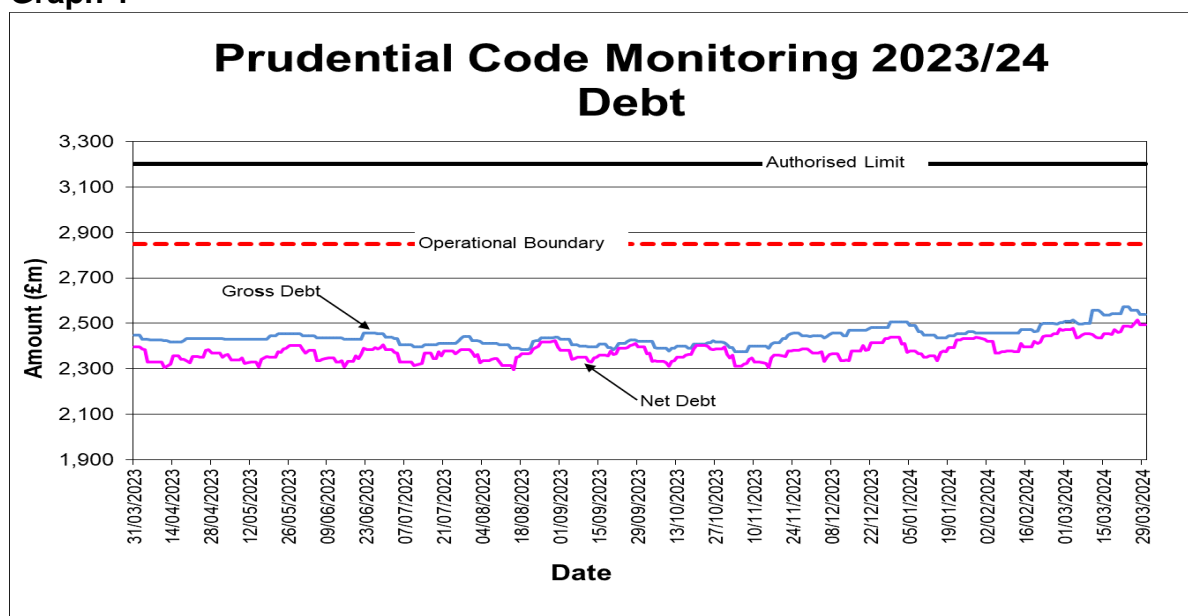
* The Capital Financing Requirement (CFR) is the maximum level of debt (i.e. borrowing and finance leasing) that the Council can hold for its current year capital purposes. The Council is also allowed to borrow in advance for up to two future years capital programmes.

- 8.4 The level of debt and liabilities should be viewed in the context of the Council's assets

which were valued at approximately £6.680bn as at 31st March 2023 excluding of PFI and leased assets. The equivalent total asset value at 31st March 2024 is not yet available, as the Council's 2023/24 draft accounts are not yet completed. The Capital programme outturn position is reported in the June Financial Performance - Outturn Report to Executive Board elsewhere on the agenda.

- 8.5 In 2023/24 the level of debt remained within Authorised limits during the year, and this is shown in Graph 1. The Authorised Limit is the maximum permitted amount of borrowing the Council can have outstanding at any given time and has not been breached during 2023/24. The Operational Boundary is a key management tool and can be breached temporarily depending on cash flow. This limit acts as a warning mechanism to prevent the Authorised Limit from being breached. Treasury Management activity has resulted in no breach of its prudential indicators, which are detailed in Appendix A. All other prudential indicators are within the normal tolerance levels of treasury management.

Graph 1



- 8.6 The 2023/24 borrowing strategy was initially to fund the capital programme borrowing requirement with short-term borrowing pending looking into long term funding arrangements when these are favorable. Whilst this approach continues to deliver lower costs of financing, the level of borrowing funded by short term loans has increased marginally to £173m at 31/03/2024. During 2023/24 both actual short- and long-term rates have continued to increase however the Council's advisors are forecasting that rates will fall back from their current levels, which are at the highest levels seen over the last decade. During the period from November 2023 to March 2024 a period of increasing market turbulence in the inter local authority market became apparent. During this period liquidity in the market tightened appreciably and rates increased significantly above normal interbank market rates. As a result, the strategy was updated and £90m of one-year PWLB borrowing for the HRA was taken to provide liquidity cover during this unprecedented period. Taking funding for the HRA on this basis reduced the Council and the HRA's cost of funding in the short term whilst still allowing the Council and HRA to take advantage of anticipated lower rates during the 2nd half of 2024/25. His Majesty's Treasury (HMT) have announced during the year that the 40bp reduction to PWLB certainty rates in relation to HRA borrowing has been extended to June 2025. The Council's HRA as at 31/03/2024 had capacity to borrow £25m at these reduced rates however this will increase as the above funding matures, other longer-term maturities occur, and new borrowing from the HRA capital programme is incurred.

- 8.7 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.

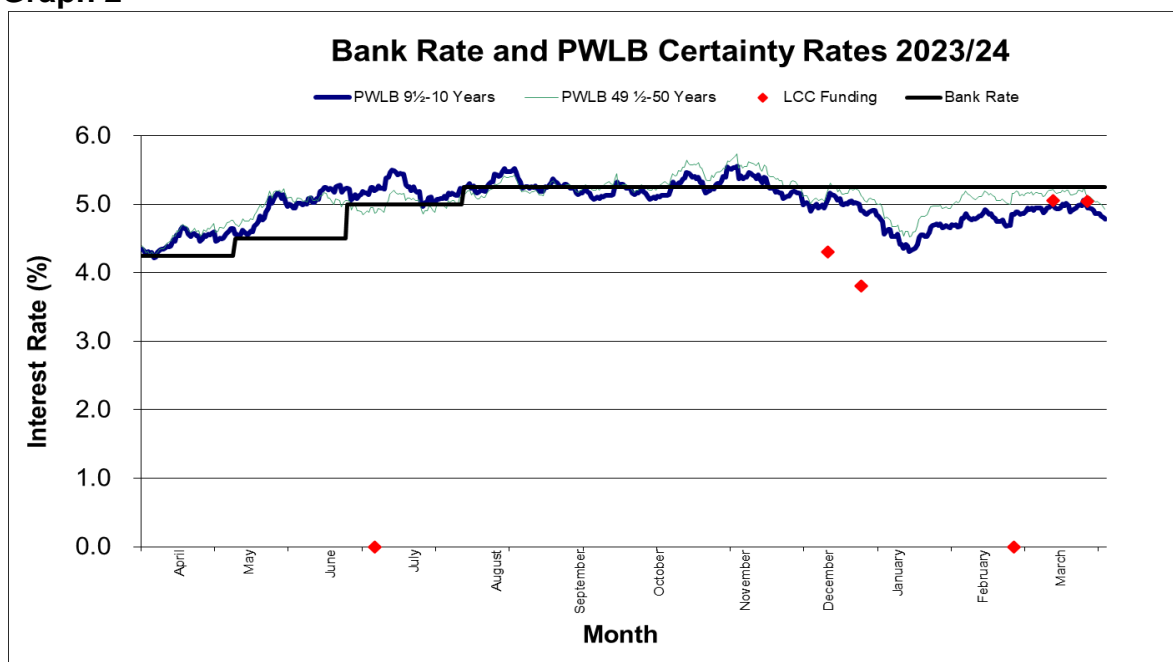
- The Monetary Policy Committee (MPC) have steadily raised rates to a peak of 5.25% on 3rd August 2023 and whilst the next move is expected to be down the timing of this is uncertain, especially whilst unemployment remains tight. At its last meeting on 9th May 2024, the MPC voted 7-2 for no change with the 2 dissenters voting for a ¼% rate cut. In addition, the MPC had previously issued total Quantitative Easing (QE) of £895bn, and from November 2022 it has been slowly unwinding this in a process called Quantitative Tightening (QT) by selling some holdings into the market and allowing others to naturally mature. The full impact of this on Gilt yields is still therefore an open question given the expected level of new issuance of gilts advised by HMT.
- Inflation pressures during 2023/24 have continued to abate from a peak of 11.1% in October 2022 to 3.2% in March 2024. Inflation is expected to fall further with some commentators suggestion at 2% which means that the MPC target may well be within sight as energy and food shocks begin to fall out of the calculation. Capital Economics are expecting CPI to fall below 2% and to remain there throughout the next couple of years.
- GDP has been very sluggish through the 2nd half of 2023 posting a shallow recession; however, it is now forecast to have recovered in the 1st Quarter of 2024 and indeed the last month on month figure for GDP growth was 0.4% for March which was above the 0.1% consensus.
- The unemployment rate in the UK has increased from a low of 3.80% in December 2023 to 4.20% in February 2024 however this is still considered to indicate a tight labour market. Job vacancies reported In February stood at 916K which is close to the low point for 2023/24 and when unemployment is taken with average earnings which continue to run above 5% (5.60% 3 month to February 2024) it is therefore indicative of rising real household incomes
- These factors make it a difficult judgement call as to when to begin reducing base rates and by how much across many developed economies with all central banks echoing the mantra that central bank rates policy will “remain restrictive for an extended period.”
- In the United States the Federal Open Markets Committee (FOMC) members are resisting calls for interest rate cuts. Driving this position is the FEDS swollen balance sheet of \$16 trillion together with lower but stubborn inflation which remains above 3%. This is leading to the benchmark 10-year treasury issue to remain high at approximately 4.50%.
- US unemployment currently stands at 3.9% posted in April 2024 and although this represents a high point for the year it again indicates a relatively tight labour market.
- In Europe, the inflation rate has fallen to 2.40% and with interest rates at 4.5% cuts to policy rates may be on the horizon. However, given that growth remains as elusive for the EU as it is for the UK this may prompt the European Central Bank to take early action.

8.8 Graph 2 shows the movement in PWLB interest rates over the year. Underlying Gilt yields have risen during 2023/24 by around 1.5% to 2.0% over the year in longer dated periods. Longer term PWLB rates (49½-50 year) have varied during the year and ended the year at 4.93% but reached a high of 5.74% in early November and achieved a low point of 4.27% in April 2023. Shorter term rates (9½-10 year) have also risen from the start of the year and again hit a low point in early April. PWLB rates can now be summarised as follows:

- **PWLB Standard Rate** is gilt plus 100 basis points (G+100bps)
- **PWLB Certainty Rate** is gilt plus 80 basis points (G+80bps)
- **PWLB HRA Certainty rate** is gilt plus 40 basis points (G+40bps)
- **Local Infrastructure Rate** is gilt plus 60bps (G+60bps)

Graph 2 also shows the long-term funding activity undertaken as detailed in Table 2.

Graph 2



8.9 The strategy for 2023/24 has resulted in a surplus of £4.2m in relation to net external borrowing costs, primarily due to funding at lower rates than anticipated and by lower borrowing activity due to higher than anticipated revenue balances.

8.10 Table 2 shows £140.752m of borrowing of 1 year or greater was secured during the year with £138m of this being from the PWLB together with £2.75m of SALIX funding. The table also shows that one market LOBO loan was repaid after a lender option was exercised during the year on a £10m Commerzbank loan, £2.2m of normal EIP (Equal Instalment of Principal) repayments were made on SALIX loans, whilst £41.4m of PWLB loans reached maturity during the period. Approximately half of the market loans outstanding are termed Lenders Option Borrowers Option (LOBO) loans and contain clauses which allows the lender, at pre-determined dates, to vary the interest rate on the loan. If one of these options is exercised and the new rate is not accepted, the borrower then has the option to repay the loan without penalty. Only one option was exercised during the year and repayment of the loan without penalty was subsequently made on 17th October.

Table 2

Loan repayments and borrowing 2023/24								
Loan Repayments					New Borrowing			
Date	Lender	Amount (£m)	Original Rate (%)	Discount Rate	Date	Amount (£m)	Term (Years)	Interest Rate (%)
PWLB Loans					PWLB			
03/04/2023	PWLB	15.000	3.38%	n/a	14/12/2023 *	24.000	12 (EIP)	4.31
31/07/2023	PWLB	26.436	4.19%	n/a	29/12/2023 *	24.000	12 (EIP)	3.81
					11/03/2024 *	30.000	1 year	5.05
					11/03/2024 *	30.000	13 months	5.05
					22/03/2024 *	30.000	14 months	5.04
Sub Total		41.436			138.000			
Non PWLB Loans					Non PWLB Loans			
03/04/2023	SALIX PH1	0.315	0.00	n/a	SALIX PH4	1.376	8 (EIP)	0.00
03/04/2023	SALIX PH2	0.618	0.00	n/a	SALIX PH4	1.376	8 (EIP)	0.00
01/09/2022	SALIX WLL	0.023	0.00	n/a				0.00
02/10/2023	SALIX PH1	0.315	0.00	n/a				
02/10/2023	SALIX PH2	0.618	0.00	n/a				
02/10/2023	SALIX PH3	0.321	0.00	n/a				
17/10/2023	Commerzbank	10.000	4.50	n/a				
01/03/2024	SALIX WLL	0.024	0.00	n/a				
Sub Total		12.234			2.752			
Total		53.670			140.752			

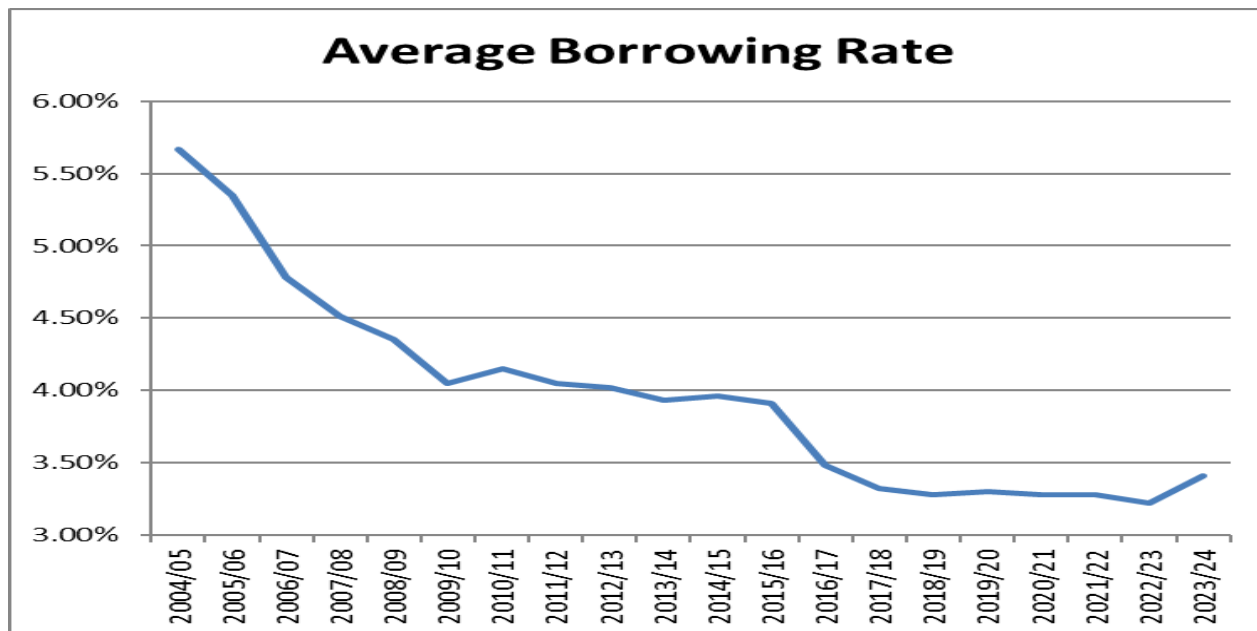
* Taken for the HRA account

Salix repayments are EIP Instalments

Interest Rate Performance and Average Maturity Profile

- 8.11 The average rate of interest paid on the Council's external debt was 3.41% (a small increase from 3.22% in 2022/23) as shown in Graph 3. This stability in the average rate is due to the relatively low level of volatility in the external debt position and the impact of the timing of borrowing as well as the level of revenue balances used internally.

Graph 3



- 8.12 Whilst the average borrowing rate remains relatively low it is important to note the average maturity profile of the Council's debt. The average length of all loans to final maturity including temporary loans is 30.5 years. The average length of all loans to the next option date including temporary loans is 26.9 years. This provides a large degree of funding certainty within the overall debt portfolio.

What are the legal implications?

- 9.1 The operation of the Treasury Management function is governed by provisions set out under part 1 of the Local Government Act 2003 whereby the Council is required to have regard to the Chartered Institute of Public Finance and Accountancy (CIPFA) Prudential Code for Capital Finance in Local Authorities. In particular:
- The Prudential Code requires that full Council set certain limits on the level and type of borrowing before the start of the financial year together with several Prudential Indicators.
 - Any in year revision of these limits must be approved by Council.
 - Policy statements are prepared for approval by the Council at least twice a year.
- 9.2 Updated versions of both the Prudential Code for Capital Finance in Local Authorities and the Treasury Management in the Public Services Code of Practice were published in December 2021, with the accompanying guidance notes for practitioners being published in late January 2022. Although the new Codes applied immediately, the Prudential Code stated that the changes to reporting requirements that they introduce could be deferred until the 2023/24 financial year. The Council's Treasury strategy and update reports have been in line with the new requirements since the 2023/24 strategy report, which was presented to full Council in February 2023.

9.3 The borrowing to deliver the Capital Programme is executed through the Treasury Strategy. Equality, diversity, cohesion, and integration requirements are addressed as part of individual capital scheme and programme approvals through the Capital Programme processes.

Options, timescales and measuring success

a) What other options were considered?

This report provides the outturn position for the 2023/24 Treasury Management strategy. This update is provided to Executive Board regarding Treasury Management operation and activity. As such other options are not considered in this report.

b) How will success be measured?

Treasury Management continues to adhere to its governance framework including the CIPFA Code of Practice, the Prudential Codes 2021 and revised CIPFA guidance notes issued in 2022. All borrowing and investments undertaken have been compliant with the governance framework. The updated CIPFA Codes were reviewed to identify any changes which were necessary for the Council to continue to comply with them, and these changes were introduced in line with the required timescales. For the 2023/24 financial year success will therefore be the continued optimal performance of the Treasury Management function within this framework.

Benchmarking of Treasury Management activity is only undertaken on an ad-hoc basis as the structure of debt portfolios and balance sheets of similar authorities often reflect the timing of past spending and financing decisions and therefore can lead to anomalies. The CIPFA Prudential Code makes it clear that prudential indicators should not be used for benchmarking purposes for this reason. The latest benchmarking exercise was undertaken in January 2021 as at the balance sheet date of 31/03/2020 for a comparison of external debt in relation to fixed assets for the core cities and significant variations in the resultant metrics were noted. Comparative information on core cities balance sheets has been provided by the Council's Treasury advisers during the year.

c) What is the timetable for implementation?

This report is to confirm the successful operation of the Treasury Management strategy within the established legal and operational framework and is a continuous and on-going process.

Appendices

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|----|------------|---|
| 1. | Appendix A | Prudential indicators 2023/24 to 2025/26 |
| 2. | Appendix B | Liability benchmark 2023/24 |
| 3. | Appendix C | Prudential Code Monitoring – Debt 2023/24 |

Background Papers

None

Appendix A - TMSS PI's

Notes

Current

Year+1

Year+2

DM13e outturn

2023.24

2024.25

2025.26

PRUDENTIAL CODE INDICATORS

CAPITAL EXPENDITURE

Estimate of Capital Expenditure

a

General Fund	£k	268,287	368,880	348,699
Housing Revenue Account	£k	122,937	149,783	153,713
Total	£k	391,224	518,663	502,412

Capital Financing Requirement

b

Borrowing - General Fund	£k	2,069,533	2,180,461	2,284,494
Borrowing - Housing Revenue Account	£k	773,054	811,953	853,768
Sub Total Borrowing	£k	2,842,587	2,992,414	3,138,262

Other Long Term Liabilities - GF	£k	386,110	359,397	330,375
Other Long Term Liabilities - HRA	£k	99,376	90,579	82,336
Sub Total Other Long Term Liabilities	£k	485,486	449,976	412,711

Total Capital Financing Requirement	£k	3,328,073	3,442,390	3,550,973
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EXTERNAL DEBT

Operational Boundary

c

External Borrowing	£k	2,850,000	2,900,000	2,950,000
Other Long Term Liabilities	£k	580,000	550,000	510,000
Total		3,430,000	3,450,000	3,460,000

Authorised Limit

c

External Borrowing	£k	3,200,000	3,200,000	3,200,000
Other Long Term Liabilities	£k	600,000	570,000	530,000
Total	£k	3,800,000	3,770,000	3,730,000

Actual External Debt (year end Forecast)

d

PWLB	£k	1,901,737	1,842,737	1,778,737
Market (Inc LOBO)	£k	464,836	461,936	459,037
Short term (Actual)	£k	173,000	0	0
Short term (Forecast)	£k	0	429,899	637,798
Total Gross External Debt	£k	2,539,573	2,734,572	2,875,572
Other Long Term Liabilities	£k	485,486	449,976	412,711
Total Including OLTL	£k	3,025,059	3,184,548	3,288,283

Gross Debt and the CFR

e

External Borrowing		ok	ok	ok
Other Long term Liabilities		ok	ok	ok
Total Gross Debt and the CFR		ok	ok	ok

AFFORDABILITY

Estimate of Financing Cost to Net revenue Stream

f

External Borrowing Only - General Fund

Financing Cost	£k	107,816	128,626	139,646
Net Revenue Stream	£k	573,360	621,960	641,380
Ratio	%	18.80%	20.68%	21.77%

Including Other Long Term Liabilities - GF

f

Financing Cost	£k	156,048	176,581	188,049
Net Revenue Stream	£k	573,360	621,960	641,380
Ratio	%	27.22%	28.39%	29.32%

External Borrowing Only - Housing Revenue Account

f

Financing Cost	£k	29,666	31,109	31,870
Net Revenue Stream	£k	16,390	16,221	14,992
Ratio	%	11.16%	11.04%	11.17%

Including Other Long Term Liabilities - HRA

f

Financing Cost	£k	46,056	47,330	46,862
Net Revenue Stream	£k	16,527	16,527	16,527
Ratio	%	17.32%	16.80%	16.42%

INVESTMENTS

Non Treasury Loans		80,000	80,000	80,000
Non Treasury Investments		200,000	200,000	200,000
<u>Limit on non-Treasury Investments and loans</u>	g	280,000	280,000	280,000
Estimate of Net Income from Investments for Commercial and Service Purposes	g			
Income	£k	6,710	7,030	6,992
Ratio of Income from Commercial and Service Purposes to Net revenue Stream	%	1.17%	1.13%	1.09%

TREASURY MANAGEMENT CODE INDICATORS

Liability Benchmark for Borrowing

Liability Benchmark for Investments

Maturity Structure of Borrowing 2023/24	h	Lower	Upper	Actual 31/03/24 %
under 12 mths		0%	25%	10%
12 mths and within 24 mths		0%	20%	5%
24 mths and within 5 years		0%	35%	9%
5 years and within 10 years		0%	40%	5%
10 years and within 20 years				
20 years and within 30 years				
30 years and within 40 years		25%	90%	70%
40 years and within 50 years				
<u>50 years and above</u>				<u>100%</u>

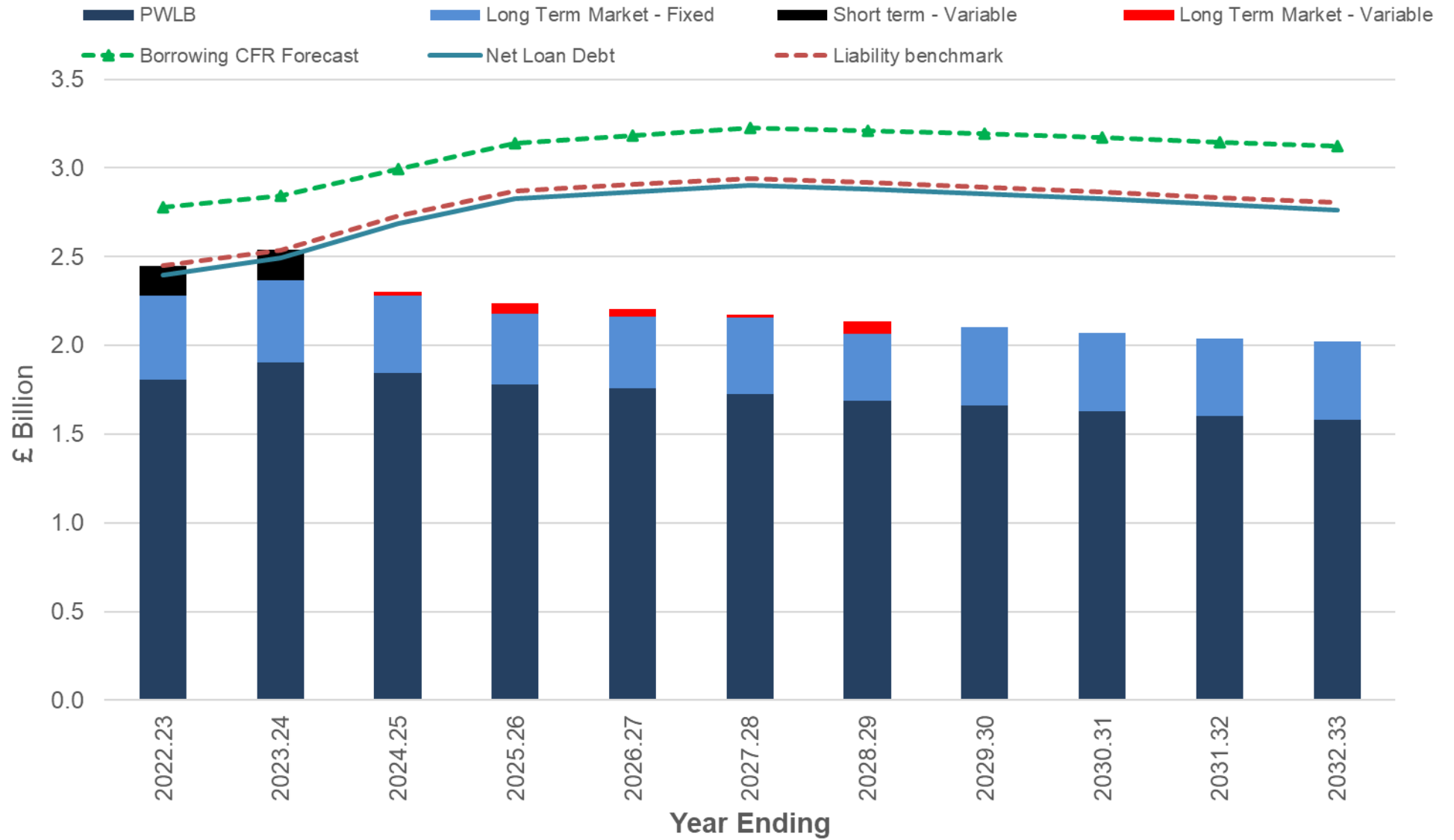
Upper limit for long term Treasury Investments to mature in following years

- i
- Year +1
 - Year +2
 - Year +3

Notes

- a Forecast of capital expenditure for year at period end, actual at year end outturn
- b Forecast of CFR for year end at period end, actual at year end outturn
- c Authorised limit and Operational Boundary as set at the Current setting time should only change in exceptional circumstances
- d This is the year end forecast for DEBT and OLTL with Short term being the balancing figure
- e In order to ensure that over the medium term debt will only be for a capital purpose, the local authority should ensure that total gross debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. If in any of these years there is a reduction in the capital financing requirement, this reduction is ignored in estimating the cumulative increase in the capital financing requirement, which is used for comparison with gross external debt. This is a key indicator of prudence. (This
- f Code only requires full comparison of debt costs including OLTL to Net revenue Streams however the Council have always reported the external borrowing metrics which are more informative.
- This is all investments under the code for Service or Commercial purposes and excludes Investments for Treasury Management purposes
- g
- h This now includes all external debt including variable and short term external debt
- i This is non specified Treasury Management investments typically with a duration of greater than 364 days

Appendix B - Liability Benchmark Borrowing 10 years from 2022/23 to 2032/33



Prudential Code Monitoring 2023/24 Debt

