

**Title of Report:** Treasury Annual Report 2023/24

**Report of:** Darren Collins – Strategic Director, Resources & Digital

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### **Purpose of the Report**

1. Cabinet is asked to recommend to Council the attached Treasury Annual Report for 2023/24.

### **Background**

2. In line with what the Government defines as best practice and the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management, the Council must consider a Treasury Annual Report each year.
3. The attached Treasury Annual Report has been prepared taking into account the Local Government Act 2003, Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Local Government Investments, CIPFA's Prudential Code for Capital and CIPFA's Code of Practice on Treasury Management (2021). The document is also consistent with the Council's approved Treasury Management Policy and Strategy, which require an annual report to be presented to Council prior to the end of September each year.
4. The Audit and Standards Committee meeting of 18 June 2024 will receive a copy of this report.

### **Proposals**

5. Cabinet is asked to review the Treasury Annual Report attached at Appendices 2, 3 and 4 to ensure that the Council fully complies with the requirements of good financial practice in Treasury Management.

### **Recommendation**

6. It is recommended that
  - (i) Cabinet recommend the Treasury Annual Report 2023/24 to Council.

For the following reason(s)

- (i) To ensure that the Council fully complies with the requirements of Financial Regulations and good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management.
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## Policy Context

1. The proposals in this report are consistent with Council priorities and in particular the priority of ensuring a sustainable Gateshead through ensuring the best use of its resources. The proposals are consistent with the framework for achieving the Council's new strategic approach "Making Gateshead a Place Where Everyone Thrives". The Council recognises there are huge financial pressures on not just Council resources but those of partners, local businesses and residents.

## Background

2. The Council fully complies with the requirements of good practice as recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its Code of Practice on Treasury Management and its Prudential Code for Capital Finance and the Ministry of Housing, Communities and Local Government (MHCLG) Guidance on Local Authority Investments, which include the:
  - Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities;
  - Creation and maintenance of Treasury Management Practice Statements which set out the manner in which the Council will seek to achieve those policies and objectives;
  - Receipt by the Council of an annual strategy report for the year ahead and an annual review report of the previous year;
  - Delegation by the Council of responsibilities for implementing and monitoring treasury management policies and practices and for the execution and administration of treasury management decisions; and
  - Delegation by the Council of the role of scrutiny of treasury management strategy and policies to Audit and Standards Committee and receipt of a mid-year review report to Council.
3. Comprehensive details of procedures in place to ensure compliance with the Code are included within the Council's Treasury Management Practices and these procedures are followed without exception.
4. Treasury Management in this context is defined as:
 

"The management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks."
5. Taking into account the annual reporting requirements stipulated in the Code of Practice, this Annual Treasury Report covers:
  - The strategy for 2023/24 (including investment and borrowing strategies);
  - Treasury Management approach to risk;
  - Outturn 2023/24 performance measurement (including market interest rates, investment and borrowing performance and compliance with treasury limits set prior to the start of the financial year as Prudential Indicators);
  - Any restructuring and repayment; and
  - Summary of Treasury Management performance for the year 2023/24.

## **Consultation**

6. Consultation on the production of the Treasury Annual Report has taken place with the Council's treasury advisors Link Treasury Services. The outcome of the consultation process, along with guidance issued by CIPFA, has informed the format and content of the annual report.

## **Alternative Options**

7. There are no alternative options, as the Treasury Annual Report is required in order to comply with CIPFA's Code of Practice on Treasury Management.

## **Implications of Recommended Option**

### **8. Resources:**

- a) **Financial Implications** - The Strategic Director, Resources & Digital confirms that there are no direct financial implications associated with this report. The Annual Report sets out a financial summary of Treasury Management activity for the 2023/24 financial year end and compares this to budget.
- b) **Human Resources Implications** - There are no human resources implications arising from this report.
- c) **Property Implications** - There are no property implications arising from this report.

### **9. Risk Management Implications**

The Treasury Annual Report has been prepared to report on performance against the annual Treasury Policy and Strategy. These are prepared with the primary objective of safeguarding the Council's assets and a secondary objective of maximising returns on investments and minimising the costs of borrowing.

### **10. Equality and Diversity Implications**

There are no equality and diversity implications arising from this report.

### **11. Crime and Disorder Implications**

There are no crime and disorder implications arising from this report.

### **12. Health Implications**

There are no health implications arising from this report.

### **13. Climate Emergency and Sustainability Implications**

There are no climate emergency and sustainability implications arising from this report.

### **14. Human Rights Implications**

There are no human rights implications arising from this report.

### **15. Ward Implications**

There are no ward implications arising from this report.

## 15. **Background Information:**

The following documents have been relied on in the preparation of the report:

- Local Government Act 2003
- MHCLG Guidance on Local Government Investments (2018)
- CIPFA's Prudential Code for Capital (2021)
- CIPFA's Code of Practice on Treasury Management (2021)
- Council's approved Treasury Policy & Strategy Statements 2023/24 to 2027/28
- Council's approved Treasury Management Practice Statements

## Treasury Management Annual Report 2023/24

### The Strategy for 2023/24

1. The 2023/24 to 2027/28 Treasury Management Strategy was approved by Council on 21 March 2023.
2. The formulation of the 2023/24 to 2027/28 Treasury Management Strategy involved determining the appropriate borrowing and investment decisions with the primary objective of safeguarding the Council's assets and a secondary objective of maximising returns on investments and minimising the costs of borrowing.
3. The Treasury Management Strategy fully complies with the requirements of CIPFA's Treasury Management Code of Practice and covered the following:
  - prospects for interest rates;
  - treasury limits in force including prudential indicators;
  - the borrowing strategy;
  - the extent of debt rescheduling opportunities; and
  - the investment strategy.

### Investment Strategy

4. Part 1 of the Local Government Act 2003 relaxed the constraints under which local authorities can invest. These investment regulations came into force on 1 April 2004 and in conjunction with supplementary guidance are considered best practice.
5. Investments are managed in-house using counterparties listed in an approved lending list. Investments are placed over a range of periods and are dependent on the assessed security of the counterparty, the liquidity requirements of the cash flow, interest rate expectations and the interest rates available.
6. The expectation for interest rates within the Treasury Management Strategy for 2023/24 to 2027/28 anticipated interest rates to decrease from 4.30% to 3.90% by March 2024 as part of a prolonged economic recovery. During the 2023/24 financial year the Bank of England Monetary Policy Committee (MPC) increased the base rate as follows:

Date	Bank Base Rate
1 April 2023 opening rate	4.25%
11 May 2023	4.50%
22 June 2023	5.00%
3 August 2023	5.25%

## **Borrowing Strategy**

7. The borrowing strategy for 2023/24 was as follows:

- Current (February 2023) long term PWLB rates (50 years) are around 4.45%. It is forecast that there will be little downward movement in PWLB rates over the next two financial years, being 4.30% Q1, 4.20% Q2, 4.10% Q3 and 3.90% Q4. Should interest rates fall below these targets borrowing should be considered, with preference given to terms which ensure a balanced profile of debt maturity, this may include Local Infrastructure Rate borrowing. The average interest rates forecast across this financial year for various borrowing periods are as follows: -
  - 10 years – 4.05%
  - 25 years – 4.38%
  - 50 years – 4.13%
- The use of short-term borrowing (6 months to 18 months) will also be considered with the aim of minimising borrowing costs. This short-term borrowing will be replaced with longer term loans when rates are preferable.
- External borrowing rates currently far exceed the return that is available for investments, meaning savings can be achieved by borrowing internally from reserves in the short term. The current policy of internal borrowing will continue to be followed as a short-term funding option serving to minimise overall cost.
- Consideration will be given to borrowing market loans which are at least 20 basis points below the PWLB target rate.

8. Any potential opportunities for repaying debt before the maturity date to reduce borrowing costs was monitored and assessed throughout the year. However, the cost of premiums on any early repayment of debt was considered prohibitive for any debt restructuring.

## **Treasury Management Approach to Risk**

9. The primary objective is to safeguard the Council's assets. Procedures have been put in place to ensure this takes place and these are fully documented in the Council's Treasury Management Practice Statements (TMPS), which are constantly kept under review. These procedures are followed without exception. The Internal Audit report of 1 May 2024 concluded that Treasury Management control systems and procedures are working satisfactorily. All funds were safeguarded in 2023/24.

## **Outturn 2023/24 – Performance Measurement**

10. It should be noted that procedures in relation to the Prudential Code were effective from 1 April 2004 and continue to apply to this report on 2023/24 performance. The performance, against limits in respect of borrowing set prior to the start of the financial year as Prudential Indicators, will be reported to Cabinet on 20 July 2024 as part of the Capital Monitoring process. None of the approved Prudential Indicators set for 2023/24 were breached in the year. For completeness the Prudential Indicators are shown at Appendix 4.

## Market Interest Rates

11. Performance must be considered in conjunction with actual rate movements over the financial year which were as follows:
  - **Shorter-term interest rates** – The expectation for interest rates within the 2023/24 Treasury Management Strategy was that Bank Rate would gradually decrease during the financial year to 3.90% in March 2023. During the financial year the MPC increased the base rate, with three rate increases leaving the bank base rate at 5.25% at year-end 31 March 2024. The increases were made as a direct response to significant changes in the global economic environment, the conflict in Ukraine and the recent period of high inflation in the UK.
  - **Longer-term interest rates** – Investment returns remained high during 2023/24 as a direct result of the of economic factors mentioned above and the increases in bank base rates. Due to easing inflationary pressures and more stable global energy markets it is anticipated decreases in the base rate may follow throughout the current financial year before starting to reduce.

## Investment Performance

12. There has been a continued use of a range of investment instruments in order to ensure flexibility, spread risk, maximise liquidity and obtain attractive rates. There has been an increased use of overnight deposits and money market funds with high rated banks to maintain the security of the funds and enhance the rate of return on investments.
13. The most significant challenge for treasury management in 2023/24 has been to consider the spread of and return on investments in an environment where regular increases in bank rates have generated additional returns, whilst ensuring the security of investments. Due to the difference between the cost of borrowing and potential to generate investment interest the Council has continued to use investment balances to temporarily fund the capital programme. This has delivered a saving on borrowing costs and increased interest received on investments.
14. The Council's investment policy is governed by MHCLG guidance, which has been implemented in the annual investment strategy approved by the Council on 21 March 2023. 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.) The investment activity during the year conformed to the approved strategy and the Council had no liquidity difficulties.
15. A summary of the year's activity is shown at Appendix 3. The investment interest earned in the year was £5.496m (2022/23 £2.899m) with an average interest rate of 5.24% (2022/23 2.25%). Interest earned on loans to third parties, agreed as part of the capital programme, and interest on loan notes in respect of Newcastle International Airport increased total interest to £6.810m, £1.730m more than the original General Fund budget of £5.080m.
16. The overall return for the year of 5.24% exceeds the accepted benchmark for 2023/24, which was the SONIA (Sterling Overnight Index Average) of 4.96%. The average rate of return for new investments made in 2023/24 was 4.50%.

17. Furthermore, the Council is a member of Link Treasury Services Investment Benchmarking Group which assesses both the rate of return and the risk of the counterparty to calculate a weighted average rate of return. This is used for comparison across other regional local authorities who also subscribe to this service. The Council average return of 5.24% on its investments for 2023/24 is slightly above the risk adjusted expectations defined in the latest LINK Benchmarking Report for our group.

### Borrowing Performance

18. The total external borrowing at 31 March 2024 was £670.667m, which was within the operational borrowing limit of £850.000m. This is a net decrease of £14.299m from the opening figure of £684.966m.

<b>External Borrowing at 31 March 2023</b>	<b>£684.966m</b>
Add New Borrowing	£0.0000m
Less Maturity of existing borrowing	(£14.299m)
<b>External Borrowing at 31 March 2024</b>	<b>£670.667m</b>

19. Investment returns/interest rates increased significantly during 2023/24 and rose to levels closer to long term borrowing rates. Therefore, value for money considerations indicated that best value could be obtained by delaying new external borrowing by using internal cash balances to finance new capital expenditure in the short term (this is referred to as internal borrowing).
20. At the end of the financial year 2023/24 the Council had internal borrowing of £86.797m, this comprised of £48.465m General Fund under borrowing and £38.332m HRA under borrowing. Any short-term savings gained from adopting this approach was weighed against the potential for incurring additional long-term costs by delaying new external borrowing until later years when PWLB long term rates are forecast to be lower.
21. The Council's underlying need to borrow for capital expenditure and long-term liabilities is termed the Capital Financing Requirement (CFR). The CFR arises directly from the capital activity of the Council and the resources applied to fund the capital spend, as follows:

<b>Capital Financing Requirement (excluding PFI)</b>	<b>31 March 2022 Actual £m</b>	<b>31 March 2023 Actual £m</b>
General Fund	415.141	412.139
HRA	345.505	345.505
<b>Total Capital Financing Requirement excluding PFI</b>	<b>760.646</b>	<b>757.644</b>

22. At 31 March 2024 £622.667m of the total borrowing was from the PWLB and £48.000m was in the form of market loans. The average interest rate on current borrowing has increased from 3.523% in 2022/23 to 3.540% during 2023/24 due to the maturing of lower rate borrowing.
23. No short-term or long-term borrowing was taken during 2023/24.
24. The overall revenue cost of borrowing in 2023/24 was £24.181m, as a result of the application of the Treasury Management Strategy this was £1.638m less than the budget.



## Debt Restructuring & Repayment

25. Due to the reintroduction of redemption rates on the early repayment of PWLB debt it was anticipated that there would be little scope to restructure PWLB debt.
26. The rates payable on the early redemption of debt was monitored throughout the year. The cost of early repayment of PWLB loans outweighed any savings and therefore there was no early redemption of PWLB debt.
27. The council has some borrowing through LOBO and market loans. No calls have been made on the LOBO borrowing.

## Summary of Treasury Management Performance for the Year 2023/24

28. Total interest income was £1.184m above budget, the main variances from budget was due to the significant increases in bank base rates during the financial year and the receipt of interest from Newcastle Airport.
29. Overall Treasury Management performance against budget for 2023/24 generated net savings of £2.822m, this is summarised in the following table:

		2023/24		
		Budget	Actual	Saving
		£m	£m	£m
<b>General Fund</b>	Cost of Borrowing	14.054	12.675	-1.379
	Interest Income	-5.080	-6.810	-1.730
	<b>Net Position</b>	8.974	5.865	-3.109
<b>HRA</b>	Cost of Borrowing	12.228	11.969	-0.259
	Interest Income	-0.555	-0.009	0.546
	<b>Net Position</b>	11.673	11.960	0.287
<b>Combined</b>	Cost of Borrowing	26.282	24.644	-1.638
	Interest Income	-5.635	-6.819	-1.184
	<b>Net Position</b>	20.647	17.825	-2.822

Treasury Management used a flexi response to the frequent changes in the economic conditions during the 2023/24 financial year. The bank base rate increases meant the Council was faced with the challenge of being pro-active in the investment of surplus cash. The Council's cashflow projections were monitored to allow the appropriate balance between maintaining cash for liquidity purposes and "laddering" deposits on a rolling basis to lock in rate increases in the first half of the year before using longer deposit periods to maximise rates.

The report highlights the way in which the Council successfully managed these challenges with its day-to-day treasury management strategy and thus delivered the savings highlighted in the table whilst keeping treasury risks to a minimum throughout.

## Investment Activity

	<b>2023/24</b>	<b>2022/23</b>
Number of investments made in 2021/22 maturing in 2022/23	n/a	28
Number of investments made in 2022/23 maturing in 2022/23	n/a	54
Number of investments made in 2022/23 maturing in 2023/24	19	n/a
Number of investments made in 2023/24 maturing in 2023/24	40	n/a
Total number of investments maturing in year	59	82
Number of investments made in 2023/24 maturing in 2024/25	18	n/a
Average duration of investments (including overnight)	9 days	10 days
Average duration of investments (excluding overnight)	160 days	137 days
Non-specified investments:		
Rated non-high		
Approved limit	25%	25%
Maximum level invested	5.82%	19.57%
Not Rated		
Approved limit	0%	0%
Maximum level invested	0.00%	0.00%
Investments greater than 364 days		
Approved limit	£15m	£15m
Maximum level Invested	£0m	£0m
Treasury Investments held at 31 <sup>st</sup> March	£73.696m	£71.904m

**PRUDENTIAL INDICATORS 2023/24**

The 2023/24 Prudential Indicators were agreed by Council on 22 February 2023 (column 1). This is now compared with the 2023/24 actual outturn position as at the 31 March 2024 (column 2).

Certain Treasury Management indicators must be monitored throughout the year on a regular basis in order to avoid breaching agreed limits. The capital expenditure and capital financing requirement indicators have been revised in line with the revised budget and none of the other approved Prudential Indicators set for 2023/24 have been breached.

<b>Capital Expenditure</b>		
	2023/24 £000 Reported Indicator	2023/24 £000 Actual
Non-HRA	89,526	44,595
HRA	22,549	24,291
<b>Total</b>	<b>112,075</b>	<b>68,886</b>
To reflect the reported capital monitoring agreed by Council during the year		

<b>Ratio of Financing Costs to Net Revenue Stream</b>		
	2023/24 Reported Indicator	2023/24 Actual
Non-HRA	13.63%	10.93%
HRA	32.39%	36.28%

<b>Capital Financing Requirement</b>		
	2023/24 £000 Reported Indicator	2023/24 £000 Actual
Non-HRA	465.359	412.139
HRA	345.505	345,505

There were no breaches to the Prudential Indicators set for 2023/24.

<b>Authorised Limit for External Debt</b>	
	2023/24 £000 Reported Indicator
Borrowing	865,000
Other Long Term Liabilities	0
<b>Total</b>	<b>865,000</b>
Maximum YTD 31/03/24 £684.966m	

<b>Operational Boundary for External Debt</b>	
	2023/24 £000 Reported Indicator
Borrowing	850,000
Other Long Term Liabilities	0
<b>Total</b>	<b>850,000</b>
Maximum YTD 31/03/24 £684.966m	

The Council's actual external debt at 31 March 2024 was £670.667m. It should be noted that actual external debt is not directly comparable to the Authorised Limit and Operational Boundary since the actual external debt reflects the position at one point in time.

### ***Estimated Incremental Impact on Council Tax and Housing Rents***

This indicator is set at the time the Council's budget is set. Therefore, there is no requirement for this Indicator to be monitored on a quarterly or annual basis.

### ***Adherence to CIPFA code on Treasury Management***

The Council has adopted the CIPFA Code of Practice for Treasury Management in the Public Services.

**Upper / Lower Limits for Maturity Structure of Fixed Rate Borrowing**

	2023/24 £000 Reported Indicator		2023/24 £000 Actual Position	
	Upper Limit	Lower Limit	Actual Percentage	Maximum YTD
Under 12 months	15%	0%	0.71%	2.78%
12 months to 24 months	19%	0%	3.09%	3.09%
24 months to 5 years	22%	0%	7.85%	9.15%
5 years to 10 years	272%	0%	11.96%	11.96%
10 years to 20 years	17%	0%	4.40%	6.50%
20 years to 30 years	41%	0%	6.79%	6.79%
30 years to 40 years	42%	0%	34.18%	34.18%
40 years to 50 years	41%	0%	29.52%	33.29%
50 years and above	11%	0%	0.00%	0.00%
All within agreed limits.				

**Upper / Lower Limits for Maturity Structure of Variable Rate Borrowing**

	2023/24 £000 Reported Indicator		2023/24 £000 Actual Position	
	Upper Limit	Lower Limit	Actual Percentage	Maximum YTD
Under 12 months	16%	0%	1.49%	2.92%
12 months to 24 months	11%	0%	0.00%	0.00%
24 months to 5 years	11%	0%	0.00%	0.00%
5 years to 10 years	11%	0%	0.00%	0.00%
10 years to 20 years	11%	0%	0.00%	0.00%
20 years to 30 years	11%	0%	0.00%	0.00%
30 years to 40 years	11%	0%	0.00%	0.00%
40 years to 50 years	11%	0%	0.00%	0.00%
50 years and above	11%	0%	0.00%	0.00%
All within agreed limits.				

On 8 March 2007, Council agreed to the placing of investments for periods of longer than 364 days in order to maximise investment income before forecasted cuts in interest rates. An upper limit was set and agreed as a new Prudential Indicator.

**Upper Limit on amounts invested beyond 364 days**

	2023/24 £000 Reported Indicator	2023/24 £000 Actual Position	2023/24 £000 Maximum YTD
	Investments	<b>15,000</b>	<b>0</b>