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TREASURY MANAGEMENT ANNUAL REVIEW 2023/24

1. INTRODUCTION AND BACKGROUND

The Chartered Institute of Public Finance and Accountancy's Code of Practice on Treasury Management 2009 was adopted by this Council in February 2010 and this Council fully complies with its requirements. The Code was revised in 2011 and further revised in 2017 and 2021.

The primary requirements of the Code are as follows:

1. Creation and maintenance of a Treasury Management Policy Statement which sets out the policies and objectives of the Council's treasury management activities.

2. Creation and maintenance of Treasury Management Practices which set out the manner in which the Council will seek to achieve those policies and objectives.

3. Receipt by the Council of an annual treasury management strategy report (including the annual investment strategy report) for the year ahead, a mid-year review and an annual review report of the previous year.

4. 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, which in this Council is the Chief Officer Resources.

5. Delegation by the Council of the role of scrutiny of treasury management strategy and policies to a specified named body which in this Council is the Corporate & Performance Scrutiny Committee.

Treasury management in this context is defined as:

> *"The management of the local authority's 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."*

The purpose of this report is to meet one of the above requirements of the CIPFA Code, namely the annual review of treasury management activities, for the financial year 2023/24.

2. THIS TREASURY MANAGEMENT ANNUAL REVIEW COVERS

- Economic Background during the period
- The Council's treasury position as at 31st March 2024;
- Borrowing and investment rates for 2023/24;
- Annual review of the borrowing strategy 2023/24;
- Borrowing outturn for 2023/24;
- Debt rescheduling for 2023/24;
- Compliance with treasury limits and Prudential Indicators for 2023/24;
- Annual review of the investment strategy for 2023/24;
- Investment outturn for 2023/24;

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3. ECONOMIC BACKGROUND DURING PERIOD

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.

However, 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. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the Federal Open Market Committee (FOMC or the Fed_, European Central Bank (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.

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.

Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

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

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.

As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

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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.

4. TREASURY POSITION AS AT 31st MARCH 2024

The Council's debt and investment position at the beginning and the end of the year was as follows:

This illustrates that the total debt outstanding as at 31st March 2024 was £197.787 million, comprising of long-term debt of £159.337 million and short-term debt of £38.450 million.

	31March 2023 Principal	**Average Rate/ Return**	**31 March 2024 Principal**	**Average Rate/ Return**	**Increase/ (Decrease) in Borrowing**
	£000		**£000**		**£000**
Fixed Rate Funding:					
- PWLB	71,147	4.02%	68,383	4.00%	(2,764)
- Market Loans	18,000	1.26%	12,000	1.22%	(6,000)
Variable Rate Funding:					
- Market (LOBO *)	4,000	4.50%	0	0%	(4,000)
Rail, Town Centre and Salix Loans	79,352	0.00%	78,954	0.00%	(398)
Total Long Term Debt	***172,499***	***3.53%***	***159,337***	***3.73%***	***(13,162)***
Short Term Loans(<365 days)	48,365	1.67%	38,450	3.61%	(9,915)
Total Debt	**220,864**	**2.42%**	**197,787**	**3.83%**	**(23,077)**
Investments:					
- Short Term	66,000	1.22%	22,500	4.73%	(43,500)
Total Investments	***66,000***		***22,500***		***(43,500)***

** LOBO – Lenders Option Borrowers Option. This loan had a fixed rate for the first two years of 3.85%. The remaining period of the loan has a rate of 4.5%, but the lender can increase this rate at six month intervals.The Lender gave notice that the rate was increasing to 5.94%, the Council therefore used its option to repay the loan.*

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The Rail, Town Centre and Salix Loans have not been included in the average interest rate calculation as they are interest free loans from the Welsh Government.

5. BORROWING AND INVESTMENT RATES IN 2023/24

The following table displays a selection of interest rates prevailing as at 1st April 2023 and 31st March 2024.

	01/04/2023	31/3/2024
Bank Base Rate	4.25%	5.25%
1 Month SONIA*	4.17%	5.20%
PWLB 10 year Maturity	4.53%	4.94%
PWLB 15 year maturity	4.77%	5.23%
PWLB 25 year maturity	4.89%	5.42%

**Sterling Overnight Index Average*

6. ANNUAL REVIEW OF THE BORROWING STRATEGY FOR 2023/24

The Treasury Management Strategy Statement for 2023/24 was approved by Council in March 2023. The Borrowing Strategy adopted as part of this was as follows:

To utilise the Authority's overdraft facility:
to fund unexpected daily cash deficits;
to fund temporary cash shortfalls where there are no other sources of funding available within the marketplace.

To borrow over the short term:
to fund temporary cash shortfalls;
to maintain a suitably balanced maturity profile;
to make short term savings required in order to meet budgetary constraints;
in anticipation of securing longer term loans at more attractive rates.

To borrow over the long term:
to reduce the Authority's average cost of borrowing;
to maintain a stable, longer term portfolio;
to maximise the potential for future debt rescheduling.

If appropriate to avoid all new external borrowing:
to maximise savings in the short term;
to run down temporary investment levels;
to minimise exposure to interest rate and credit risk.

Borrowings undertaken during the period (see section 7 below) have been done in accordance with this strategy and has focused on short term borrowings in order to minimise borrowing costs. Short term borrowing rates continued to be lower during 2023/24 compared with longer term borrowing rates.

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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.

The Bank of England sprung no surprises in their March meeting, leaving interest rates at 5.25% for the fifth time in a row and, despite MPC members no longer voting to raise interest rates, it retained its relatively aggressive guidance. The Bank's communications suggest the MPC is gaining confidence that inflation will fall sustainably back to the 2.0% target.

Of course, the UK economy has started to perform a little better in Q1 2024 but is still recovering from a shallow recession through the second half of 2023. Indeed, Q4 2023 saw negative GDP growth of -0.3% while year on year growth was also negative at -0.2%.

In the current economic climate, it is considered that the approved strategy remains fit for purpose and therefore no revisions are proposed.

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 and temporary borrowing.

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% however it actually peaked at 5.25%.

7. BORROWING OUTTURN FOR 2023/24

Long Term Borrowing

Definition
Long term borrowing relates to debt taken out for a period of greater than one year. It is taken out for periods of 1 year up to 50 years. This borrowing is required to finance capital expenditure undertaken in the year that is funded through:

- Borrowing approvals from Welsh Government, known as un-hypothecated supported borrowing (USB), for which revenue support for the borrowing costs is provided through the revenue support grant;

- Prudential borrowing, for which borrowing costs are funded through revenue savings.

Total outstanding as at 31st March 2024
The total long-term debt outstanding as at 31st March 2024 was £159.337 million. This is made up of debt taken from the Public Works Loan Board (PWLB), from other local authorities (through the marketplace), from the market (LOBO) and from the Welsh Government through interest free loans. This debt is due to be repaid within the following years:

Maturing Within	£000s
1YR	15,849
1-2YRS	15,675
2-3YRS	13,007
3-4YRS	6,435
4-5YRS	1,798
5-6YRS	9,390
6-10YRS	15,559
10-15YRS	9,570
15+ YRS	72,054
Total	**159,337**

New borrowings for 2023/24
No long term-borrowing was undertaken during the 2023/24 financial year due to elevated interest rate levels. The Council did repay £2.8m of PWLB loans and £6m of Market Loans during 2023/24.

The Council also repaid its £4m Lenders Option Borrowers Option (LOBO) loan during 2023/24. The lender exercised its option to increase the interest rate from 4.50% to 5.94%. The Council then exercised its option to repay the loan early.

Short Term Borrowing
Definition
Short term borrowing relates to debt taken out for a period of less than one year i.e. it will all be fully repaid within a year. These short-term loans are taken out to manage the Authority's short term cash flow i.e. to fund deficits in cash flow on a daily basis pending receipt of income from grants or other sources, or pending the taking out of longer-term debt to fund capital expenditure whilst we wait for advantageous longer term borrowing opportunities. Due to the elevated interest rates during 2023/24, the Authority sought to borrow temporarily for any financing or re-financing need, due to

the expectation that interest rates will begin to fall at some point in the medium term. The Authority therefore took advantage of such rates and borrowed short term to fund the remainder of its capital expenditure and maturing debt.

Total outstanding as at 31st March 2024

The total short-term debt outstanding as at 31st March 2024 was £38.450 million. This is made up of debt taken from other local authorities through the market place.

New borrowings for 2023/24

Appendix A lists the short-term loan activity during the year and shows that over the period a total of £48.365 million loans were brought forward from the previous year and £64.355 million of new short-term loans were raised. A total of £74.270 million of these loans were repaid during the year (including the brought forward loans), leaving a balance outstanding as at 31st March 2024 of £38.450 million. The decrease in short-term loans can be attributed to the running down of our own investments in order to reduce the requirement of the need to borrow to fund short term cash flow deficits.

The following table gives a summary, which shows that the average rate of interest paid was below the benchmark rate. This is mainly due to the loan balances brought forward from the previous year and loans taken early in the 2023/24 financial year having interest rates below the benchmark rate. The actual interest paid was within the estimate of £1,980,000.

	Total Value of Loans during the period	Average Loan	Interest paid during the period	Average Interest Rate	Benchmark Interest Rate *
Short Term borrowing	£112.720m	£4.2m	£1,453,558	3.61%	4.50%

** Benchmark = budgeted interest rate for new borrowings 4.50%*

7.DEBT RESCHEDULING

No debt rescheduling was undertaken during the period.

8. COMPLIANCE WITH TREASURY LIMITS

During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Treasury Strategy Statement 2023/24, approved by Council in March 2023.

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Operational Boundary for external debt
The Council resolved that this limit be set at £225.8 million for 2023/24. The level of borrowings on the 31st March was £197.8 million which is within the required limit. The operational boundary can be exceeded on an occasional basis, this is likely to be due to the volume of payments being made in relation to capital spend at the year end and the delay in receiving grant funding. This is therefore to be expected due to cash flow fluctuations. Sustained breaches, however, would indicate that either the limit has been set too low, or that the Authority is breaching its prudential boundaries, and that corrective action needs to be taken.

Monitoring of the operational boundary is undertaken on a daily basis and any such continual breaches would be investigated and a recommended course of action reported to Council. The Operational Boundary was not exceeded during 2023/24.

Authorised Limit for external Debt
The Council resolved that this limit be set at £248.4 million for 2023/24. The Authorised Limit is set having regard to the operational boundary above.

The average level of borrowings for the year to the 31st March was £192 million, so well within the limit set.

The Authorised Limit must not be breached.

Maturity Structure of Fixed Rate Borrowing

The Council resolved the following limits for the maturity structure of fixed rate borrowings for 2023/24:

	Upper Limit	Lower Limit	Actual as at 31/3/2024
under 12 months	20%	0%	9.95%
12 months and within 24 months	20%	0%	9.84%
24 months and within 5 years	50%	0%	13.33%
5 years and within 10 years	75%	0%	15.66%
10 years and above	95%	25%	51.23%

The actual debt maturity profile at 31st March 2024 is well within the limits set.

Upper Limit on Variable Interest Exposure

Council resolved the upper limit on variable rate exposures for 2023/24 should be set at 30% of outstanding long-term debt. This strategy limits the proportion of interest which is subject to variable rate terms and hence protects the Council against increased costs in times of rising interest rates.

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Following repayment of the £4m LOBO loan during 2023/24, the Council no longer has any variable rate debt, so is well within the limit set.

9. ANNUAL REVIEW OF INVESTMENT STRATEGY FOR 2023/24

The Annual Investment Strategy for 2023/24 adopted by Council in March 2023, was to maintain only temporary, short-term investments and to make those investments in accordance with anticipated cash flow requirements (including the investing of sums borrowed at prevailing low interest rates in anticipation of capital spending). The Council's investment priorities are:

a. the security of capital;
b. the liquidity of its investments.

The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The risk appetite of this Council is low in order to give priority to the security of its investments.

In order to ensure that the Authority's investments are secure and that risk is minimised an investment matrix is used to determine investment counterparties, which factors in Fitch and Moody's credit ratings, credit default swap (CDS) spread data, and credit rating agency comments.

This strategy has been adhered to in determining the investments for 2023/24 outlined in section 10 below.

10. INVESTMENT OUTTURN FOR 2023/24

Appendix B gives details of the investments made during the year, and the following table gives a summary, which shows the Authority's average rate of return was below the benchmark. This is in line with the Authority's risk averse policy whereby the security of the capital sum is the number one priority at the expense of competitive investment returns.

	Total Value of Investments	Average Investment	Investment Returns	Average Rate of Return	Benchmark Return *
Internally Managed	£370m	£3.7m	£2.043m	4.73%	5.02%

** Benchmark = 1 month SONIA uncompounded* *5.02%*

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No institutions in which investments were made had any difficulty in repaying investments and interest in full during the year.