TORBAY COUNCIL

Meeting: Audit Committee/Council **Date:** 24th July 2024/12 September 2024

Wards affected: All Wards in Torbay

Report Title: Treasury Management Outturn 2023/24 Report

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1. Purpose of Report

1.1 This report is to provide members with an annual report on the treasury management activities undertaken during the year 2023/24, which is compared to the 2023/24 Treasury Management Strategy.

2. Reason for Proposal and its benefits

2.1 Treasury risk management at the Council is conducted within the framework of the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Authority to approve a treasury management strategy before the start of each financial year and, as a minimum, a semi-annual and annual treasury outturn report

3. Recommendation(s) / Proposed Decision

That the Audit Committee recommends to Council :

i) That the Treasury Management decisions made during 2023/24, as detailed in the submitted report be noted.

ii) That the increases to limits within the Treasury Management Strategy 2024/25 as outlined in paragraph 10.4 of this report be approved.

Appendices

Appendix 1: Economic Commentary

Appendix 2: Borrowing and Investment Portfolio

Background Documents

Treasury Management Strategy 2023/24

Supporting Information

1. Introduction

1.1 In March 2023 the Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the Council to approve treasury management semi-annual and annual reports.

1.2 The Council's treasury management strategy for 2023/24 was approved by Council at a meeting on 7th March 2023. The Council has borrowed and invested substantial sums of money and is therefore exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates. The successful identification, monitoring and control of risk remains central to the Council's treasury management strategy.

2. External Context

2.1 An economic commentary for the year provided by the Council's treasury management advisors, Arlingclose, is provided at Appendix 1 to this report.

- Inflation continued to fall from 8.7% at the start of 2023/24 to 3.4% at February 2024.
- Bank Rate began at 4.25% and increased to 5.25% at August 2023 where it has stayed for the rest of the year.
- Financial market sentiment remained uncertain on the back of inflation forecasts. Bond yields rose during the first half of the year before falling sharply then recovering again ending the year 50 basis points higher than the start.
- The 10-year benchmark gilt, a measurement for cost of borrowing, rose from 3.44% to 4.75% before dropping back to 3.92% at year end.

3. Local Context

3.1 On 31st March 2024, the Council had net borrowing of £309m arising from its revenue and capital income and expenditure. The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. These factors are summarised in Table 1 below.

Table 1: Balance Sheet Summary (subject to finalisation and audit)

	31.3.24 Actual £m
Total CFR	**449**
Less: *Other debt liabilities	(14)
Borrowing CFR	**435**
External borrowing	359
Internal borrowing	76
Less: Balance Sheet resources (usable reserves, working capital and other cash backed items)	(126)
Net treasury position	**309**

* PFI liabilities that form part of the Council's total debt

3.2 The Council pursued its strategy of keeping borrowing and investments below their underlying levels (i.e. using internal cash resources in place of borrowing), sometimes known as internal borrowing, to reduce risk and interest costs.

3.3 The treasury management position on 31st March 2024 and the change during the year is shown in Table 2 below. A further breakdown of long-term investments is added at Table 2.1 and a list of loans and investments is detailed at Appendix 2.

Table 2: Treasury Management Summary

	31.3.23 Balance £m	Movement £m	31.3.24 Balance £m	31.3.24 Rate %
Long-term borrowing	385	(26)	359	2.90
Short-term borrowing	0	0	0	0
Total borrowing	**385**	**(26)**	**359**	**2.90**
Long-term investments*	(15)	0	(15)	3.35
Short-term investments	(75)	41	(34)	5.09
Cash and cash equivalents	(1)	0	(1)	3.20
Total investments	**(91)**	**41**	**(50)**	**4.56**
Net position	**294**	**15**	**309**	**3.10**

*Long term investments include the CCLA Property Fund, Supranational and Corporate Bonds investments at market valuation and fixed deposits with over 1 year to maturity

Table 2:1 Breakdown of Long-Term Investments

	31.3.23 Balance £m	Movement £m	31.3.24 Balance £m
Fixed Deposits	(10)	5	(5)
CCLA LA Property Fund	(5)	0	(5)
Supranational and Corporate Bonds	0	(5)	(5)
Total Long-Term Investments	**(15)**	**0**	**(15)**

4. Borrowing Update

4.1 CIPFA's 2021 Prudential Code is clear that local authorities must not borrow to invest primarily for financial return and that it is not prudent for local authorities to make any investment or spending decision that will increase the capital financing requirement, and so may lead to new borrowing, unless directly and primarily related to the functions of the Authority. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield.

4.2 The Council has reviewed its capital programme in light of changes to the CIPFA Prudential Code and PWLB lending arrangements to ensure that borrowing to invest primarily for commercial return is no longer undertaken.

4.3 At 31st March 2024 the Council held £359m of loans, (a decrease of £26m to the 31st March 2023 position) as part of its strategy for funding previous and current years' capital programmes. Outstanding loans on 31st March are summarised in Table 3 below.

Table 3: Borrowing Position

	31.3.23 Balance £m	Net Movement £m	31.3.24 Balance £m	31.3.24 Weighted Average Rate %	31.3.24 Weighted Average Maturity (years)
Public Works Loan Board	375.3	(26.3)	349.0	2.850	25.3
Banks (LOBO)	5.0	-	5.0	4.700	56.6
Banks (fixed-term)	5.0	-	5.0	4.395	52.5
Total borrowing	**385.3**	**(26.3)**	**359.0**	**2.897**	**26.1**

4.4 The Council's chief objective when borrowing has been to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required, with flexibility to renegotiate loans should the Council's long-term plans change being a secondary objective.

4.5 In keeping with these objectives, no new borrowing was undertaken, while £7.6m of existing loans matured without replacement

4.6 Early repayment of £18.7m of PWLB loans for the purpose of realigning the borrowing portfolio with revised capital plans over the medium term was undertaken in November 2023 (as previously reported in the Treasury Management Mid-Year Review 2023/24)

4.7 These measures enabled the Council to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk.

4.8 LOBO loans: The Council continues to hold a £5m LOBO (Lender's Option Borrower's Option) loan where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The lenders option does not become due until 2028.

5. Other Debt Activity

5.1 After £0.97m repayment of prior years' Private Finance Initiative liabilities, total debt other than borrowing stood at £14.1m on 31st March 2024, taking total debt to £373.1m

6. Treasury Investment Activity

6.1 The CIPFA Treasury Management Code now defines treasury management investments as investments that arise from the Authority's cash flows or treasury risk management activity that ultimately represents balances that need to be invested until the cash is required for use in the course of business.

6.2 The Council holds significant invested funds, representing income received in advance of expenditure plus balances and reserves held. During the year, the Council's investment balances ranged between £49 million and £102 million due to timing differences between income and expenditure. The investment position is shown in table 4 below.

Table 4: Treasury Investment Position

	31.3.23 Balance £m	Net Movement £m	31.3.24 Balance £m	2023/24 Income Return %	2023/24 Weighted Average Maturity days
Banks & building societies (unsecured)	5.8	(5.5)	0.3	3.2	1
Local Authorities	48.0	(13.0)	35.0	4.95	194
DMO (Govt) Deposits	20.0	(20.0)	0.0		
Government Bonds	0.0	2.0	2.0	4.44	5493
Corporate bonds	0.0	3.3	3.3	4.28	1871
Money Market Funds	8.4	(3.9)	4.5	5.2	1
Other Pooled Funds:					
- *Cash plus fund*	4.0	(4.0)	0.0		
- *Property fund*	4.6	(0.2)	4.4	5.02	
Total investments	**90.8**	**(41.3)**	**49.5**	**4.91**	

6.3 Both the CIPFA Code and government guidance require the Council to invest its funds prudently, and to have regard to the security and liquidity of its treasury investments before seeking the optimum rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

6.4 Bank Rate increased by 1% over the period, from 4.25% at the beginning of April 2023 to 5.25% by the end March 2024. Short term rates peaked at 5.7% for 3-month rates and 6.7% for 12-month rates during the period, although these rates subsequently began to decline towards the end of the period. Rates on the Council's Money Market Funds also rose and were between 4.0% and 5.37%.

6.5 The progression of risk and return metrics are shown in the extracts from Arlingclose's quarterly investment benchmarking in Table 5 below.

Table 5: Investment Benchmarking – Treasury investments managed in-house

At 31st March 2024	**Credit Score**	**Credit Rating**	**Bail-in Exposure**	**Weighted Average Maturity (days)**	**Rate of Return %**
Torbay Council	4.86	A+	11%	556	4.91
Similar LAs	**4.95**	**A+**	**64%**	**58**	**5.13**
All LAs	**4.82**	**A+**	**61%**	**9**	**5.07**

6.6 At the commencement of the year £48million of the investment portfolio was locked into fixed deposits with local authorities on varying maturities and at rates ranging from 3.80% to 4.70%. £33m of these matured during the year and included within new deals were £15m of 1-year deals at 5.85% and 5.95%. At year-end LA deposits stood at £35m.

6.7 As part of a strategy to diversify the portfolio the Director of Finance approved investment of £5million into two market bonds with published yields of 4.439% and 4.284%. These investments give security of return over the longer term.

6.8 Throughout the year remaining funds were placed in short term deals with the UK governments' DMADF facility and in liquid Money Market Funds to enable the Council's policy of internal borrowing for capital funding and for proposed strategic investments.

6.9 **Externally Managed Pooled Funds**: £5m of the Council's investments are invested in an externally managed strategic pooled property fund where short-term security and liquidity are lesser considerations, and the objectives instead are regular revenue income and long-term price stability. These funds generated an income return of £0.3m (5.20%) and an unrealised capital loss of £0.2m (-4.34%).

7. Non-Treasury Investments

7.1 The definition of investments in CIPFA's Treasury Management Code covers all the financial assets of the Council as well as other non-financial assets which the Council holds primarily for financial return. Investments that do not meet the definition of treasury management investments (i.e. management of surplus cash) are categorised as either for service purposes (made explicitly to further service objectives) or for commercial purposes (made primarily for financial return).

7.2 The outturn position of the Council's non-treasury investments will form part of the Statement of Accounts 2023/24 and will be reported with the usual level of detail within the Treasury Management 2024/25 mid-year review.

8. Treasury Performance

8.1 The financial performance of the Council's direct treasury management activities in terms of its impact on the revenue budget is shown in table 6 below.

Table 6: Performance

As at 31st March 2024	Budget 2023/24	Outturn 2023/24	Variation
	£M	**£M**	**£M**
Investment Income	(1.3)	(3.7)	(2.4)
Interest Paid on Borrowing	13.4	11.1	(2.3)
Net Position (Interest)	**12.1**	**7.4**	**(4.7)**
Minimum Revenue Provision (excl. PFI)	6.8	7.2	0.4
Gross premium on PWLB repayment	0.0	1.2	1.2
Amortised discount on PWLB repayments	0.0	(0.1)	(0.1)
Net Position (Other)	**6.8**	**8.3**	**1.5**
Net Position Overall	**18.9**	**15.7**	**(3.2)**

9. Compliance

9.1 The Chief Finance Officer reports that all treasury management activities undertaken during the year complied fully with the CIPFA Code of Practice and the Council's approved Treasury Management Strategy.

Compliance with specific limits is demonstrated in table 7 below.

Table 7: Investment Limits

	2023/24 Maximum	31.3.24 Actual	2023/24 Limit	Complied? Yes/No
Any single organisation, except the UK Government	£9m	£5m	£15m	Yes
Unsecured investments with banks and building societies	£5m	-	£6m	Yes
Money Market Funds	£9m	£4m	£15m	Yes
Strategic pooled funds	£5m	£5m	£10m	Yes

Compliance with the Authorised Limit and Operational Boundary for external debt is demonstrated in table 8 below.

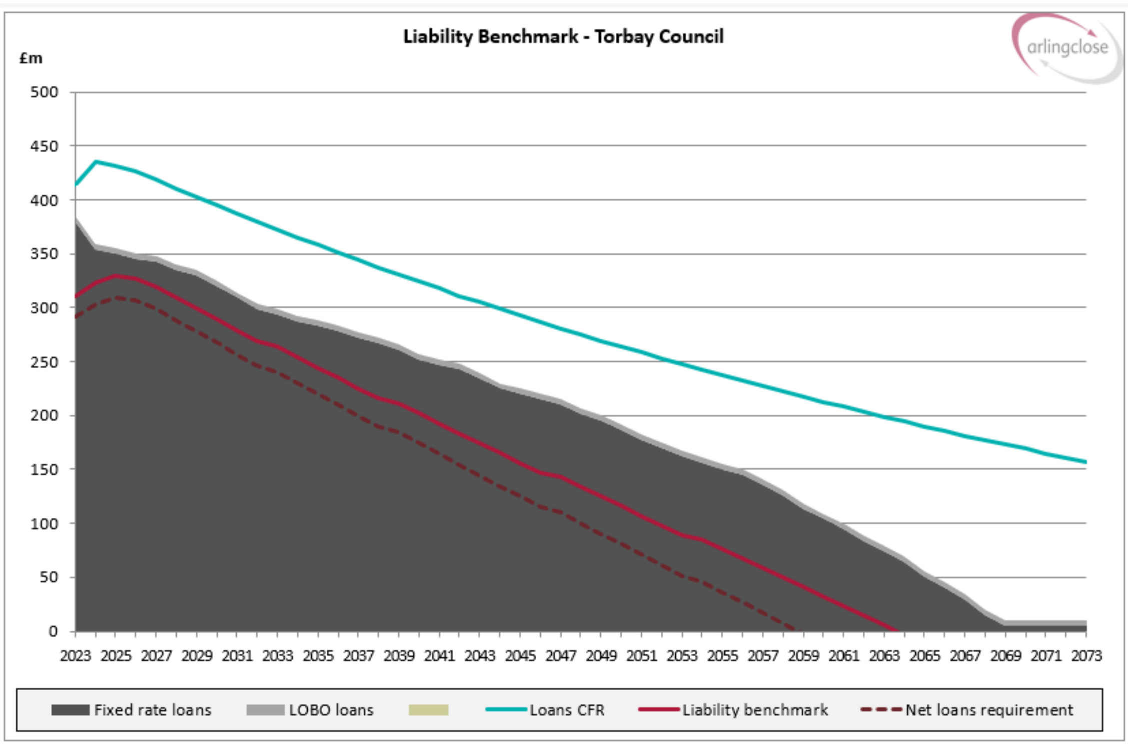
Table 8: Debt Limits

	2023/24 Maximum	31.3.24 Actual	2023/24 Operational Boundary	2023/24 Authorised Limit	Complied? Yes/No
Borrowing	£385m	£359m	£500m	£600m	Yes
PFI & Finance Leases	£15m	£14m	£20m	£20m	Yes
Total Debt	**£400m**	**£373m**	**£520m**	**£620m**	Yes

9.2 **Treasury Management Indicators:** The Council measures and manages its exposures to treasury management risks using the following indicators.

Liability Benchmark This new indicator compares the Council's actual existing borrowing against a liability benchmark that has been calculated to show the lowest risk level of borrowing. The liability benchmark is an important tool to help establish whether the Council is likely to be a long-term borrower or long-term investor in the future, and so shape its strategic focus and decision making. It represents an estimate of the cumulative amount of external borrowing the Council must hold to fund its current capital and revenue plans while keeping treasury investments at the minimum level of £10m required to manage day-to-day cash flow.

The latest estimate of the Liability Benchmark is illustrated in the graph below demonstrating maturing borrowing levels remaining above the benchmark over the long term with scope for future treasury management decisions to reduce the margin.



Security: The Council has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating/credit score of its investment portfolio. The credit score is calculated by applying a value to each investment (AAA=1, AA+=2, …. A=6 etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

	31.3.24 Actual	2023/24 Target	Complied?
Portfolio average credit rating (score)	A+ (5)	A (6)	Yes

Liquidity: The Council has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected payments within a rolling one-month period, without additional borrowing.

	31.3.24 Actual	2023/24 Target	Complied?
Total cash available within one month	£10M	£10M	Yes

Maturity Structure of Borrowing: This indicator is set to control the Council's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	31.3.24 Actual	Upper Limit	Lower Limit	Complied?
Under 12 months	2%	40%	0%	Yes
12 months - within 24 months	2%	40%	0%	Yes
24 months and within 5 years	4%	30%	0%	Yes
5 years and within 10 years	12%	40%	0%	Yes
10 years and within 20 years	16%	50%	0%	Yes
20 years and within 30 years	8%	60%	0%	Yes
30 years and within 40 years	36%	50%	0%	Yes
40 years and over	20%	50%	0%	Yes

Principal Sums Invested for Periods Longer than a year: The purpose of this indicator is to control the Council's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2023/24	2024/25	2025/26
Actual principal invested beyond year end	£15m	£15m	£10m
Limit on principal invested beyond year end	£40m	£40m	£40m
Complied?	Yes	Yes	Yes

10. Other

10.1 **Statutory override**: In April 2023 the Department for Levelling Up, Housing and Communities (DLUHC) published the full outcome of the consultation on the extension of the statutory override on accounting for gains and losses on pooled investment funds. The override has been extended until 31st March 2025, but no other changes have been made; whether the override will be extended beyond this date is unknown but commentary to the consultation outcome suggests it will not. The Council will discuss with Arlingclose the implications for the investment strategy and what action may need to be taken.

10.2 **Consultations**: In December DLUHC published two consultations: a “final” consultation on proposed changes to regulations and statutory guidance on MRP closing on 16th February and a “call for views” on capital measures to improve sector stability and efficiency closing on 31st January.

Draft regulations and draft statutory guidance are included in the MRP consultation. The proposals remain broadly the same as those in June 2022 – to limit the scope for authorities to:

(a) make no MRP on parts of the capital financing requirement (CFR)

(b) to use capital receipts in lieu of a revenue charge for MRP.

In its call for views on capital measures, government wishes to engage with councils to identify and develop options for the use of capital resources and borrowing to support and encourage ‘invest-to-save’ activity and to manage budget pressures without seeking exceptional financial support. Whilst Government has identified various options including allowing authorities to capitalise general cost pressures and meet these with capital receipts, there is no commitment to take any of the options forward.

10.3 **Member training:** The CIPFA Code requires the Chief Finance Officer to ensure that members with responsibility for treasury management receive adequate training. In compliance with this, a comprehensive briefing and training event was held on 6th December 2023, delivered by Arlingclose and the Director of Finance.

10.4 **Change to approved investment limits 2024/25:**

In September 2023 Council approved a variation to the Treasury Management Strategy to enable greater diversification into longer term investments initially through the bond investments outlined in para 6.7 above. A revision to the time limits of the investment instruments associated with this strategy is proposed and recommended as part of this report.

Furthermore, the Director of Finance agreed a revolving credit facility with a Registered Housing Provider (RHP) in April 2024. In order to finalise this investment an amendment is required to the 2024/25 Treasury Management Strategy in respect of the credit rating of RHP's.

The key points of the arrangement are:

- **Facility start date:** Before end of June 2024
- **Term:** 3 years (plus 2 one-year extensions)
- **Interest rate when drawn:** 2.5% over Bank Rate
- **Non-utilisation fee:** 0.275%
- **Credit Facility Value:** £5m (Total revolving credit facility of £50m funded by Local Authorities)

This is an approved investment within the Treasury Management Strategy 2024/25 for counterparties rated as A or above. The RHP in question is rated A- and the Director of Finance has assessed this as acceptable in terms of overall risk when agreeing the deal under delegated powers.

Accordingly changes to the approved strategy limit in Table 9 of Appendix 3 of the Treasury Management Strategy 2024/25 are recommended as set out below:

Table 9: Approved investment counterparties and limits

Sector	Time limit	Counterparty limit	Sector limit
The UK Government	3 years	Unlimited	n/a
Local authorities & other government entities	25 years	£15m	Unlimited
Secured investments *	25 years	£15m	Unlimited
Banks (secured)*	25 years	£15m	Unlimited
Banks (unsecured) *	13 months	£6m	Unlimited
Building societies (unsecured) *	13 months	£6m	£18m
Registered providers (unsecured) *	3 years	£6m	£20m
Money market funds *	n/a	£15m	Unlimited
Strategic pooled funds	n/a	£10m	£30m
Real estate investment trusts	n/a	£10m	£20m
Other investments *	3 years	£6m	£15m

This table should be read in conjunction with the notes below

*** Minimum credit rating:** Treasury investments in the sectors marked with an asterisk will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be considered.