

**CABINET**  
**DATE:**  
**16<sup>TH</sup> SEPTEMBER 2024**

**ANNUAL TREASURY MANAGEMENT AND  
PRUDENTIAL INDICATOR REPORT  
2023-24**

**1. Introduction**

The Treasury Management Policy and Strategy for 2023-24 was approved by Council on 1<sup>st</sup> March 2023. Section B 1.1(2) stated that a year-end annual report would be produced.

This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code) and outlines the Treasury Management activities in 2023-24 financial year.

**2. Investments**

One of the primary activities of the Treasury Management operation is the investment of surplus cash for which the Authority is responsible. As well as the Authority's own cash the County Council invests School Funds, Trust Funds and other Funds, with any interest derived from these investments being passed over to the relevant Fund.

All surplus money is invested daily with the approved counterparties either via brokers on the Money Markets or direct. The security of the investments is the main priority, appropriate liquidity should be maintained and returns on the investments a final consideration. It continues to be difficult to invest these funds as the market continues to be insecure and as a consequence appropriate counterparties are limited.

For 2023-24 investments to individual counterparties were limited to:

	Maximum to Lend £m
<b>Upper Limit</b> Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term or AA-, Aa3 or AA- long term	10
<b>Middle Limit</b> Any one British Bank and Building Society with a credit rating of at least F1, P-1 or A-1 short term	7
<b>UK Banks Part Nationalised</b> Included as investment counterparties, as long as they continue to have appropriate UK Government support	7
Any one Local Authority	5
Any one AAA Rated Money Market Fund	10
Debt Management Office	125

The total investments at 1st April 2023 and 31st March 2024 are shown in the following table:

Investments	01.04.23				31.03.24			
	Call and notice	Fixed Term	Total		Call and notice	Fixed Term	Total	
	£m	£m	£m	%	£m	£m	£m	%
Banks	27.50	14.00	41.50	28	27.50	7.00	34.50	21
Building Societies	0.00	7.00	7.00	5	0.00	7.00	7.00	4
Money Market Funds	40.00	0.00	40.00	27	45.00	0.00	45.00	28
DMADF (DMO)	0.00	20.00	20.00	13	0.00	54.50	54.50	35
Local Authorities	0.00	40.00	40.00	27	0.00	20.00	20.00	12
<b>TOTAL</b>	<b>67.50</b>	<b>81.00</b>	<b>148.50</b>	<b>100</b>	<b>72.50</b>	<b>88.50</b>	<b>161.00</b>	<b>100</b>

The total investment figure of £161.00m at 31<sup>st</sup> March 2024 includes £72.45m Swansea Bay City Deal.

An analysis of the daily cash schedules indicates that the minimum balance lent over the twelve month period was £148.50m and the maximum balance lent was £226.50m. The average balance for the year was £198.11m.

The total investments made by the Council and repaid to the Council (the turnover) amounted to £1,727.50. This averaged approximately £33.04m per week or £4.72m per day. A summary of the turnover is shown below:

	£m
Total Investments 1st April 2023	148.50
Investments made during the year	870.00
Sub Total	1018.50
Investments Repaid during the year	(857.50)
<b>Total Investments 31st March 2024</b>	<b>161.00</b>

The main aim of the Treasury Management Strategy is to manage the cash flows of the Council and the risks associated with this activity. Lending on the money market secures an optimum rate of return, allows for diversification of investments and consequently reduction of risk, which is of paramount importance in today's financial markets.

For the period under review the average "90-day un compounded SONIA rate" was 4.83% whereas the actual rate the Council earned was 4.76%, a marginal under performance of 0.07%.

This under performance can be quantified as £134k less than interest earned compared to the average rate above.

The gross interest earned on investments for 2023-24 amounted to £9.389m, which was more than the estimated figure of £0.500m. The Bank of England Official rate was increased from 4.25% to 5.25% during 2023-24.

The income from investments is used by the Authority to reduce the net overall costs to the Council taxpayer.

### **3. Security, Liquidity and Yield (SLY)**

Within the Treasury Management Strategy Statement for 2023-24, the Council's investment priorities are:

- Security of Capital
- Liquidity and
- Yield

The Council aims to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate it is still considered appropriate to keep investments short term to cover cash flow requirements.

Attached at Appendix 1 is a list of the individual investments held as at the 31<sup>st</sup> March 2024 together with their credit ratings, historic risk of default and the risk weighting attached to each investment.

### **4. Borrowing**

As Members are aware the Authority has a capital investment programme. For 2023-24 actual capital expenditure was £131.80m. This was financed from:

	<b>£m</b>
Borrowing	23.84
Grants and Contributions	92.24
Usable Capital Receipts Applied	0.44
Revenue and Reserves	15.28
<b>Total</b>	<b>131.80</b>

Under the Treasury Management Strategy it was resolved:

- To borrow to meet the funding requirements of the Authority, after allowing for capital grants, capital receipts and capital contributions, and to stay within the Prudential Indicators to ensure affordability, prudence and sustainability.
- To borrow when interest rates are at their most advantageous, after considering cash flow requirements.

The following loans were borrowed during 2023-24 to fund the capital programme:

<b>Loan Reference</b>	<b>Amount (£m)</b>	<b>Interest Rate</b>	<b>Start Date</b>	<b>Period</b>	<b>Maturity Date</b>
PWLB 685874	10.00	4.41%	21st December 2023	49.5 yrs	28th September 2073
<b>Total</b>	<b>10.00</b>				

The total loans outstanding at 1<sup>st</sup> April 2023 and 31<sup>st</sup> March 2024 were:

<b>Loans</b>	<b>Balance at 01.04.23 £m</b>	<b>Balance at 31.03.24 £m</b>	<b>Net Increase/ (Net Decrease) £m</b>
Public Works Loan Board (PWLB)	397.61	397.45	(0.16)
Market Loan	3.00	3.00	0.00
Salix, Invest-to-Save, HILS & TCL	9.96	9.67	(0.19)
<b>Total</b>	<b>410.57</b>	<b>410.12</b>	<b>(0.35)</b>

The total external interest paid in 2023-24 amounted to £16.49m, which compares favourably with the budget of £19.29m. The savings have arisen due to under borrowing on the capital programme and borrowing at lower than anticipated interest rates.

## 5. Treasury Management Prudential Indicators

Under the requirements of the Prudential Code of Practice for Capital Finance in Local Authorities, the Council are required to set a number of treasury management prudential indicators for the year 2023-24. The indicators set and the performance against those indicators is shown below:

5.1 The estimated and actual interest exposure limits as at 31<sup>st</sup> March 2024 were:

	Estimate 31.03.24 £m			Actual 31.03.24 £m		
	Fixed Interest Rate	Variable Interest Rate	Total	Fixed Interest Rate	Variable Interest Rate	Total
Borrowed	464.00	3.00	467.00	407.12	3.00	410.12
Invested	(50.00)	(50.00)	(100.00)	(88.50)	(72.50)	(161.00)
<b>Net</b>	<b>414.00</b>	<b>(47.00)</b>	<b>367.00</b>	<b>318.62</b>	<b>(69.50)</b>	<b>249.12</b>
Proportion of Total Net Borrowing	113%	(13%)	100%	128%	(28%)	100%
<b>Limit</b>	<b>150%</b>	<b>5%</b>		<b>150%</b>	<b>5%</b>	

5.2 Maximum principal sums invested > 365 days

	2023-2024 Limit £m	2023-2024 Actual £m
Maximum principal sums invested > 365 days	10	NIL

### 5.3 Interest rate exposure limits

	<b>2023-24 Limit £m</b>	<b>2023-24 Actual £m</b>
Limits on fixed interest rates based on net debt	518.00	318.62
Limits on variable interest rates based on net debt	52.00	(69.50)

5.4 The upper and lower limits set for the maturity structure of borrowing along with the actual maturity structure as at 31<sup>st</sup> March 2024.

	<b>Estimated Upper Limit 2023-2024 %</b>	<b>Estimated Lower Limit 2023-2024 %</b>	<b>Actual 31.03.24 %</b>
Under 12 months	15	0	2.27
12 months to 2 years	15	0	2.12
2 years to 5 years	50	0	5.91
5 years to 10 years	50	0	9.04
10 years to 20 years	50	0	20.38
20 years to 30 years	50	0	22.55
30 years to 40 years	50	0	20.65
40 years and above	50	0	17.08
<b>Total</b>			<b>100.00</b>

Details of the above maturity structure are shown below:

<b>Loan Maturities</b>	<b>PWLB Debt</b>	<b>Average Interest Rate</b>	<b>Market Loans/ Invest to Save/Salix/ HILS/TCL</b>	<b>Average Interest Rate</b>	<b>Total Debt Outstanding</b>
	<b>£m</b>	<b>%</b>	<b>£m</b>	<b>%</b>	<b>£m</b>
Before 1st April 2025	9.00	5.25	0.29	0	9.29
1st April 2025 to 31st March 2026	8.41	4.19	0.29	0	8.70
1st April 2026 to 31st March 2029	23.38	4.19	0.87	0	24.25
1st April 2029 to 31st March 2034	32.86	4.11	4.22	0	37.08
1st April 2034 to 31st March 2044	79.60	4.28	4.00	0	83.60
1st April 2044 to 31st March 2054	92.50	4.37	0	0	92.50
1st April 2054 to 31st March 2064	81.70	4.51	3.00	4.72	84.70
After March 2064	70.00	2.38	0	0	70.00
<b>Total as at 31.03.24</b>	<b>397.45</b>		<b>12.67</b>		<b>410.12</b>



## 6. Prudential Indicators

### 6.1 Affordability

#### 6.1.1 Actual and estimated ratio of financing costs to net revenue stream.

Ratio of Financing Costs to Net Revenue Stream		
	2023-2024 Estimate %	2023-2024 Actual %
Non-HRA	3.45	2.32
HRA	28.03	27.54

The indicator shows the proportion of income taken up by capital financing costs.

### 6.2 Prudence

#### 6.2.1 The Capital Financing Requirement (CFR).

	31.03.2024 Estimate £m	31.03.2024 Actual £m
Non-HRA	305	267
HRA	166	170
HRAS	67	67
<b>Total</b>	<b>538</b>	<b>504</b>

The Capital Financing Requirement reflects the underlying need to borrow for capital purposes.

#### 6.2.2 Gross Borrowing against the Capital Finance Requirement indicator.

To ensure that borrowing levels are prudent over the medium term the Council's external borrowing must only be for a capital purpose. Gross borrowing must not exceed the CFR for 2023-24 plus the expected changes to the CFR over 2024-25 and 2025-26 but can in the short term due to cash flows. The table below highlights the Council's gross borrowing position against the CFR. The Council has complied with this prudential indicator.

£m	2023-2024 Estimate	2023-2024 Actual
Debt at 1 <sup>st</sup> April 2023	410	410
Expected Change in Debt	57	0
<b>Gross debt at 31<sup>st</sup> March 2023</b>	<b>467</b>	<b>410</b>
<b>CFR</b>	<b>538</b>	<b>504</b>
<b>Under / (Over) borrowing</b>	<b>71</b>	<b>94</b>

The Section 151 Officer reports that the authority had no difficulty meeting this requirement in 2023-24.

### 6.2.3 The Authorised Limit and Operational Boundary.

The Authorised Limit is the “Affordable Borrowing Limit” required by Section 3 of the Local Government Act 2003. The Council does not have the power to borrow above this level. The table below demonstrates that during 2023-24 the Council has maintained gross borrowing within its Authorised Limit.

The Operational Boundary is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the Boundary is acceptable subject to the Authorised Limit not being breached.

The actual financing costs as a proportion of net revenue stream identifies the trend in the cost of capital (borrowing and other long term obligation costs net of investment income) against the net revenue stream.

	2023-2024 £m
Authorised Limit	591.40
Gross borrowing	410.12
Operational Boundary	537.70
Average gross borrowing position	407.29
Financing costs as a proportion of net revenue stream	4.75%

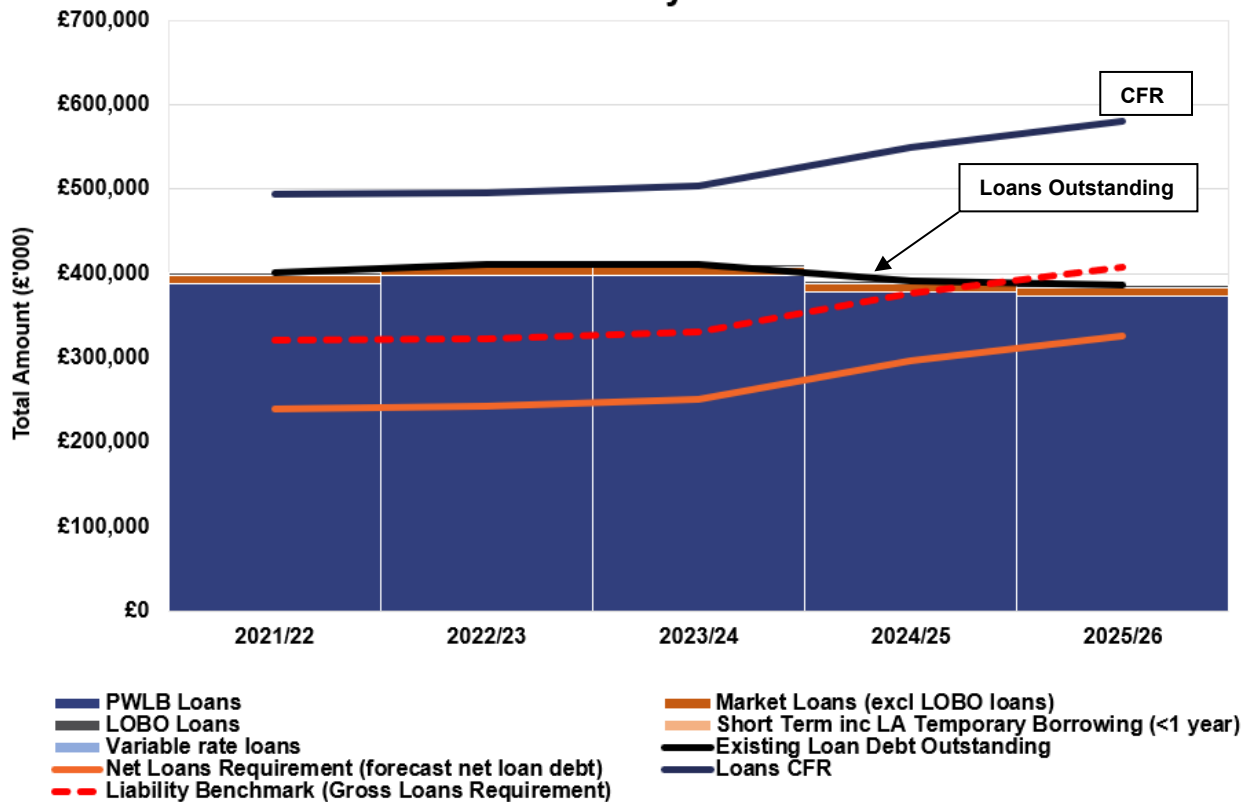
## 7. Liability Benchmark

A new Prudential Indicator for 2023/2024 is the Liability Benchmark. The Council is required to estimate and measure the Liability Benchmark for the forthcoming year and the following two years. The liability benchmark is a measure of how well the existing loans portfolio matches the Council’s planned borrowing needs.

There are four components to the Liability Benchmark:

- **Existing Loan Debt Outstanding:** The Council’s existing loans that are still outstanding in future years.
- **Loans CFR:** This is calculated in accordance with the loans CFR definition in the Prudential Code and projected into the future based on approved prudential borrowing and planned Minimum Revenue Provision (MRP).
- **Net Loans Requirement:** This will show the Council’s gross loan debt less treasury management investments at the last financial year-end, projected into the future and based on its approved prudential borrowing, planned MRP and any other major cash flows forecasted.
- **Liability Benchmark:** This equals net loans requirement plus short-term liquidity allowance.

## Liability Benchmark



The purpose of this prudential indicator is to compare the Council's existing loans outstanding (the black line) against its future need for loan debt, or liability benchmark (the red line). If the black line is below the red line, the existing portfolio outstanding is less than the loan debt required, and the Council will need to borrow to meet the shortfall. If the black line is above the red line, the Council will (based on its current plans) have more debt than it needs, and the excess will have to be invested. The chart therefore tells a Council how much it needs to borrow, when, and to want maturities to match its planned borrowing needs.

### 8. Leasing

No finance leases were negotiated during the year.

### 9. Rescheduling

No rescheduling was undertaken during the year.

### 10. Conclusion

This report demonstrates compliance with the reporting requirements of the CIPFA Treasury Management Code of Practice.

### 11. Recommendations

It is recommended that this report be received by Cabinet.