

## **ANNUAL TREASURY REVIEW REPORT 2023/24**

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**Portfolio:** Finance & Resources

**Ward Affected:** All

### **Purpose of the Report:**

This report reviews the Treasury Management activity during the financial year 2023/24 and reports on the prudential indicators as required by the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.

### **Recommendations:**

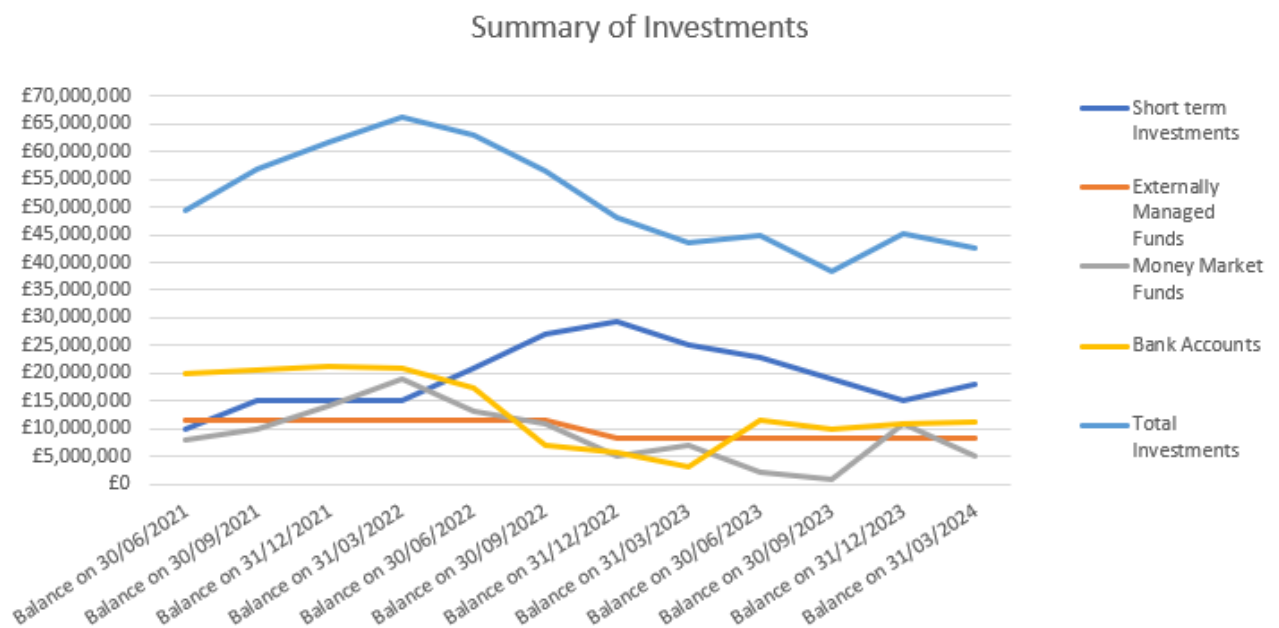
1. Note the treasury activity for the second half of the year and that it complies with the agreed strategy.
2. Note the 2023/24 prudential indicators for the latter six months of the year.

## 1. Summary

- 1.1 The report reviews the Treasury Management activity during the financial year 2023/24 and reports on the prudential indicators as required by CIPFA's Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 1.2 Investments totalled £42.662 million as at 31 March 2024, including £8.3 million in externally managed funds.
- 1.3 Interest received on external cash investments during the financial year was £1,939,000 which is £831,300 above the budget of £1,107,700.

## 2. Investment Activity

- 2.1 Local Authorities are required to prioritise security and liquidity over yield. The graph below shows the position on investments as at 31 March 2024 compared to the position over the past 2 years. The Council had large amounts of Covid grants and energy rebates in 2021 which increased investments and then subsequently decreased as these grants were distributed to businesses and residents. The Council's Capital Programme has increased over the last 4 years, from £2.4 million as at 31 March 2021 to £15 million as at 31 March 2024.



- 2.2 For new investments this year, the Council has invested for up to one year in order to maintain a more liquid position, taking the advice of its treasury management advisors at the time.

2.3 Security of capital remains the Council's main investment objective. At the end of March 2024, no counterparty in which the Council has invested funds for longer than 1 day had a long-term credit rating lower than A.

2.4 The Council's budgeted investment income for the year had been set at £1,107,700. The cash balances invested, representing the Council's reserves and working balances were £34.3 million as at 31 March 2024 and interest earned was £1,939,000, which was £831,300 over budget. Economic volatility has led to interest rates increasing significantly since budgets were approved in February 2023 and the authority has taken advantage of these rates by the use of fixed term investments for up to 1 year, before the expected reduction in rates.

2.5 The authority purchased units in NinetyOne's pooled funds in November 2011. At the 31 March 2024 the market value of this investment totalled £7.3 million. The dividends paid between 1 April 2023 and 31 March 2024 were £331,564.

2.6 The Standard Chartered (sustainable) investments include guarantees that investment is referenced against sustainable assets, both existing and future. The investments are referenced against the United Nations Development Goals (SDGs); thus funds are put to work addressing some of the world's biggest long term threats including, but not limited to, climate change, health, financial inclusion and education. The deposits have third party verification, with the framework independently reviewed on an annual basis to ensure that the latest thinking and trends are regularly incorporated.

2.7 The detailed position as at 31 March 2024 on the Council's investments is shown below.

Investments 31/03/2024	Loan Term	Interest Rate	End Apr 23 £'000	End May 23 £'000	End Jun 23 £'000	End Jul 23 £'000	End Aug 23 £'000	End Sep 23 £'000	End Oct 23 £'000	End Nov 23 £'000	End Dec 23 £'000	End Jan 24 £'000	End Feb 24 £'000	End Mar 24 £'000
<b>Instant Access</b>														
Barclays	Instant	4.75%	1.8	6.8	5.2	5.0	4.2	4.8	2.7	6.7	8.5	5.6	4.2	4.0
Lloyds	Instant	5.14%	2.3	1.3	6.3	0.3	5.3	5.3	2.3	2.3	2.3	2.3	9.2	7.3
<b>Money Market Funds (MMFs)</b>														
CCLA	Instant				2.0	3.0		1.0	1.0	1.0	1.0	5.0	6.0	4.0
Federated	Instant		1.0											
Aberdeen	Instant								1.0	1.0	1.0	1.0	1.0	1.0
<b>Longer Term Investments</b>														
Goldman Sachs fixed 19/05/23	1 year	2.24%	2.0											
Standard Chartered (Sustainable) Fixed 30/06/23	1 year	2.74%	2.0											
Standard Chartered (Sustainable) Fixed 18/08/23	1 year	3.47%	2.0	2.0	2.0	2.0								
Goldman Sachs fixed 18/08/23	1 year	3.62%	2.0	2.0	2.0	2.0								
Bayerische Landesbank fixed 27/09/23	1 year	5.16%	3.0	3.0	3.0	3.0	3.0							
Santander CD's (K&S) Fixed 25/05/23	6 mths	3.87%	3.0											
Standard Chartered (Sustainable) Fixed 02/11/23	1 year	4.49%	2.0	2.0	2.0	2.0	2.0	2.0	2.0					
Toronto Dominion CD's (K&S) 12/12/23	1 year	4.74%	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0				
Lloyds Bank Corporate Markets Fixed 28/02/24	1 year	4.90%	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0		
Lloyds Bank Corporate Markets Fixed 03/10/23	6 mths	4.88%	2.0	2.0	2.0	2.0	2.0	2.0	2.0					
Standard Chartered (Sustainable) Fixed 04/04/24	1 year	4.77%	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Toronto Dominion CD's (K&S) 05/04/24	1 year	5.06%	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0	3.0
Standard Chartered (Sustainable) Fixed 28/06/24	1 year	6.40%			2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
Standard Chartered (Sustainable) Fixed 26/09/24	1 year	5.83%						3.0	3.0	3.0	3.0	3.0	3.0	3.0
Standard Chartered (Sustainable) Fixed 02/10/24	1 year	5.91%							2.0	2.0	2.0	2.0	2.0	2.0
Goldman Sachs International Bank	6 mths	5.33%											6.0	6.0
<b>Externally Managed Funds - Book Value</b>														
NinetyOne			8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3	8.3
<b>Total</b>			<b>41.4</b>	<b>37.4</b>	<b>44.8</b>	<b>39.6</b>	<b>36.8</b>	<b>38.4</b>	<b>34.3</b>	<b>36.3</b>	<b>36.1</b>	<b>37.2</b>	<b>46.7</b>	<b>42.6</b>
<b>Externally Managed Funds - Market Value</b>														
NinetyOne			7.4	7.3	7.2	7.2	7.2	7.1	7.0	7.0	7.3	7.2	7.2	7.3

### **3. Borrowing Activity**

- 3.1 There has been no need to externally borrow this year.
- 3.2 The Council's underlying need to borrow is called the Capital Financing Requirement (CFR). The Council's capital programme has been fully funded from available resources and the CFR is therefore currently zero.

### **4. Compliance with Prudential Indicators**

- 4.1 The Council approved a set of Prudential Indicators for 2023/24, in February 2023, as part of the Council's Treasury Management Strategy.
- 4.2 The authority's Treasury Management Strategy for 2023/24 followed the principles in DLUHCs 2010 'Guidance on Local Government Investments' ("Guidance") and CIPFA's 'Treasury Management Code of Practice 2017 (TM Code)". Security and liquidity of investments take priority over yield and surplus funds have been invested in high credit quality counterparties. No counterparty in which the Council has invested funds had a credit rating lower than A- as stated in the Council's Annual Investments Strategy 2023/24.
- 4.3 The 2023/24 Treasury Management Policy set an operational boundary for external debt of £3m and an authorised limit of £5m. This means that if the authority's level of external debt (including notional debts on implied finance leases) exceeds £3m at any stage during the year the act must be reported to Council as soon as possible and that debt is not allowed to exceed £5m without receiving prior authorisation from Council. No overdrafts have been incurred as part of treasury operations. The Operational Limit of £5m on debt has not been breached at any point.
- 4.4 Under the Council's Constitution, the Full Council approves the Treasury Management Strategy and therefore any deviation or breach must be reported to Full Council. In practice, all breaches are also reported to Cabinet prior to Full Council. The prudential indicators can be found in Appendix A. There were no breaches of the indicators during the year.

### **5. Economic Environment & Interest Rates**

- 5.1 The following information has come from the Council's Treasury Management Advisors, LINK Asset Management's, latest Q4 report.
- 5.2 The UK economy expanded 0.2% m/m in January, following a 0.1% contraction in December and matching market expectations. Services output rose by 0.2% with strong retail trade and construction output rebounded by 1.1% after a poor December. However, industrial output fell by 0.2% in January after a 0.6% rise in

December. Elsewhere, the UK's trade deficit widened to £3.129 billion in January, after a three-month low in December, driven by a 1.4% rise in imports, compared to a 0.7% rise in exports.

- 5.3 The Chancellor of the Exchequer presented his 2024 Spring budget. It aimed to boost the economy following the weaker performance in the second half of 2023 and ahead of the expected general election later this year. One key point was the 2p cut in National Insurance contributions following on from the cut in the previous Autumn Statement to reduce tax burdens and support household finances.
- 5.4 The UK recorded a fall in 21,000 jobs in the three months prior to January, below market expectations of a 10,000 increase and following a 72,000 growth in the prior period. This was the first fall in job creation since September 2023. Meanwhile, average weekly earnings (including bonuses) in the UK increased 5.6% y/y in the three months to January, the least since July 2022, and slightly below market expectations of 5.7%. The unemployment rate edged up to 3.9% between November 2023 and January, just above the previous quarter increase of 3.8% and slightly above market expectations of no change.
- 5.5 Regarding inflation, the monthly Consumer Price Index (CPI) rose by 0.6%, reversing the 0.6% fall in January. However, base affects meant the headline annual rate dropped to 3.4% in February, reaching its lowest level since September 2021. The rate of price pressures declined significantly for food and non-alcoholic beverages, and restaurants and hotels, while there was also a slowdown in miscellaneous goods and services. Costs also fell at a slower pace for both housing and utilities and transport. The annual core inflation rate, excluding food and energy, fell to 4.5% from 5.1% the prior month.
- 5.6 The Bank of England decided to keep Bank Rate at 5.25% in its March meeting as it waits to be certain that the country's inflationary pressures have subsided back towards its target rate. The Monetary Policy Committee voted 8-1 in favour of keeping rates unchanged, with one member voting for a 25-basis point decrease. In the retail sector, sales remain unchanged in February after an upwardly revised 3.6% increase in January and beating market expectations of a 0.3% decline. While clothing and department stores saw boosts, this was cancelled out by declines in trade at food stores and fuel retailers.
- 5.7 Meanwhile, the GfK Consumer Confidence Indicator held at -21 in March and missed market expectations of a slight improvement to -19 as the cost-of-living crisis and broader economic uncertainty continued to dampen sentiment. However, there were increases in indices for consumer confidence over personal finances over the past 12 months and next 12 months, alongside increased confidence in the general economic situation over the next 12 months. Elsewhere, public sector net borrowing, excluding public sector banks, rose to £8.4 billion in February which surpassed market expectations of £5.95 billion.

5.8 The latest interest rate forecast from the Council's Treasury Management Advisors, LINK Asset Management, is shown in the table below.

Link Group Interest Rate View	28.05.24											
	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>BANK RATE</b>	5.25	5.00	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	5.30	5.00	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	5.30	4.90	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	5.10	4.80	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.90	4.70	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	5.00	4.80	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.30	5.20	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	5.10	5.00	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

## 6. Conclusion

- 6.1 Investment balances have decreased from £43.7 million at 31 March 2023 to £42.6 million at 31 March 2024, but this includes £8.3 million in externally managed funds.
- 6.2 Interest earned on cash investments was £1,939,000 for the year, which is £831,300 above the budget of £1,107,700 and is £577,000 more than the £1,362,000 received in 2022/23.

## 7. Recommendations

- 7.1 To:
- Note the treasury activity for the second half of the year and that it complies with the agreed strategy.
  - Note the 2023/24 prudential indicators for the latter six months of the year.

## Appendix A: Prudential Indicators

### Capital Financing Requirement and Borrowing

Estimates of the Council's Capital Financing Requirement for 2023/24 to 2025/26 are showing in the table below:

	<b>31/03/2024 Outturn £'000</b>	<b>31/03/2025 Estimate £'000</b>	<b>31/03/2026 Estimate £'000</b>
Capital Financing Requirement before MRP	0	0	0
Less Minimum Revenue Provision	0	0	0
<b>Capital Financing Requirement</b>	<b>0</b>	<b>0</b>	<b>0</b>

The table below shows the maximum borrowing planned, which is both internal borrowing from cash balances and external borrowing from funders such as PWLB.

	<b>31/03/2024 Outturn £'000</b>	<b>31/03/2025 Estimate £'000</b>	<b>31/03/2026 Estimate £'000</b>
Existing Profile of Borrowing	0	0	0
Less Other Long Term Liabilities	0	0	0
Borrowing in Year	0	0	0
<b>Cumulative Maximum Borrowing Requirement</b>	<b>0</b>	<b>0</b>	<b>0</b>

### Balances and Reserves

Estimates of the Council's level of Balances and Reserves (both Revenue and Capital) for 2023/24 and future years are as follows:

	<b>31/03/2024 Actual £'000</b>	<b>31/03/2025 Estimate £'000</b>	<b>31/03/2026 Estimate £'000</b>
Balances and Usable Reserves	21,993	16,013	14,998

### Prudential Indicator Compliance

#### (a) **Authorised Limit and Operational Boundary for External Debt**

- The Local Government Act 2003 requires the Council to set an Affordable Borrowing Limit, irrespective of their indebted status. This is a statutory limit which should not be breached.
- There was no external borrowing in 2023/24 to date and therefore the limits set for 2023/24 were not breached.

**(b) Interest Rate Exposure**

- The Council has managed the extent to which it is exposed to changes in interest rates. It has done this during the year to date by making a combination of fixed and variable rate investments.

**(c) Maturity Structure of Borrowing**

This indicator sets upper and lower limits for the proportion of borrowing at both fixed and variable rates that is repayable within defined timescales (maturity is defined as the earliest date at which the loan could be required to be repaid).

<b>Maturity Structure of Borrowing</b>	<b>Lower Limit (Cumulative) %</b>	<b>Upper Limit (Cumulative) %</b>	<b>Actual Borrowing as at 31/03/24</b>	<b>% Borrowing as at 31/03/24</b>	<b>Compliance with Set Limits?</b>
Under 12 months	0	20	0	0	Yes
12 months to 2 years	0	80	0	0	Yes
2 years to 5 years	0	90	0	0	Yes
5 years to 10 years	0	95	0	0	Yes
10 years and above	0	100	0	0	Yes

**(d) Total principal sums invested for periods longer than 364 days**

- This indicator allows the Council to manage the risk inherent in investments longer than 364 days.
- The limit for 2023/24 is set at a maximum of £5 million medium term (up to 5 years) and £5 million long term (up to 10 years).
- No investments have been made for periods longer than 364 days and therefore the limit set for 2023/24 was not breached.