

Agenda Item

REPORT TO:	Executive Board
DATE:	12 September 2024
REPORTING OFFICER:	Finance Director
PORTFOLIO:	Corporate Services
TITLE:	Treasury Management Annual Report 2023-24
WARDS:	Borough-wide

1.0 PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide an update regarding activities undertaken on the money market as required by the Treasury Management Policy.

2.0 RECOMMENDATION: That

- 1) the report be noted.

3.0 SUPPORTING INFORMATION

Economic Outlook

- 3.1 The following analysis of the economic situation has been provided by Capita Asset Services, the Council's treasury management advisors.
- 3.2 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.
- 3.3 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 no MPC members no longer voting to raise interest rates, it retained its relatively hawkish guidance.
- 3.4 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%.

- 3.5 Unemployment is currently under 4%, against a backdrop of still over 900k of job vacancies, and annual wage inflation is running at above 5%. With gas and electricity price caps falling in April 2024, the CPI measure of inflation - which peaked at 11.1% in October 2022 – is now due to slide below the 2% target rate in April and to remain below that Bank of England benchmark for the next couple of years, according to Capital Economics.
- 3.6 Shoppers largely shrugged off the unusually wet weather in February, whilst rising real household incomes should support retail activity throughout 2024. Furthermore, the impact of higher interest rates on household interest payments is getting close to its peak, even though fixed rate mortgage rates on new loans have shifted up a little since falling close to 4.5% in early 2024.
- 3.7 As for equity markets, the FTSE 100 has risen to nearly 8,000 and is now only 1% below the all-time high it reached in February 2023. The modest rise in UK equities in February was driven by strong performances in the cyclical industrials and consumer discretionary sectors, whilst communications and basic materials have fared poorly. Despite its performance, the FTSE 100 is still lagging behind the S&P 500, which has been at an all-time high for several weeks.

Interest Rate Forecast

3.8 The following forecast has been provided by Capita Asset Services.

Link Group Interest Rate View	25.03.24												
	Mar-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
BANK RATE	5.25	5.25	4.75	4.25	3.75	3.25	3.00	3.00	3.00	3.00	3.00	3.00	3.00
3 month ave earnings	5.30	5.30	4.80	4.30	3.80	3.30	3.00	3.00	3.00	3.00	3.00	3.00	3.00
6 month ave earnings	5.20	5.10	4.60	4.10	3.70	3.30	3.10	3.10	3.10	3.10	3.10	3.10	3.10
12 month ave earnings	5.00	4.90	4.40	3.90	3.60	3.20	3.10	3.10	3.10	3.10	3.10	3.20	3.20
5 yr PWLB	4.50	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.60	3.50	3.50	3.50
10 yr PWLB	4.70	4.50	4.40	4.30	4.20	4.10	4.00	3.90	3.80	3.70	3.70	3.70	3.70
25 yr PWLB	5.20	5.10	4.90	4.80	4.60	4.40	4.30	4.20	4.20	4.10	4.10	4.10	4.10
50 yr PWLB	5.00	4.90	4.70	4.60	4.40	4.20	4.10	4.00	4.00	3.90	3.90	3.90	3.90

During the period of this report the bank base rate remained at 5.25%.

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3.9 The borrowing rates from September 2023 to March 2024 are shown below:

Short Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
Base Rate	5.25	5.25	5.25	5.25	5.25	5.25	5.25
Call Money (Market)	5.15	5.20	5.15	5.20	5.25	5.30	5.10
1 Month (Market)	5.25	5.25	5.30	5.40	5.15	5.25	5.25
3 Month (Market)	5.55	5.50	5.35	5.40	5.25	5.25	5.20

Longer Term Borrowing Rates

	Sep	Oct	Nov	Dec	Jan	Feb	Mar
	%	%	%	%	%	%	%
1 Year (PWLB)	5.68	5.57	5.51	5.13	5.32	5.48	5.36
10 Year (PWLB)	5.25	5.29	4.96	4.37	4.73	4.96	4.74
25 Year (PWLB)	5.66	5.72	5.43	4.93	5.29	5.42	5.22

3.10 Market rates are based on rates provided by Reuters and PWLB rates are for new loans based on principal repayable at maturity. The rates are shown for the end of each month.

Borrowing and Investments

Turnover During the Period

	No of deals	Turnover £m
Short Term Borrowing	7	45
Short Term Investments	13	125

Position at Month End

	Sep £m	Oct £m	Nov £m	Dec £m	Jan £m	Feb £m	Mar £m
Total Borrowing	182	182	182	182	182	192	207
Total Investments	(112)	(107)	(102)	(94)	(99)	(89)	(92)
Call Account Balance	(12)	(15)	(18)	(12)	(6)	(14)	(13)

Investment Benchmarking

Benchmark	Benchmark Return %	Performance Oct - Mar %	Investment Interest Earned £000
1 day	5.19	4.90	383
1 month	5.26	4.61	30
3 month	5.36	5.53	1,190
6 month	5.36	5.37	116
9 month	5.35	5.30	208
12 month	5.35	5.35	301
Over 12 months	-	2.95	355
Property Fund	-	4.24	226
Total			2,809

- 3.11 The table above shows that the Council is close to the benchmark on all durations during 2023-24. The one day is performance is slightly under benchmark due to the rates in the Council's call accounts paying lower than benchmark, but it can be seen on the 3 months (where the majority of Council's investments have been held) the Council have over achieved the benchmark rates. If rates continue to drop through 2024-25 we should see longer term investments over-achieving against benchmarks as rates fall and the Council still hold investments at the previous higher rates

Budget Monitoring

- 3.12 Due to the interest rates being higher than predicted through 2023-24, and the council holding higher levels of investments, the Council over achieved on interest received by £1.764m. Due to the repayment of the LOBO (see below) and a lower of cash predicted during the last quarter of the year, the Council did need to undertake some short-term borrowing resulting in an overspend against budget of £0.139m, but this has resulted in an outturn variance of £1.625m from loans and investments during 2023/24.

Net Interest at 31st March 2024			
	Annual Budget £000	Actual £000	Variance £000
Investments	(3,560)	(5,324)	1,764
Borrowings	1,099	1,238	(139)
Total	(2,461)	(4,086)	1,625

New Long-Term Borrowing

- 3.13 Due to the Council's LOBO (Lender's Option, Borrower's Option) with Commerzbank being repaid in February 2024, the Council replaced this with a short-short term PWLB loan (13 months) maturing in April 2025. This will be

replaced with long-term borrowing when long-term rates drop further. The Council has not taken any further long term borrowing during the period.

Policy Guidelines

- 3.14 The Treasury Management Strategy Statement (TMSS) for 2023/24, which includes the Annual Investment Strategy, was approved by the Council on 08 March 2023. It sets out the Council's investment priorities as being:
- Security of capital;
 - Liquidity; and
 - Yield
- 3.15 The Council will also aim to achieve the optimum return (yield) on investments commensurate with proper levels of security and liquidity. In the current economic climate and the heightened credit concerns it is considered appropriate to keep the majority of investments short term and to ensure all investments are in line with credit rating methodology.

Treasury Management Indicators

- 3.16 It is a statutory duty for the Council to determine and keep under review the affordable borrowing limits. The Council's approved Treasury and Prudential Indicators were set out in the Treasury Management Strategy Statement and are reviewed in Appendix 1.

Debt Rescheduling

- 3.17 No debt rescheduling was undertaken during the quarter.

4.0 POLICY IMPLICATIONS

- 4.1 None.

5.0 FINANCIAL IMPLICATIONS

- 5.1 The financial implications are as set out in the report.

6.0 IMPLICATIONS FOR THE COUNCIL'S PRIORITIES

6.1 Improving Health, Promoting Wellbeing and Supporting Greater Independence

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

6.2 Building a Strong, Sustainable Local Economy

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

6.3 Supporting Children, Young People and Families

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

6.4 Tackling Inequality and Helping Those Who Are Most In Need

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

6.5 Working Towards a Greener Future

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

6.6 Valuing and Appreciating Halton and Our Community

There are no direct implications, however, the revenue budget and capital programme support the delivery and achievement of all the Council's priorities.

7.0 RISK ANALYSIS

7.1 The main risks with Treasury Management are security of investment and volatility of return. To combat this, the Council operates within a clearly defined Treasury Management Policy and annual borrowing and investment strategy, which sets out the control framework

8.0 EQUALITY AND DIVERSITY ISSUES

8.1 None.

9.0 CLIMATE CHANGE IMPLICATIONS

9.1 None

10.0 LIST OF BACKGROUND PAPERS UNDER SECTION 100D OF THE LOCAL GOVERNMENT ACT 1972

10.1 There are no background papers under the meaning of the Act.

Treasury and Prudential Indicators – 2023/24

Prudential Indicators	2022/23	2023/24	
	Full Year Actual £000	Original Estimate £000	Full Year Actual £000
Capital Expenditure	27,549	50,230	44,202
Net Financing Need for the Year <i>(Borrowing Requirement)</i>	182	19,719	21,014
Increase / (Decrease) in CFR <i>(Capital Financing Requirement)</i>	(10,248)	8,090	1,861
Ratio of Financing Costs to Net Revenue Stream <i>(Proportion of cost of borrowing to Council's net revenue)</i>	6.1%	4.4%	3.6%
External Debt <i>(Borrowing plus PFI and lease liabilities)</i>	540,350	547,413	552,408
Operational Boundary <i>(Limit of which external debt is not expected to exceed)</i>	552,679	555,355	555,355
Authorised Limit <i>(Limit beyond which external debt is prohibited)</i>	626,305	634,395	634,395

Upper limit for principal sums invested for longer than 1 year	31/03/2023 £000	31/03/2024 £000
Upper limit of principal sums invested for longer than 1 year	40,000	40,000
Investments in excess of 1 years outstanding at year-end'	26,700	25,000