DFP/24/65
Corporate Infrastructure & Regulatory Services Scrutiny Committee
27 June 2024

TREASURY MANAGEMENT STEWARDSHIP ANNUAL REPORT 2023/24

Report of the Director of Finance and Public Value

Please note that the following recommendations are subject to consideration and determination by the Committee before taking effect.

1) Recommendation

That the Committee be asked to note the report and consider whether it wishes to make any further comments to Cabinet on the 2023/24 Treasury Management outturn position.

2) Introduction

2.1 The County Council has adopted the CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management in the Public Services. The policy requires the Authority to agree an annual treasury strategy report, setting out the strategy and plans to be followed in the coming year, as part of the budget process. The Treasury Management and Investment Strategy for 2023/24 was agreed by Council in February 2023 and formed part of the published budget book for the year.

2.2 The purpose of this report is to show the outturn position, review performance and inform members of any key matters arising from the Authority's Treasury and Debt Management activities during the 2023/24 financial year.

3) Minimum Revenue Provision

3.1 Each year the Authority has a statutory obligation to charge to the revenue account an annual amount of Minimum Revenue Provision (MRP), which is a charge to make provision for the repayment of the Authority's external capital debt and internal borrowing. The charge is based on the historic borrowing required to fund the Council's capital programme.

3.2 The policy was revised for 2023/24 to charge MRP for all assets on an annuity basis. Previously, only supported borrowing up to 1st April 2008 was charged using the annuity method. This change reflects the same principle of aligning with a trend of asset deterioration and the time value of money, and will apply consistently to MRP on assets financed by either internal or external borrowing. The final outturn for MRP for 2032/24 was £12.05 million.

4) Treasury Management Outturn Position 2023/24 – Borrowing

4.1 The overall aims of the borrowing strategy are to achieve:

- Borrowing at the lowest rates possible in the most appropriate periods;
- The minimum borrowing costs and expenses;
- A reduction in the average interest rate of the debt portfolio.

4.2 Since 2009 the Authority has followed a policy of containing the capital programme, taking out no new external borrowing and repaying debt whenever this can be done without incurring a financial penalty. The Medium Term Financial Strategy (MTFS) and Capital Strategy set out in the budget book for 2023/24 continued to forecast that no new long-term borrowing would be required, with the exception of the South Devon Freeport project, which would not happen until 2025/26. However, it raised the possibility that reducing cash resources may mean that should the Authority wish to undertake or invest in a major strategic project, then additional external borrowing could be needed.

4.3 In accordance with the Capital and Treasury Management Strategies, no long-term borrowing was undertaken during the 2023/24 financial year. Instead, all borrowing required to fund capital expenditure was met from internal cash balances.

4.4 Over the last financial year the Authority's long term external debt has reduced by £46.5 million. Three of the Authority's money market loans were repaid in advance of their maturity date. Each of these loans were Lender Option Borrower Option (LOBO) loans with the lender having the option to increase the interest rate on the loan or to transfer the loan to another lender. By exercising their option, the lender provided the Authority with the opportunity to repay the loan without premium, rather than accept the revised terms. The repayment has had the effect of achieving a small reduction in the average interest rate of the Authority's external debt.

4.5 As a result, at 31st March 2024 the level of long term debt stood at £461.35m as detailed in the table below.

Analysis of Long Term Debt

	Actual 31.03.23 £'m	Interest Rate %	Actual 31.03.24 £'m	Interest Rate %
Fixed Rate Debt				
PWLB	436.35	4.99	436.35	4.99
Money Market	71.50	5.83	25.00	5.60
Variable Debt				
PWLB	0.00		0.00	
Money Market	0.00		0.00	
Total External Borrowing	**507.85**	**5.11**	**461.35**	**5.03**

4.6 In order to fund the loan repayments, short term borrowing from other local authorities was required. A total of £29 million was borrowed from 5 other local authorities. £16 million of the short term borrowing has subsequently been repaid, leaving a balance outstanding of £13 million as at 31 March 2024.

4.7 The Council's cash balances at year end had reduced to £108.08 million, from £182.49 million as at 31 March 2023. The repayment of long term debt, as set out above, will have contributed to this. Other contributory factors include the spending of capital grants received in previous years, and internal borrowing to fund the capital programme in excess of the MRP set aside during the year.

4.8 In late March 2024, the Council received funding of £38 million from the Department for Education as part of the Safety Valve deal to resolve the deficit funding position on Dedicated Schools Grant for Special Educational Needs and Disability (SEND). This was the first instalment of total funding of £95 million to be spread over a period of 8 years. Without that receipt cash balances would have been down to around £70 million without taking on further borrowing, given SEND expenditure incurred during the year in excess of the funding available of £39 million. While the Safety Valve deal has improved the cash position, the cash balances are still lower than they have been at any point over the last 20 years which may at some point lead to the need to take out new external debt to fund the capital programme.

5) Treasury Management Outturn Position 2023/24 – Investments

5.1 The overall aim of the Authority's investment strategy is to:

- Limit the risk to the loss of capital (security);
- Ensure that funds are always available to meet cash flow requirements (liquidity);
- Maximise investment returns (yield), consistent with the first two aims;

- Review new investment instruments as they come to the Local Authority market, and to assess whether they could be a useful part of our investment process.

5.2 The following table shows the Authority's fixed and variable rate investments as at the start and close of the financial year.

Schedule of Investments

		Actual 31.03.23 £'m	Interest Rate %	Actual 31.03.24 £'m	Interest Rate %
Bank, Building Society & MMF Deposits					
Fixed Rates					
Term Deposits:	Over 365 days	20.00	2.43	10.00	4.30
	365 days & Under	96.00	2.95	40.00	5.15
Variable Rate					
Call Accounts		0.00		0.04	5.14
Notice Accounts		10.00	4.43	0.00	
Money Market Funds (MMF's)		46.49	4.07	48.04	5.26
Property Fund		10.00	3.66	10.00	4.01
All Investments		**182.49**	**3.30**	**108.08**	**5.01**

5.3 When the Treasury Management Investment Strategy for 2023/24 was formulated in January 2023, the Bank of England's base rate stood at 3.5%. The target set for 2023/24 therefore was set at a prudent level of 3%, taking into account continuing investments that had been made when rates were a lot lower. The Bank then raised the base rate 5 more times in the next few months reaching a peak of 5.25% in August, where it stayed for the rest of the financial year. As a result significantly more investment income was achieved than budgeted.

5.4 The average interest rate earned on investments, excluding the CCLA property fund, for the year was 4.53%, against the full year budget target return of 3%. The CCLA property fund has yielded an average rate of 4.5% for the same period against a target of 3.8%.

5.5 Revenue lending during 2023/24, including the use of term deposits, call accounts and property funds, earned interest of £7.947 million against a full year budget of £3.75 million. The surplus achieved over budget can be attributed to the higher rates of interest achieved compared to the target. The interest figure quoted is the return from the Council's Treasury Management activity and is different from the figure presented in the Outturn Report and the Statement of Accounts which also includes interest generated from a number of other sources.

5.6 All lending has been carried out in accordance with the Authority's Treasury Management Strategy and with institutions on the list of approved counterparties, with no capital losses incurred.

6) Prudential Indicators

6.1 Linked to its Treasury Management Strategy, the Authority is required to monitor its overall level of debt in line with the CIPFA Code of Practice. Part of the Code requires consideration of a set of Prudential Indicators in order to allow the Authority to form a judgement about the affordable, prudent and sustainable level of debt.

6.2 The purpose of the indicators is to demonstrate that:

- Capital expenditure plans are affordable;
- All external borrowing and other long term liabilities are within prudent and sustainable levels;
- Treasury management decisions are taken in accordance with professional good practice.

6.3 Three Prudential Indicators control the overall level of borrowing. They are:

- **The authorised limit** - this represents the limit beyond which any additional borrowing is prohibited until the limit is revised by the County Council. Revision may occur during the year if there are substantial and unforeseen changes in circumstances, for example, a significant delay in achieving forecast capital receipts. In normal circumstances this limit will not require revision until the estimate for the following year is revised as part of the budget setting process.
- **The operational boundary** – this indicator is based on the probable external debt and other long term liabilities during the year. Variations in cash flow may lead to occasional, short term breaches of the Operational Boundary that are acceptable.
- **The upper limit for net debt** - the Authority needs to ensure that its gross debt does not, except in the short term, exceed the total of the Capital Financing Requirement.

6.4 During the Budget process, the following Borrowing Limits were set for 2023/24:

- Maximum borrowing during the period (Authorised Limit) £870.435 million.
- Expected maximum borrowing during the year (Operational Limit) £775.435 million.
- Maximum amount of fixed interest exposure (as a percentage of total) 100%.
- Maximum amount of variable interest exposure (as a percentage of total) 30%.

6.5 For the purposes of the first two prudential indicators above, borrowing included external debt, internal borrowing and other long term liabilities, such as PFI (Private Finance Initiative). Members are asked to note that during

2023/24 the Authority remained within its set Borrowing Limits and complied with the interest rate exposure limits.

7) 2024/25 Update

7.1 Most commentators expect that interest rates will fall during 2024. However, at its most recent meeting in May 2024, the Bank of England Monetary Policy Committee (MPC) decided to maintain the base rate at 5.25%, so it may be that rates will remain higher for longer. The next MPC is due on 20th June, but the expectation is that now that a general election has been called it is unlikely that any change will be made at that meeting. A further update can be provided at the Committee meeting.

7.2 As set out in paragraph 4.8, the level of cash balances continues to be lower than it has been in the past. The Safety Valve deal with the Department for Education in relation to SEND and the receipt of £38 million towards the deficit may mean that the Authority can avoid the need for external borrowing to fund the capital programme for a little longer. This will be kept under review. Should external borrowing be required, then we would look to wait as long as possible, given the likelihood that interest rates will reduce over the next 12-18 months.

7.3 External borrowing will be required to support proposals for the creation of the Plymouth and South Devon Freeport, although this is not expected to be needed until the 2025/26 financial year. The Business Case includes the requirement for the Council to externally borrow up to £15 million for the capital works needed. The additional external borrowing will be ringfenced to the Freeport, and all the associated capital financing costs will be funded by the excess business rate income derived from the scheme.

7.4 From an investment income point of view, the target rate for 2024/25 for lending to banks, building societies and other local authorities was set at 5%. This rate should be achievable, but will depend on how quickly rates start to come down in the latter part of the year. The income achieved will also depend upon the level of cash available for investment. The budget for the year was set without taking into account the £38 million receipt from the Department for Education, but any additional income achieved will be required to contribute towards reducing the SEND deficit, as part of the Safety Valve deal concluded with the Department for Education.

8) Conclusion

8.1 Long term external debt was reduced by £46.5 million during 2023/24, with three LOBO (Lender Option Borrower Option) loans repaid in full without incurring a premium. This was facilitated by undertaking short term borrowing, which should all be repaid by the end of 2024.

8.2 Investment income of £7.947 million was achieved in 2023/24 against a full year budget of £3.75 million. This represented a return of 4.53% including the Property Fund investment, and made a positive contribution towards the

Authority's revenue outturn position. Successful prudent management of the Council's short-term cash reserves has delivered a surplus of just under £4.2 million for the 2023/24 financial year.

8.3 Cash balances going forward into 2024/25 are at a lower level than they have been for many years, partly as a result of the repayment of external debt. However, the Safety Valve agreement with the Department for Education should reduce the risk of a further erosion of cash balances. The requirement for future external borrowing to fund the Authority's capital programme will be kept under review.

Angie Sinclair
Director of Finance and Public Value

Electoral Divisions: All

Local Government Act 1972: List of background papers

Nil

Contact for enquiries:
Name: Charlotte Thompson
Telephone: 01392 381933
Address: County Hall Room 180