

AUDIT COMMITTEE

25 July 2024

Subject Heading: Annual Treasury Management Report
2023/24

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Policy context: This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the prudential and treasury indicators for 2023/24. This report meets the requirements of both the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Treasury Management, (“the CIPFA TM code”) and the CIPFA Prudential Code for Capital Finance in Local Authorities, (“the Prudential Code”)

Financial summary: The Treasury Strategy supports the Authority’s Budget strategy.

The subject matter of this report deals with the following Council Objectives

People – Things That Matter for Resident’s	x
Place – A great place to Live, Work and Enjoy	x
Resources – A Well-run Council That delivers for People and Place	x

SUMMARY

The CIPFA TM Code requires that authorities report on the performance of the treasury management function to Full Council at least twice per year (mid-year and at year-end).

The Authority’s Treasury Management Strategy Statement (TMSS) 2024/25 was approved by Full Council on the 1 March 2024. This backward looking report covers the delivery of the TMSS in 2023/24.

The Authority borrowed and invested substantial sums of money and is potentially exposed to financial risk from loss of invested funds and the revenue impact from changing interest rates. This report covers activity on treasury managed investments and borrowings and the associated monitoring and control.

RECOMMENDATIONS

- To note the content of treasury management activities and performance against targets for the financial year 2023-24 as detailed in the report.

KEY HIGHLIGHTS

- Investment income £3.5m
- Interest payable £11.0m, Net Interest Expense £7.5m.
- The Authority's long term debt are fixed at an average rate of 3.47%.
- 1 year debt was taken during February & March 2024 totalling £118m @5.0%
- During the year treasury exceeded its Investment benchmark of 3 month SONIA @4.64%% delivering a yield of 5.04%.
- During 2023/24 this Authority's treasury activities remained within the treasury limits and prudential indicators set out in the TMSS.

REPORT DETAIL

1. Background

1.1. Introduction

This Authority is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2023/24. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the TM Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).

During 2023/24 the minimum reporting requirements were that the Authority should receive the following reports:

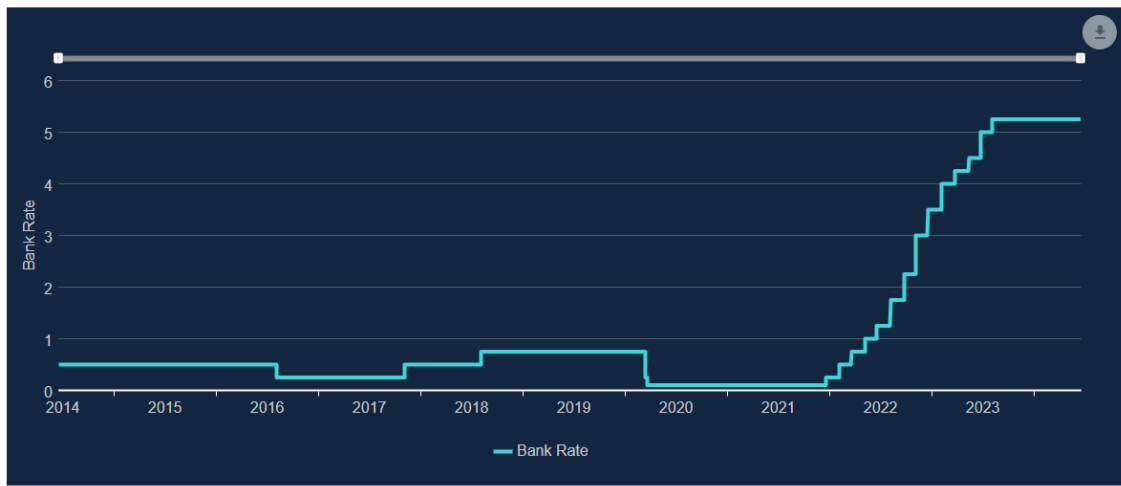
- An annual treasury strategy in advance of the year (Council 3 March 2023)
- A mid-year, (minimum), treasury update report (Audit Committee 18 October 2023)
- An annual review following the end of the year describing the activity compared to the strategy, (this report).

The regulatory environment places responsibility on Members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Authority's policies previously approved by Members.

1.2. Economic

The Bank of England (BoE) Monetary Policy Committee (MPC) continued to increase the Bank Rate, moving in stepped increases of either 0.25% or 0.50%, from 4.25% in April 2023 to 5.25% by the end of the financial year, see chart below.

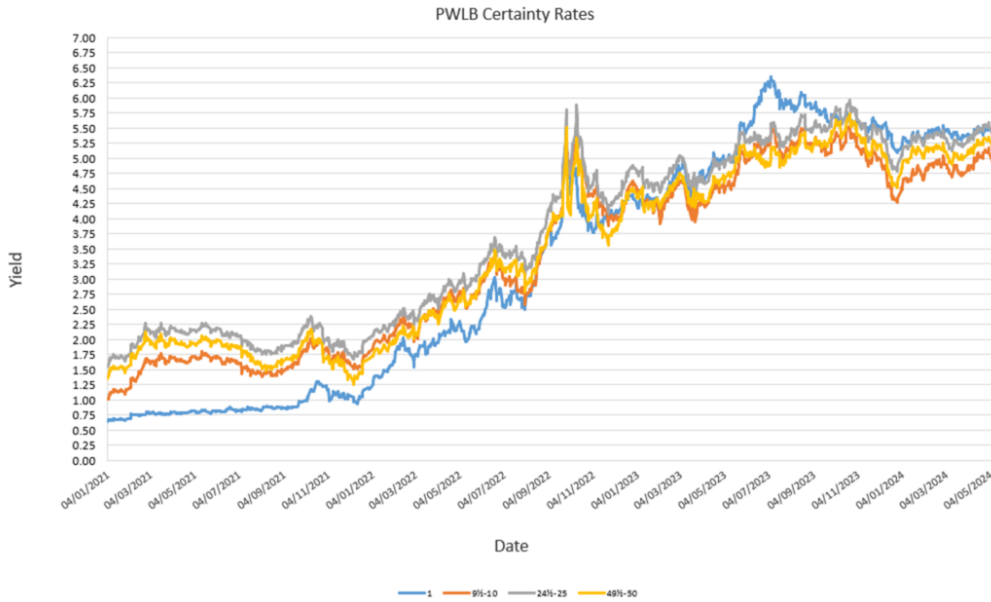
Official Bank Rate



UK Inflation as measured by the CPI continued to fall during the year closing at 2.3% in April 2024, slightly above the (BoE) target of 2%. The Bank rate peaked in August 2023 and expectations of dramatic rate cuts during the 2nd half of 2023-24 faded as stubborn inflation and geopolitical tensions kept long term rates elevated.

UK Gilt yields (which drive PWLB interest rates) were little changed during the year as the year-end rally gave way to fading hopes of rate reductions in the final quarter of the financial year. As at the 31 March 2024, all PWLB yields from 1 to 50 years were between 4.90% and 5.30%, see chart below.

Graph 1: PWLB Rates 2021/24



Treasury Management Summary

2.1 The treasury management activity in year is shown in table 1 below:

Table 1: Treasury management summary as at 31 March 2024

	01.04.23		31.03.24	2023-24	2023-24	2023-24
	Opening Balance	Movement	Closing Balance	Interest	Average Balance	Weighted Average Rate
	£m	£m	£m	£m	£m	%
LONG-TERM BORROWING						
PWLB	307.124	118.000	425.124	9.296	315.736	2.94
LOBO	7.000	0	7.000	0.252	7.000	3.60
Short-term borrowing	13.653	6.611	20.264	1.489	30.695	4.84
Total borrowing	327.777	124.611	452.388	11.037	353.431	3.12
INVESTMENTS						
Short-term investments	30.200	40.800	71.000	3.503	69.270	5.04
Total investments	30.200	40.800	71.000	3.503	69.270	5.04
Net borrowing	297.577	83.811	381.388	7.145		

2. Borrowing strategy

- 3.1 Table 2 sets out the change in the Authority's Capital Financing Requirement (CFR) in 2023/24 – this measures how the Authority's underlying borrowing need has changed in year as a result of activity on its approved capital programme and how it has been financed. The Authority's capital finance budget includes provision to fund the capital programme's expected borrowing requirement from new long term fixed rate debt.

Table 2: CFR and its financing 2023/24

	01/04/23 Actual £m	31/03/24 Budget £m	31/03/24 Actual £m
GF CFR	212	358	221
HRA CFR	347	456	397
Total CFR	559	814	618
Financed by:			
Internally borrowed cash position	231	259	165
External long term Debt:	315	555	433
External Short term Debt:			
GF	13	0	20

- 3.2 The short term strategy involved using the Authority's cash balances to fund the 2023/24 borrowing requirement in the capital programme. In addition 1 year borrowing for the HRA was entered into in February & March 2024 totalling £118m.
- 3.3 The Authority's debt portfolio is fixed at an average rate of 3.55% with an average duration of 17 years.
- 3.4 The S151 officer balanced the need to minimise the costs from funding the CFR by using internal cash balances and defer the drawdown of more expensive long term debt against the protection it offers in reducing interest rate risk and stabilising capital finance costs in the budget strategy. Slippage on the capital programme in 2023/24 has meant the Authority's cash balances have remained higher than planned. This strategy of deferring long term borrowing resulted in significant savings in the 2023/24 capital finance budget as detailed in table 4 below. This strategy may need to be reviewed should interest rates remain higher for longer.

Table 4: Capital finance outturn 2023/24

Item	HRA £m	General Fund £m
Interest payable		
Budget	8.0	5.1
Outturn	10.6*	3.7
Underspend/(Overspend)	(2.6)	1.4
Interest receivable		
Budget	0	1.2
Outturn	0	6.8*
Underspend	0	5.6
Net Underspend/(Overspend)	(2.6)	7.0

* includes £3.3m of interest owed to the GF from the HRA for use of GF cash balances

3.5 Debt Rescheduling

The possibility of debt rescheduling was regularly discussed with our treasury adviser. The current PWLB rules on redemption remain prohibitive and costly.

3.6 LOBO Loan

The Authority holds a £7m LOBO (Lender Option, Buyer Option) loan with Danske Bank who has the option to propose an increase in the interest rate at set dates, while the Authority then has the option to either accept the new rate or to repay the loan at no additional cost. Danske Bank have indicated there is a very low probability they will alter the rate in the foreseeable future, Officers will continue to monitor and liaise with Danske Bank going forward.

3. Investment strategy

4.1 The Authority's cash investments increased during the year as proceeds from PWLB issuance (£118m) were received to reduce the internal borrowing position. Investments increased from £30.2m to end the year at £71.0m, as shown in Table 5 below.

4.2 The Guidance on Local Government Investments in England gives priority to security and liquidity and yield in that order. Officers kept treasury investments in short-term instruments in 2023/24 so they could be used to fund the capital programme whilst maintaining a liquidity buffer of £40m as a contingency against any future credit crisis. The Authority has benefited from this strategy as it has been able to take advantage of the increase in short term interest rates.

Table 5: Treasury investment activity 2023/24

	01.04.23		31.03.24	
	Opening Balance	Movement	Closing Balance	Interest rate %
	£m	£m	£m	£m
Investments				
Local Authorities	0	55.000	55.000	6.19
Debt Management office (DMO)	30.200	(14.200)	16.000	5.19
Total Investments	30.200	40.800	71.000	5.96

* Interest rate at 31 March 2024.

4.3 Appendix A shows the breakdown of counterparties and investments for the Authority, showing the percentage each investment represents as a part of the total amount invested.

5. Budgeted Income and Return

5.1 The authority measures the financial performance of its treasury management activities both in terms of its impact on the revenue budget and its relationship to benchmark interest rates, as shown in table 6 below:

Table 6: Treasury investment performance 2023-24

	Benchmark Weighted average 3 Month Sonia %	Actual Weighted rate of return achieved %	Difference %
2023-24	4.64	5.04	+ 0.40

6. Regulatory Changes

6.1 The revised CIPFA code was explained in last year’s report and came into effect in 2023/24 financial year. Members received training on this in January 2024 from LINK our treasury advisors.

7. Compliance with Treasury and Prudential Limits

7.1 During the year, the Authority has operated within the treasury limits and Prudential Indicators set out in the authority Treasury Management Strategy Statement and in compliance with the authority’s Treasury Management

Practices. An update on indicators and limits are reported in Appendix A of this report.

- 7.2 The Council has not borrowed more than, or in advance of its needs, purely in order to profit from the investment of the extra sums borrowed.

IMPLICATIONS AND RISKS

Financial implications and risks:

The Authority uses Link Asset Services, Treasury Solutions as its external treasury management advisors.

The Authority recognises that responsibility for treasury management decisions remains with the organisation at all times. All decisions will be undertaken with regards to all available information, including, but not solely our treasury adviser.

Risk is inherent in all treasury activity. The Investment Strategy identifies the risk associated with different classes of investment instruments and sets the parameters within which treasury activities can be undertaken and controls and processes appropriate for that risk.

Treasury operations are undertaken by nominated officers as prescribed by the Treasury Management Policy Statement as approved by the Council.

Legal implications and risks:

There are no apparent legal implications or risks from noting this report.

Human Resources implications and risks:

There are no HR implications from this report

Equalities implications and risks:

There are no Equalities implications arising from this report.

The report has no direct equalities implications.

The Public Sector Equality Duty (PSED) under section 149 of the Equality Act 2010 requires the Council, when exercising its functions, to have 'due regard' to:

- (i) The need to eliminate discrimination, harassment, victimisation and any other conduct that is prohibited by or under the Equality Act 2010;
- (ii) The need to advance equality of opportunity between persons who share protected characteristics and those who do not, and;
- (iii) Foster good relations between those who have protected characteristics and those who do not.

Note: 'Protected characteristics' are age, disability, gender reassignment, marriage and civil partnerships, pregnancy and maternity, race, religion or belief, sex/gender, and sexual orientation.

The Council is committed to all of the above in the provision, procurement and commissioning of its services, and the employment of its workforce. In addition, the Council is also committed to improving the quality of life and wellbeing for all Havering residents in respect of socio-economics and health determinants.

Health and Wellbeing implications and risks:

The Council is committed to improving the quality of life and wellbeing for all Havering employees and residents in respect of socio-economics and health determinants. Whilst there are no direct implications to the Council's workforce and residents health and wellbeing as a result of this report.

BACKGROUND PAPERS

None

Appendix A

Compliance Report

All treasury management activities undertaken during the financial year complied fully with the CIPFA Code of Practice and the authority's approved Treasury Management Strategy. Compliance with specific treasury limits is demonstrated in tables below.

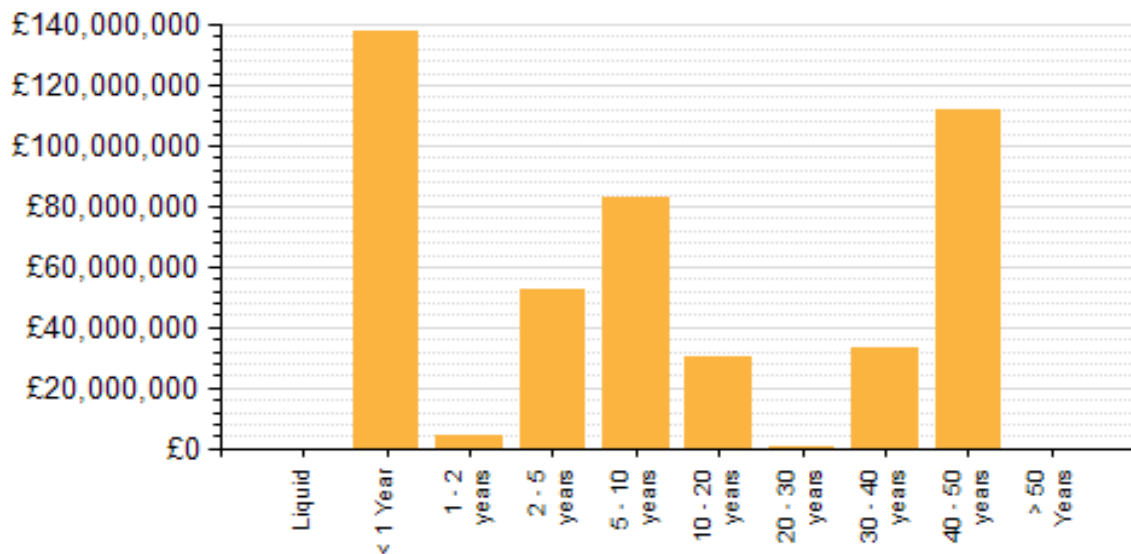
1.1 Maturity Structure of Borrowing

1.1 This indicator is set to control the Authority's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Table 1: Loan maturity structure

	Upper %	Lower %	Actual %
Under 12 months	40	0	30.51
12 months and within 24 months	60	0	0.89
24 months and within 5 years	80	0	11.61
5 years and within 10 years	100	0	18.26
10 years and above	100	0	38.73

Loans Maturities by Type



Tenor Bucket	Total			
	Amount	% of Total	Rate	Duration
Liquid	(£11,548)	0.00%	0.38%	-
< 1 Year	£137,999,529	30.51%	5.04%	0.83
1 - 2 years	£4,028,706	0.89%	3.40%	1.76
2 - 5 years	£52,511,718	11.61%	3.20%	3.98
5 - 10 years	£82,624,000	18.26%	3.30%	8.00
10 - 20 years	£30,000,000	6.63%	3.50%	18.00
20 - 30 years	£265,177	0.06%	2.25%	20.78
30 - 40 years	£32,959,855	7.29%	5.03%	32.63
40 - 50 years	£112,000,000	24.76%	1.66%	46.42
> 50 Years		0.00%		
Total	£452,377,437	100.00%	3.55%	17.27

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment. The average duration of the debt portfolio is 17.27 years.

1.2 Principal Sums Invested for Periods Longer than 364 days

1.2.1 The purpose of this indicator is to control the authority's exposure to the risk of incurring losses by seeking early repayment of its investments.

1.2.2 The limits set in the 2023/24 treasury management strategy in comparison to the quarter one is set below. It is the authority's policy to classify investments with maturities exceeding one year as Long term investments.

Table 3: Investments for periods longer than 364 days

	2023/24 Limit £m	2023/24 Actual £m	2024/25 Limit £m
Limit on principal invested beyond year end	50	-	50

1.3 Security Treasury Indicator

1.3.1 The Authority has adopted a voluntary measure of its exposure to credit risk by monitoring the value-weighted average credit rating of its investment portfolio.

Table 5: Security Treasury Indicator

	31.03.24 Actual	2023/24 Target
Portfolio average credit rating	A+	A+

1.4 Gross Debt and the Capital Financing Requirement (CFR)

1.4.1 In order to ensure that over the medium term debt will only be for a capital purpose, the Authority should ensure that debt does not, except in the short term, exceed the total of CFR in the preceding year plus the estimates of any additional CFR for the current and next two financial years. This is a key indicator of prudence. The estimates below are based on those set out in the approved TMSS 2023/24 – the capital programme is currently under review and are likely to change.

Table 6: Gross debt and the CFR at 31st March 2024

	31.03.24 Actual £m	31.03.24 Estimate £m	31.03.25 Estimate £m	31.03.26 Estimate £m
Long-term External Debt	432	457	665	749
Short-term External Debt	20	0	0	0
Total debt	452	457	665	749
TOTAL CFR	618	814	924	988
Internal Borrowing	166	357	259	239

1.4.2 Total debt is expected to remain below the CFR. Officers will draw down long term debt when conditions merit it. Actual debt levels are monitored against the Operational Boundary and Authorised Limit for External Debt as below.

1.5 Operational Boundary for External Debt

1.5.1 The operational boundary is based on the authority's estimate of most likely, i.e. prudent, but not worst case scenario for external debt. These limits may be

reviewed as part of mid-year TMSS report in the event of a change in the interest rate outlook and the decision is made to fund the increase in CFR from external debt.

Table 7: Operational Boundary

Operational Boundary	2023/24 £m	31.03.24 Actual	2024/25 £m	2025/26 £m
Borrowing	720	452	900	1,090
Other long-term liabilities	10	0	10	10
Total	730	452	910	1,100

1.6 Authorised Limit for External Debt

1.6.1 The authorised limit is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the authority can legally borrow. The authorised limit provides headroom over and above the operational boundary for unusual cash movements

Table 8: Authorised limit for external debt

Authorised Limit	2023/24 £m	2024/25 £m	2025/26 £m
Borrowing	760	950	1,140
Other long-term liabilities	10	10	10
Total Debt	780	960	1.150
Long Term Debt	432	432	432
Headroom available (amount)	348	528	718

Glossary of Terms

Appendix C

A bond is a debt instrument in which an investor lends money for a specified period of time at a fixed rate of interest. The issuing entity could be corporate, financial or government.

A floating rate note (FRN) is a money market instrument with a Floating/variable rate of interest, which re-fixes over a reference rate, for example 3 month LIBOR.

Bail in is rescuing a financial institution on the brink of failure by making its creditors and depositors take a loss on their holdings. A **bail-in** is the opposite of a **bail-out**, which involves the rescue of a financial institution by external parties, typically governments using taxpayer's money.

Certificates of deposit (CDs) are a negotiable form of fixed deposit, ranked pari passu with fixed deposits. The difference is that you are not obligated to hold the CD to maturity, you can realise the cash by selling in the secondary market.

Coupon is the total amount of interest a security will pay. The coupon period depends on the security. A CD will often pay interest at maturity, while a bond may pay semi-annually or annually and an FRN will most likely pay every 3 months.

Covered bond Covered bonds are conventional bonds (fixed or floating) issued by financial institutions, that are backed by a separate group of loans, usually prime residential mortgages. This lowers the creditor's exposure to default risk, enhancing the credit. This is why the issue is usually rated AAA, higher than the rating given to the issuer reduces exposure to bail-in risk.

Credit rating A measure of the credit worthiness of a borrower. A credit rating can be assigned to country, organisation or specific debt issue/ financial obligation. There are a number of credit ratings agencies but the main 3 are Standard & Poor's, Fitch or Moody's.

MIFID is the Markets in Financial Instruments Directive. A European Union Directive.

Principal is the total amount being borrowed or lent.

Spread is the difference between the buy and sell price of a security. It can also be the gap, usually in basis points, between the yield of a security and the benchmark security.

SONIA sterling overnight interest average rate, the average rate at which banks offer funds in the overnight sterling market.

Monetary Policy Committee (MPC) is a committee of the [Bank of England](#), which meets for three and a half days, eight times a year, to decide the official [interest rate](#) in the [United Kingdom](#) (the [Bank of England Base Rate](#)).

CPIH (Consumer Prices Index including owner occupiers' housing costs) The new additional measure of consumer price inflation including a measure of owner occupiers' housing costs (OOH). CPI inflation measure excludes housing costs.

CPI (Consumer Prices Index) this measure excludes housing costs.

Treasury bills (T-bills) are UK government rated, short-dated form of Government debt, issued by the Debt Management Office (DMO) via a weekly tender. T-bills are normally issued for one, three or six month duration.

Borrowing Requirements The principal amount the Council requires to borrow to finance capital expenditure and loan redemptions.

Capital Financing Requirement (CFR) Capital Financing Requirement- a measure of the Council's underlying need to borrow to fund capital expenditure.

Counterparties Organisations or Institutions the Council lends money to e.g. Banks; Local Authorities and MMFs.

Credit Default Swap (CDS) A kind of protection that can be purchased by MMF companies from insurance companies (for their investment) in exchange for a payoff if the organisation they have invested in does not repay the loan i.e. they default.

Credit Watch A scoring system issued by credit rating agencies such as Fitch, Moody's and Standard & Poors that indicate the financial strength and other factors of a bank or similar Institution.

DMO (Debt Management Office) a department in the treasury where deposits can be placed with the government.

Interest Rate Exposures A measure of the proportion of money invested and what impact movements in the financial markets would have on them.

Market Loans Loans from banks available from the London Money Market including LOBOS (Lender Option, Borrowing Option) which enable the authority to take advantage of low fixed interest for a number of years before an agreed variable rate comes into force.

Money Market Fund (MMF) A 'pool' of different types of investments managed by a fund manager that invests in highly liquid short term financial instruments with high credit rating.

Minimum Revenue Provision (MRP) This is the amount which must be set aside from the revenue budget each year to cover future repayment of loans.