

## **ANNUAL REPORT ON TREASURY MANAGEMENT ACTIVITY 2023/24**

Presented by the Head of Finance

### **EXECUTIVE SUMMARY**

This report provides a summary of treasury management investment and borrowing activity during 2023/24.

### **RECOMMENDATIONS**

- Members Note: (1) treasury management activity during 2023/24; and
- Members Approve: (2) where appropriate the setting up of new treasury investment accounts as set out in paragraph 26 of this report.

### **BACKGROUND**

- 1 Treasury management is the management of the Authority's cash flows, banking, investment, and borrowing decisions and the effective control of the risks associated with those activities, with the aim of optimising performance/returns whilst minimising the associated risks.
- 2 This report looks at the Authority's performance over the past year.

### **ANNUAL PERFORMANCE**

- 3 Treasury management activity is governed by the Authority's Treasury Management Policy, which has the aim of managing risk, avoiding volatility and optimising returns, while maintaining a high degree of accessibility from the accounts to enable the cash requirements of the Authority to be met. Members of the Authority last reviewed and approved the Treasury Management Policy in April 2021 (Paper A/4297/21).
- 4 The Authority has continued to refinance the capital investment on the Lee Valley Ice Centre Redevelopment from short-term borrowing; loans repayable within 24 months. The remainder of the capital programme has been funded from the Authority's accumulated cash balances.

- 5 The Authority's cash position is reviewed on a daily basis and funds are invested or withdrawn as necessary in order to minimise the level of un-invested cash/bank overdraft.
- 6 During the course of this year around 220 transactions have been completed, mainly through the Special Interest Bearing Account (SIBA) of the Authority's current bankers (Nat West).
- 7 Short term investments have ranged in size from £10,000 to £3 million; and from periods of one day to three months. Interest earned in 2023/24 will total £532,662.

## 2023/24 INVESTMENT PORTFOLIO

### 8 Short to Medium Term Investments

The Authority uses an investment firm (Tullet Prebon) to invest funds, in line with the Treasury Management Policy in the short to medium term (up to 2 years) at the best achievable rate. The sums invested during 2023/24 were:

Investment	Average Amount £m	Interest Earned £000s	Interest Rate Range
Principality BS	£1.9m	£241	3.67% - 5.23%
West Brom BS	£2.0m	£214	3.31% - 5.18%

At 31 March 2023 the balance with Principality was £6.2million and West Brom £4.2million.

Whilst the Treasury Management Policy recommends keeping the balance at any one institute to a maximum of £5million, it does allow for cashflow requirement for it to exceed this level. Investment exceeded this level on nine occasions, all relating to cash holding pending borrowing repayments or large purchase invoices.

### 9 Day to Day Investments

These are managed on a day to day basis with the Authority's bankers, Nat West. Surplus funds are moved on a day to day basis between the current account and a SIBA, currently achieving a rate of up to 1.70%. The balance on the account at 31 March 2024 was £4.7million.

- 10 Whilst the Treasury Management Policy recommends keeping the balance at any one institute to a maximum of £5million, it does allow for cashflow requirement for it to exceed this level. On thirteen occasions during 2023/24 (2022/23 12 occasions) the Authority exceeded its limit of £5million held at any one institution. On these occasions this was due to cash flow timing, relating to cash holding pending borrowing repayments, payment of large purchase invoices, or awaiting re-investment.

## INVESTMENT PERFORMANCE 2023/24

- 11 During 2022/23, the Authority's bank accounts and investments achieved the following average interest rates.

Account	Period of Investment	Average Interest Rate Achieved During 2022/23	Average Interest Rate Achieved During 2023/24
		%	%
Nat West SIBA	On-Call	0.48	1.53
Santander	On-Call	1.22	3.08
Principality BS	1-3 months	1.88	4.80
West Bromwich BS	1-3 months	2.31	4.77
<b>Weighted Average</b>		<b>1.31</b>	<b>3.67</b>

- 12 The Authority's weighted average rate of investment return for 2023/24 was 3.67% with total investment income of £553,000, significantly above the budget of £30,000. The annual return was higher than budget due to the significant increases in interest rates throughout the year, along with a much higher than forecast cash holding. However, it is not proposed to set a target rate of return for future years, although the budget for 2024/25 is set at £200,000, but for officers to continue to utilise cash reserves and manage cash flow with regard to reducing costs related to borrowing, rather than looking to maximise investment returns.
- 13 The Bank of England base rate has increased a number of times throughout 2023/24 in response to the increase in inflation. At 1 April 2023 it was 4.25%, but this was increased at every Monetary Policy Committee (MPC) meeting until September where it increased to 5.25%, and remained at that level at 31 March 2023. The MPC met again on 09 May 2024 where they voted to maintain the Base Rate at 5.25%. The next MPC meeting is on 20 June 2024.

In their May 2024 Monetary Policy Report the Bank of England stated that expectations were that Consumer Price Index (CPI) inflation would fall close to 2% in the near term, but rise a little due to the unwinding of energy-related base effects. Whilst there continues to be upside risks, developments in the Middle East have had limited impact on oil prices so far. Gross Domestic Product (GDP) is expected to pick up in the next year, and whilst services CPI is around 6% at the moment, it is expected to ease over the year. Forecasts are for a slow reduction to the Base Rate over the next few years to keep CPI inflation in check.

#### **BORROWING PERFORMANCE 2023/24**

- 14 Members agreed the redevelopment of the Ice Centre would be funded from external borrowing. The approved strategy is for a mix of short-term, up to 24 months, and longer term borrowing with the focus currently only on short-term borrowing due to the high interest rates that are associated with long term loans, and the impact of that on future revenue budgets.
- 15 During the initial build period from 2021 the Authority utilised its own cash reserves to reduce the borrowing costs. We have since been able to access Local Authority lending, and had borrowing of £25million at 31 March 2023. One loan repayment in April 2024 of £10million, was subsequently refinanced with a loan of £8million, and utilising £2million of our own cash, reflecting the net cost of the Ice Centre at year-end of c £23million

- 16 The borrowing during 2022/23 is profiled below.

#### Loans Repaid

Lender	Amount	Rate	Loan Period
Gloucestershire CC	£5m	1.50%	Repaid May 2023
Gloucestershire CC	£5m	4.10%	Repaid July 2023
Cambridge & Peterborough CA	£5m	4.40%	Repaid Oct 2023
Gloucestershire CC	£5m	4.50%	Repaid Dec 2023

#### Continuing Borrowing

Lender	Amount	Rate	Loan Period
Public Works Loans Board	£5m	4.22%	Dec 22 – Dec 24

#### New Borrowing

Lender	Amount	Rate	Loan Period
West Midlands CA	£10m	4.30%	Apr 23 – Apr 24
West Midlands CA	£5m	4.40%	Sept 23 – Sept 24
West Midlands CA	£5m	4.30%	Dec 23 – Dec 24

- 17 The total borrowing costs accrued in 2023/24, including both interest payable and brokerage costs are £1.14million. During the construction stage of the Ice Centre, we are able to charge borrowing costs directly to the capital project, rather than financing them from revenue. In total, £0.124million has been charged to capital in 2023/24, with the remaining £1.016million included in the revenue outturn for the year.

The borrowing costs of £0.124m has been included in the Capital Outturn for the Lee Valley Ice Centre (Executive Committee, Paper E/854/24).

Investment income of £1.016million has been included in the Revenue Outturn (Executive Committee, Paper E/853/24).

### OUTLOOK FOR 2024/25

- 18 Whilst inflation is falling, interest rates remain high, which presents a number of challenges and uncertainties over the coming year.

We continue to see an increase in general costs, and whilst we do have certainties in some areas through fixed contract prices (Grounds Maintenance, Utilities to October 2024), there are increases elsewhere.

Coupled with a slowdown in economic growth and increase in costs of all commodities, this may result in less income flow to the Authority. This will continue to be reported to Members on a regular basis at the quarterly Revenue and Capital Outturn reporting cycle. Our current Medium Term Financial Plan forecasts a reduction in cash held by the 31 March 2025 to a level around £6million.

- 19 From a Treasury Management perspective, there are both pros and cons to this. On the positive side, we have seen increases in borrowing rates which in turn has resulted in an increase in investment income. However, with potentially less cash to invest, the monetary value will be reduced.
- 20 The increase in rates also impact the lending rates and the Authority is in a position where it currently needs to borrow £23m to fund the Lee Valley Ice Centre redevelopment. Current Public Works Loans Board (PWLB) long-term

interest rates have increased to around 5.50% for a 40 year Equal Instalment of Principal (EIP) loan. This increase has had an impact on the interest costs repayable, which will in turn result in less cash available to invest.

- 21 The financial budget for 2024/25 which was approved by Members in January (Paper A/4346/24) set an investment income budget of £200,000. With the current levels of interest rates, coupled with forecast cash holdings we are expecting to be able to achieve returns of around this.

The budget for interest costs in relation to borrowing was set at £1.122million, which is based on loans outstanding at 1 April 2024, along with forecasts of average interest rates around 5% for the year.

- 22 Officers continue to monitor both short and long-term lending rates to be able to make the best Treasury decisions for the Authority.

### **ENVIRONMENTAL IMPLICATIONS**

- 23 There are no environmental implications arising directly from the recommendations in this report.

### **FINANCIAL IMPLICATIONS**

- 24 These are dealt with in the main body of the report.
- 25 The Annual Investment Strategy forms one part of the wider Capital Strategy, along with the Treasury Management Strategy, Prudential Indicators, Minimum Revenue Provision Statement, as well as the Revenue and Capital Budgets. These were approved by Members at Authority in January 2024 (Paper A/4347/23).
- 26 As set out in paragraph 10, the Authority exceeded its Treasury Management policy limit of £5m on thirteen occasions. Rather than amend the policy to increase this limit, it is recommended that further investment accounts be created as and when required. Currently there are only two active accounts, with Principality Building Society and West Bromwich Building Society, although in the past we have utilised a number of others.

The Treasury Management Policy allows for investment at any UK based Clearing Bank, or one of the top seven rated UK Building Societies. To facilitate the setting up of these, most institutes require a specific board minute agreeing to this.

Therefore, it is recommended that Member approve, where appropriate, the opening of new investment accounts as per the TM policy, with the approval to last until the relevant Treasury Management Activity paper in May 2025, where Members can then consider options again. Officers will report any new accounts opened before then, within the quarterly Revenue Outturn reports.

### **HUMAN RESOURCE IMPLICATIONS**

- 27 There are no human resource implications arising directly from the recommendations in this report.

## LEGAL IMPLICATIONS

- 28 There are no legal implications arising directly from the recommendations in this report.

## RISK MANAGEMENT IMPLICATIONS

- 29 The risk of investment is considered within the existing Treasury Management Policy. The Authority tries to minimise risk by capping the total investment with any one financial institution to £5million, subject to allowance to exceed this limit for cashflow purposes, and limiting investments to UK clearing banks and the top seven building societies or where the building society assets exceed £10 billion.
- 30 The current Treasury Management Policy was last approved by Members in April 2021 (Authority Meeting, Paper A/4297/21) and is due for review again in April 2025.

Treasury Management is audited by the internal auditors to ensure procedures and investment decisions comply with the Policy and Investment Strategy approved by Members. The audit was last conducted in January 2021, and the internal auditors provided a "substantial assurance" rating. This is now scheduled for review, and is included in the draft Audit Plan 2024/25, due for approval at Audit Committee in June 2024.

The work carried out by the internal auditors will also tested by the external auditors.

## EQUALITY IMPLICATIONS

- 31 There are no equality implications arising directly from the recommendations in this report.

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## BACKGROUND REPORTS

CIPFA "Treasury Management in the Public Services Code of Practice & 2021 Cross Sectoral Guidance Notes"

## PREVIOUS COMMITTEE REPORTS

Authority	A/4347/24	Capital Strategy 2023/24 to 2027/28	18 January 2024
Executive	E/811/23	Annual Report on Treasury Management Activity 2022/23	25 May 2023
Authority	A/4331/23	Capital Strategy 2022/23 to 2026/27	19 January 2023
Executive	E/765/22	Annual Report on Treasury Management Activity 2021/22	26 May 2022
Authority	A/4297/21	Treasury Management Policy	29 April 2021

**LIST OF ABBREVIATIONS**

<b>CIPFA</b>	<b>Chartered Institute of Public Finance and Accountancy</b>
<b>SIBA</b>	<b>Special Interest Bearing Account</b>
<b>PWLB</b>	<b>Public Works Loans Board</b>
<b>MPC</b>	<b>Bank of England Monetary Policy Committee</b>
<b>CPI</b>	<b>Consumer Price Index</b>
<b>GDP</b>	<b>Gross Domestic Product</b>
<b>EIP</b>	<b>Equal Instalment of Principal</b>

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