Arun District Council

REPORT TO:	**Audit and Governance Committee – 23 July 2024**
SUBJECT:	**Treasury Management – Annual Report 2023/24**
LEAD OFFICER:	**Antony Baden - Group Head of Finance and Section 151 Officer**
LEAD MEMBER:	Cllr Matt Stanley
WARDS:	**All**

CORPORATE PRIORITY/POLICY CONTEXT/CORPORATE VISION:

The Treasury Management function is required by regulation and has an effect on all Directorates of the Council.

DIRECTORATE POLICY CONTEXT:

This report is the Treasury Management Annual Report 2023-24.

This report summarises:

- Capital activity during the year *(appendix 1, point 2);*
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement) *(appendix 1, point 3);*
- The actual prudential and treasury indicators *(appendix 1 , points 3 and appendix 2)*;
- Overall treasury position identifying how the Council has borrowed in relation to its indebtedness, and the impact on investment balances *(appendix 1 point 4);*
- Summary of interest rate movements in the year *(appendix 1 point 5)*;
- Debt activity *(appendix 1, points 3 and 6);* and
- Investment activity *(appendix 1, point 4.3 and point 7 plus appendix 4)*.

FINANCIAL SUMMARY:

The financial implications arising from this report are detailed in Appendices 1 to 4. The figures contained in this report are draft, and subject to revisions and external audit but they are not expected to change significantly. Any such changes will be reported to this Committee.

1. PURPOSE OF REPORT

1.1. The purpose of this report is to present the Treasury Management annual report for 2023/24 and to enable the Audit and Governance Committee to scrutinise the report prior to taking it to Full Council on 7 November 2024.

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

1.3. During 2023/24 the minimum reporting requirements were that the Full Council should receive the following reports:

- an annual treasury strategy in advance of the year (reported to Council 15 March 2023)
- a mid-year, (minimum), treasury update report (reported to Council 10 January 2024)
- an annual review following the end of the year describing the activity compared to the strategy, (this report)

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

1.5. This Council confirms that it has complied with the requirement under the Code to give prior scrutiny to all the above treasury management reports by the Audit and Governance Committee before they were reported to the Full Council.

1.6. All Councillors were invited to attend a Treasury Management training session presented by Link Group (the Councils treasury advisors) to support members' scrutiny role.
This was held on 4 July 2023 of which 22 Members attended. This was a more in depth session due to the introduction of the 2021 codes.

2. RECOMMENDATIONS

Audit and Governance Committee is requested to recommend Full Council to:

2.1. note the actual prudential and treasury indicators for 2023/24 contained in the report

2.2. note the annual treasury management report for 2023/24; and

2.3. note the treasury activity during 2023/24 which has generated interest receipts of £2.43m (4.94%). Budget £1.54m (3.2%)

3. EXECUTIVE SUMMARY

3.1. The CIPFA (Chartered Institute of Public Finance and Accountancy) Code of Practice for Treasury Management 2021 recommends that Members be updated on treasury management activities at least quarterly. The 2023/24 Treasury Management Strategy states this report will go to the Audit and Governance committee in September. This report, therefore, ensures this Council is implementing best practice in accordance with the Code.

3.2. During 2023/24, the Council complied with its legislative and regulatory requirements. Including confirmation that the authorised borrowing limit was not breached.

4. DETAIL

4.1. The detail can be found in appendix 1-4.

5. CONSULTATION

5.1. Consultation has been undertaken with the Council's Treasury Advisors – Link Group, Link Treasury Services Limited.

6. OPTIONS / ALTERNATIVES CONSIDERED

6.1. The Treasury Management Annual Report is a mandatory requirement under the Local Government act 2003 and therefore the only option available is to request that Full Council accept the recommendations.

7. COMMENTS BY THE GROUP HEAD OF FINANCE SUPPORT/SECTION 151 OFFICER

7.1. The Council is required to ensure that cash raised during the year will meet expenditure. Part of the treasury management operation is to ensure that this cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low-risk counterparties or instruments in line with the Council's low risk appetite, providing adequate liquidity before considering investment return.

7.2. Another key function of the treasury management service is to manage the funding of the Council's Capital Programme. It determines borrowing needs in respect of longer-term cash flow planning so that the Council can deliver its capital plans. This involves arranging long and short-term loans as well as the use of cash flow surpluses. It can also involve restructuring existing debt if this reduces costs or risk exposure to interest rate increases.

7.3. The Treasury Management function looks to optimize interest income and reduce debt interest payments whilst ensuring that the Council has enough liquidity to meet all its spending commitments. Since cash balances generally consist of reserves and balances, it is paramount that investments are placed as securely as possible as any losses would have an adverse impact on the revenue budget.

7.4. The parameters guiding our approach to treasury management are set out in the Council's approved Treasury Management and Annual Investment strategies and the financial implications and detail arising from our Treasury Management activities are outlined in appendices 1-4.

8. RISK ASSESSMENT CONSIDERATIONS

8.1. The main risks in treasury management are financial ones. These are identified in the Council's Treasury Management Practices and the main risks in these activities are:

- liquidity;
- markets or investment;
- inflation;
- credit and counterparty;
- legal and regulatory

8.2. The consequences of ignoring these are the adoption of poor practices, diminished interest returns, loss of capital invested, and poor liquidity (funds available when required). The Council's Treasury Management and Annual Investment strategies mitigate most of these risks.

9. COMMENTS OF THE GROUP HEAD OF LAW AND GOVERNANCE & MONITORING OFFICER

9.1. Treasury Management operates within specified legal and regulatory parameters. The presentation of the report is required by regulations issued under the Local Government Act 2003 to review the treasury management activities, the actual prudential indicators and the treasury related indicators.

9.2. There are no specific legal implications arising from this report.

10. HUMAN RESOURCES IMPACT

10.1. None

11. HEALTH & SAFETY IMPACT

11.1. None

12. PROPERTY & ESTATES IMPACT

12.1. None

13. EQUALITIES IMPACT ASSESSMENT (EIA) / SOCIAL VALUE

13.1. None

14. CLIMATE CHANGE & ENVIRONMENTAL IMPACT/SOCIAL VALUE

14.1. To support the Council's 2030 carbon neutral target there should be consideration to transitioning current (and future) investments into more sustainable investment options.

14.2. Current Investments with CCLA (diversified fund and property fund) and Standard Chartered (Sustainable deposits) all have positive ESG factors.

14.3. Further options will be explored and considered.

15. CRIME AND DISORDER REDUCTION IMPACT

15.1. None

16. HUMAN RIGHTS IMPACT

16.1. None

17. FREEDOM OF INFORMATION / DATA PROTECTION CONSIDERATIONS

17.1. None

CONTACT OFFICER:
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BACKGROUND DOCUMENTS*:*

- The Local Government Act 2003 (The Local Government Act 2003).
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes (CIPFA, December 2021) *(Link not available as copyright).*
- The Prudential Code for Capital Finance in Local Authorities (CIPFA, December 2021) *(Link not available as copyright).*
- DLUHC Guidance on Local Government Investments

  Guidance_on_local_government_investments.pdf (publishing.service.gov.uk)-
- Link Asset Services Ltd Annual Treasury Management review Template 2023/24. *(Link not available as copyright).*
- 2023/2024 Strategy:
  Treasury Management Strategy Statement and Annual Investment Strategy 2023/24

Appendix 1

Treasury Management Annual Report 2023/24

1.0 INTRODUCTION

The report summarises the following:

- Capital activity during the year;
- Impact of this activity on the Council's underlying indebtedness (the Capital Financing Requirement);
- The actual prudential and treasury indicators;
- Overall treasury position identifying how the Council has borrowed in relation to its indebtedness, and the impact on investment balances;
- Summary of interest rate movements in the year;
- Detailed debt activity; and
- Detailed investment activity.

2.0 THE COUNCIL'S CAPITAL EXPENDITURE AND FINANCING 2023/24

2.1 The Council undertakes capital expenditure on long-term assets. These activities may either be:

- Financed immediately through the application of capital or revenue resources (capital receipts, capital grants, revenue contributions etc.), which has no resultant impact on the Council's borrowing need; or
- If insufficient financing is available, or a decision is taken not to apply resources, the capital expenditure will give rise to a borrowing need.

2.2 The actual capital expenditure forms one of the required prudential indicators. The table in 2.3 shows the actual capital expenditure and how this was financed.

2.3 Financing of Capital Expenditure

Capital Expenditure	Actual 2022/23 £'000	2023/24 Original £'000	2023/24 Revised £'000	2023/24 Actual £'000
Non HRA	7,023	5,944	14.452	7,206
HRA	6,443	8,998	16,007	7,085
Total	**13,466**	**14,941**	**30,459**	**14,291**
Financed by:				
Capital receipts (1-4-1)	1,896	1,285	3,222	1,639
Capital grants (inc s106)	4,753	1,400	10,284	4,493
Capital reserves	3,180	2,931	2,931	4,394
Revenue	1,549	0	1,815	1,112
Total	**11,378**	**5,616**	**18,252**	**11,638**
Unfinanced capital expenditure	**2,088**	**9,325**	**12,207**	**2,653**

"Unfinanced capital expenditure"- results in a financing or borrowing need that comes from either internal borrowing, grants, or other sums such as section 106 contributions.

3.0 THE COUNCIL'S OVERALL BORROWING NEED

3.1 The Council's underlying need to borrow to finance capital expenditure is termed the Capital Financing Requirement (CFR). This figure is a gauge of the Council's indebtedness. The CFR results from the capital activity of the Council and resources used to pay for the capital spend. It represents the 2023/24 unfinanced capital expenditure (see above table), and prior years' net or unfinanced capital expenditure which has not yet been paid for by revenue or other resources.

3.2 Part of the Council's treasury activities is to address the funding requirements for this borrowing need. Depending on the capital expenditure programme, the treasury service organises the Council's cash position to ensure that sufficient cash is available to meet the capital plans and cash flow requirements. This may be sourced through borrowing from external bodies (such as the Government, Public Works Loan Board (PWLB) or the money markets), or utilising temporary cash resources within the Council, which is known as 'internal borrowing'.

3.3 In 2010/11 Arun DC had a housing revenue account subsidy liability of £4.8m. From April 2012, the Localism Act 2011 introduced a new financial regime for local authority housing. A new self-financing system replaced the previous subsidy system, giving Council's more freedom to borrow money and spend the income they receive from rents. To achieve this, Arun District Council made a substantial single payment of £71 million to the Government, financed with loans from the Public Works Loans Board (PWLB). The balance outstanding on these loans is £35.46m.

3.4 There may be an occasional need to borrow for liquidity purposes especially as the Council no longer has an overdraft facility. The facility was removed as banking costs made it very expensive and rather than incurring any costs for the facility, the treasury team maintains approximately £200k in the Council's Lloyds liquidity accounts (bank account or call account) each day. Both are available until the close of business each day.

3.5 The CFR increases when capital expenditure is incurred but not financed and reduces when amounts are set aside for loan repayments. The CFR is not allowed to rise indefinitely. Statutory controls are in place to ensure that capital assets are broadly charged to revenue over the life of the asset. The Council is required to make an annual revenue charge, called the Minimum Revenue Provision (MRP), to reduce the CFR. This is effectively a repayment of borrowing need.

3.6 Treasury management arrangements ensure that cash is available to meet capital commitments. External debt can be borrowed or repaid at any time, but this does not change the CFR, which is charged on the basis of the Council's MRP policy.

As well as the statutory MRP charge, the CFR can be reduced by:

- the application of additional capital financing resources, (such as unapplied capital receipts); or
- charging more than the MRP each year through a Voluntary Revenue Provision (VRP).

3.7 The Council's 2023/24 MRP Policy, (as required by DLUHC Guidance), was approved as part of the Treasury Management Strategy Report for 2023/24 on 15 March 2023, and no changes have been made to the policy since being written in 2018/19.

3.8 The Council's CFR for the year is shown in the tables in 3.9 and 3.12 and is a key prudential indicator. It includes leasing schemes on the balance sheet, which increase the Council's borrowing need. No borrowing is required against these schemes as a borrowing facility is included in the contract.

3.9 Capital Financing Requirement (CFR) HRA and GF

CFR	**2022/23 Actual £,000**	2023/24 Original £,000	**2023/24 Actual £,000**
Opening balance	**48,089**	49,810	**52,858**
Additions in Year	***4,574**	0	**0**
Add unfinanced capital expenditure	**2,088**	7,083	**2,575**
Less Voluntary Revenue Provision (VRP) & Minimum Revenue Provision (MRP)	**(1,894)**	(1,540)	**(3,015)**
CFR	**52,858**	55,352	**52,418**

* Extended cleansing contract with new vehicles.

3.10 Borrowing activity is constrained by prudential indicators for gross borrowing and the CFR, and by the authorized limit - see paragraph 3.13.

3.11 In order to ensure that borrowing levels are prudent over the medium term and only used for a capital purpose, the Council should ensure that its gross external borrowing does not, except in the short term, exceed the total CFR in the preceding year (2023/24) plus the estimates of any additional capital financing requirement for the current (2024/25) and next two financial years. The table in 3.12 highlights the borrowing position against the CFR at 31 March 2023 and 2024.

3.12 Gross borrowing position and CFR

	31.3.23 Actual	2023/24 Budget	**31.3.24 Actual**
Gross borrowing position	£35.46m	£35.46m	£35.46m
CFR	£52.86	£55.35m	£52.42m
Under funding of CFR	**£17.4m**	£19.89m	**£16.96m**

3.13 **The authorized limit** - is the “affordable borrowing limit” required by s3 of the Local Government Act 2003. Once this is set and approved by Full Council, the Council does not have the power to borrow above this level, unless Full Council approve an increase to the limit. The authorized limit was not breached in 2023/24.

3.14 **The operational boundary** – is the expected borrowing position of the Council during the year. Periods where the actual position is either below or over the boundary is acceptable subject to the authorized limit not being breached.

3.15 Actual financing costs as a proportion of net revenue stream identifies how much of the Council’s revenue resources are used to service debt. (in 2023-24 it was 18.25% for the HRA and -8.37% for the Non-HRA; the non-HRA figure is a minus because the Council received interest income but had no General Fund borrowing to repay).

3.16 During the financial year the Council operated within the treasury limits and Prudential Indicators set out in the Council’s annual Treasury Strategy Statement (summary in appendix1). The limits are set and agreed by Full Council prior to each financial year and are deemed to be affordable.

3.17 Local authorities are required to have regard to all aspects of the Prudential Code that relate to affordability, sustainability, and prudence.

4.0 TREASURY POSITION AS AT 31 MARCH 2024

4.1 The Council's debt and investment position is organised to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through Member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

4.2 The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparators, are shown in 4.3.

4.3 Impact of capital expenditure

Actual prudential and treasury indicators	**31 March 2023 Actual £000**	**2023/24 Original £000**	**31 March 2024 Actual £000**
Capital expenditure	13,466	14,941	14,291
Total Debt	(35,460)	(35,460)	(35,460)
Capital Financing Requirement at 31st March: • Non-HRA • HRA • Total	(19) 52,876 52,858	(314) 55,666 55,352	41 52,377 52,418
Finance Lease Liability	(5,424)	(3,026)	(3,026)
Underlying Borrowing Requirement	47,434	52,326	49,392
(Over) / under borrowing	11,974	16,866	13,932
Total Investments	43,930	48,000	42,765
Net debt	**8,470**	**12,540**	**7,305**

4.4 The maturity structure of the debt portfolio is shown in the table below (the upper and lower limits are also shown in appendix 2) and the investment portfolio in the table in 4.5.

	31.3.23 actual	31.3.24 actual
Under 12 months	£0	£0m
12 months and within 24 months	£0m	£0m
24 months and within 5 years	£0m	£0m
5 years and within 10 years	£8.87m	£8.87m
10 years and within 20 years	£8.87m	£8.87m
20 years and within 30 years	£8.86m	£8.86m
30 years and within 40 years	£0m	£8.86m
40 years and within 50 years	£8.86m	£0m

4.5 Investment portfolio

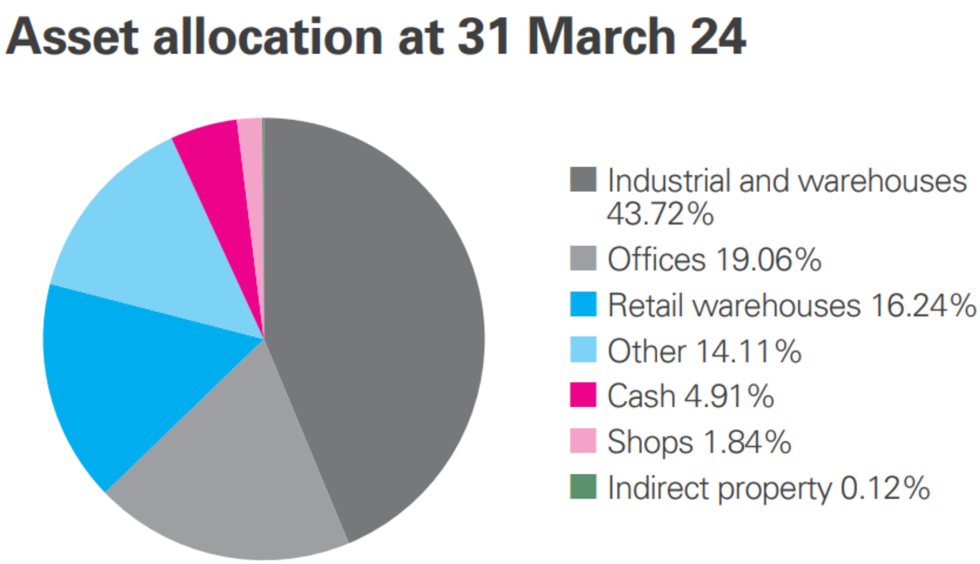
	actual 31.3.23 £000	actual 31.3.23 %	current 31.3.24 £000	current 31.3.24 %
Treasury investments:				
Diversified Funds	2,000	5%	2,000	5%
Property Funds	5,000	11%	5,000	12%
In-house:				
Banks	32,740	75%	15,800	37%
Building societies - unrated	0	0%	0	0%
Building societies - rated	2,000	5%	1,000	2%
Local authorities	0	0%	6,000	14%
DMADF (H.M.Treasury)	0	0%	0	0%
Money Market Funds	2,190	5%	12,965	30%
Total treasury investments	**43,930**	**100%**	**42,765**	**100%**
Treasury external borrowing:				
PWLB	-35,460	87%	-35,460	92%
Finance leases	-5,424	13%	-3,026	8%
Total external borrowing	**-40,884**	**100%**	**-38,486**	**100%**
Net treasury investments / (borrowing)	**3,046**		**4,279**	

4.6 The maturity structure of the investment portfolio was as follows:

	31.3.23 Actual £000	2023/24 Budget £000	31.3.24 Actual £000
Investments			
Longer than 1 year	8,000	7,000	8,000
Up to 1 year	35,930	41,000	34,765
Total	**43,930**	**48,000**	**42,765**

4.7 Other prudential and treasury indicators are to be found in appendix 2.

4.8 This CCLA property fund has a diverse property investment portfolio, none of which are in shopping centres due to the current climate (although a few standalone shops). The spread as at 31 March 2024 is as follows.



The portfolio is managed actively with the aim of providing a high income and long-term capital appreciation. Valuations are likely to remain under pressure until bond yields fall significantly, (this will restore some of the yield premium necessary to attract larger volumes of investors back to the property market).

5.0 THE STRATEGY FOR 2023/24

5.1 Investment strategy and control of interest rate risk

5.1.1 Some of the information and tables in the following paragraphs are supplied by the Councils' treasury advisors, Link Asset Services and consist of detailed economic and market information which informed the Councils' treasury management decisions throughout the year.

5.1.2 Investment returns picked up throughout the course of 2023/24 as central banks, including the Bank of England, continued to respond to inflationary pressures that were not transitory, and realised that tighter monetary policy was called for.

5.1.3 Starting April at 4.25%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 5.25% by August. By the end of the financial year, no further increases were anticipated. Indeed, the market is pricing in a first cut in Bank Rate in either June or August 2024.

5.1.4 The upward sloping yield curve that prevailed throughout 2023/24 meant that local authorities continued to be faced with the challenge of proactive investment of surplus cash, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

5.1.5 With bond markets selling off, UK equity market valuations struggled to make progress, as did property funds, although there have been some spirited, if temporary, market rallies from time to time – including in November and December 2023. However, the more traditional investment options, such as specified investments (simple to understand, and less than a year in duration), have continued to be at the forefront of most local authority investment strategies, particularly given Money Market Funds have also provided decent returns in close proximity to Bank Rate for liquidity purposes. In the latter part of 2023/24, the local authority to local authority market lacked any meaningful measure of depth, forcing short-term investment rates above 7% in the last week of March.

5.1.6 While the Council has taken a prudent approach to investing surplus monies, it is also fully appreciative of changes to regulatory requirements for financial institutions in terms of additional capital and liquidity that came about in the aftermath of the Global Financial Crisis of 2008/09. These requirements have provided a far stronger basis for financial institutions, with annual stress tests by regulators evidencing how institutions are now far more able to cope with extreme stressed market and economic conditions.

5.2 Borrowing strategy and control of interest rate risk

5.2.1 During 2023/24, the Council maintained an under-borrowed position. This strategy was prudent as although near-term investment rates were equal to, and sometimes higher than, long-term borrowing costs, the latter are expected to fall back through 2024 and 2025 as inflation concerns are dampened. The Council has not taken on long-term borrowing at elevated levels (>4%) and has focused on a policy of internal borrowing.

5.2.2 Interest rate forecasts initially suggested further gradual rises in short, medium and longer-term fixed borrowing rates during 2023/24. Bank Rate had initially been forecast to peak at 4.5% but it is now expected to have peaked at 5.25%.

5.2.3 By January it had become clear that inflation was moving down significantly from its 40-year double-digit highs, and the Bank of England signalled in March 2024 that the next move in Bank Rate would be down, so long as upcoming inflation and employment data underpinned that view. Currently the CPI measure of inflation stands at 3.4% but is expected to fall materially below 2% over the summer months and to stay there in 2025 and 2026. Nonetheless, there remains significant risks to that central forecast, mainly in the form of a very tight labour market putting upward pressure on wages and continuing geo-political inflationary risks emanating from the prevailing Middle East crisis and the Russian invasion of Ukraine.

5.2.4 *Our Treasury advisor forecasts at the time of approval of the treasury management strategy report for 2023/24 were as follows:*

Link Group Interest Rate View	07.02.23												
	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26
BANK RATE	4.25	4.50	4.50	4.25	4.00	3.75	3.25	3.00	2.75	2.75	2.50	2.50	2.50
3 month ave earnings	4.30	4.50	4.50	4.30	4.00	3.80	3.30	3.00	2.80	2.80	2.50	2.50	2.50
6 month ave earnings	4.40	4.50	4.40	4.20	3.90	3.70	3.20	2.90	2.80	2.80	2.60	2.60	2.60
12 month ave earnings	4.50	4.50	4.40	4.20	3.80	3.60	3.10	2.70	2.70	2.70	2.70	2.70	2.70
5 yr PWLB	4.00	4.00	3.90	3.80	3.70	3.60	3.50	3.40	3.30	3.20	3.10	3.10	3.10
10 yr PWLB	4.20	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.50	3.40	3.30	3.30	3.20
25 yr PWLB	4.60	4.60	4.40	4.30	4.20	4.10	3.90	3.80	3.70	3.60	3.50	3.40	3.40
50 yr PWLB	4.30	4.30	4.20	4.10	3.90	3.80	3.60	3.60	3.40	3.30	3.20	3.20	3.10

5.2.5 *Their interest rate forecast changed periodically during 2023/24 and below shows the change in a year:*

Link Group Interest Rate View	08.01.24												
	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

5.2.6 PWLB rates are based on gilt (UK Government bonds) yields through HM Treasury determining a specified margin to add to gilt yields. The main influences on gilt yields are Bank Rate, inflation expectations and movements in US treasury yields. Inflation targeting by the major central banks has been successful over the last 30 years in lowering inflation and the real equilibrium rate for central rates has fallen considerably due to the high level of borrowing by consumers: this means that central banks do not need to raise rates as much now to have a major impact on consumer spending, inflation, etc. This has pulled down the overall level of interest rates and bond yields in financial markets over the last 30 years. Indeed, in recent years many bond yields up to 10 years in the Eurozone turned negative on expectations that the EU would struggle to get growth rates and inflation up from low levels. In addition, there has, at times, been an inversion of bond yields in the US whereby 10-year yields have fallen below shorter-term yields. In the past, this has been a precursor of a recession.

5.2.7 However, since early 2022, yields have risen dramatically in all the major developed economies, first as economies opened post-Covid; then because of the inflationary impact of the war in Ukraine in respect of the supply side of many goods. In particular, rising cost pressures emanating from shortages of energy and some food categories have been central to inflation rising rapidly. Furthermore, at present the FOMC, ECB and Bank of England are all being challenged by levels of persistent inflation that are exacerbated by very tight labour markets and high wage increases relative to what central banks believe to be sustainable.

5.2.8 HIGH/LOW/AVERAGE PWLB RATES FOR 2023/24

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	4.65%	4.13%	4.20%	4.58%	4.27%
Date	06/04/2023	27/12/2023	06/04/2023	06/04/2023	05/04/2023
High	6.36%	5.93%	5.53%	5.96%	5.74%
Date	06/07/2023	07/07/2023	23/10/2023	23/10/2023	23/10/2023
Average	5.54%	4.99%	4.97%	5.34%	5.08%
Spread	1.71%	1.80%	1.33%	1.38%	1.47%

5.2.9 Regarding PWLB borrowing rates, the various margins attributed to their pricing are as follows: -

- PWLB Standard Rate is gilt plus 100 basis points (G+100bps)
- PWLB Certainty Rate is gilt plus 80 basis points (G+80bps) - (reduction of 20bp)
- PWLB HRA Rate is gilt plus 40 basis points (G+40bps). This was introduced on 15 June 2023 – (reduction of 40bp)

5.2.10 As a general rule, short-dated gilt yields will reflect expected movements in Bank Rate, whilst medium to long-dated yields are driven primarily by the inflation outlook.

5.2.11 The Bank of England is also embarking on a process of Quantitative Tightening. The Bank's original £895bn stock of gilt and corporate bonds will gradually be sold back into the market over several years. The impact this policy will have on the market pricing of gilts, while issuance is markedly increasing, and high in historic terms, is an unknown at the time of writing.

5.3 Change in strategy during the year

5.3.1 The strategy adopted in the original Treasury Management Strategy Report for 2023/24 approved by the Council on 15 March 2023 was subject the following revisions during the year.

1) Additions to the counterparty lending list in the way of:

- Handelsbanken Plc and
- Natwest Markets Plc (NRFB)

These both adhere to the minimum credit criteria in category 1 and 2 and were added for diversification and to offer further options due to the withdrawal of Qatar National Bank and First Abu Dhabi Bank.

2) Introduction of one new Money Market Fund (MMF) to the current lending list – State Street Global Advisors. The Fund seeks to promote some environmental and social characteristics.

5.3.2 A full list of the Council's approved counterparties is included in appendix 3.

6.0 <u>BORROWING OUTTURN FOR 2023/2024</u>

6.1 Maturity loans of £70.902m were taken out on the 28 March 2012 to fund the new HRA self-financing system. The borrowing remaining as at 31 March 2024 was £35.46 as shown In the table below.

Lender	Principal	Type	Interest Rate	Maturity
PWLB	£8.870m	Maturity	3.21%	28/3/2030
PWLB	£8.870m	Maturity	3.40%	28/3/2035
PWLB	£8.860m	Maturity	3.53%	28/3/2050
PWLB	£8.860m	Maturity	3.48%	28/3/2062
	£35.46m			

6.2 A maturity loan is a repayment loan which essentially means that you borrow at the start date, interest is paid on a semi-annual basis throughout the life of the loan and the principal is repaid at maturity. A maturity loan reduces exposure to risk of future rises in interest rates and the council has locked into low borrowing rates. The average rate of these loans at 31 March 2024 was 3.40%.

6.3 Due to the elevated cost of borrowing long-term, no new external borrowing was undertaken during the year and therefore the Council has not borrowed in advance of its need.

6.4 No rescheduling was carried out during the year as the average 1% differential between PWLB new borrowing rates and premature repayment rates made rescheduling unviable.

7.0 INVESTMENT OUTTURN IN 2023/24

7.1 The Council's investment policy is governed by DLUHC investment guidance, which has been implemented in the Annual Investment Strategy approved by the Council on 15 March 2023. This policy sets out the approach for choosing investment counterparties and is based on credit ratings provided by the three main credit rating agencies, supplemented by additional market data, (such as rating outlooks, credit default swaps, bank share prices etc.).

7.2 The investment activity during the year conformed to the approved strategy, and the Council had no liquidity difficulties.

7.3 The Council's cash balances comprise, primarily, of revenue and capital resources, although these will be influenced by cash flow considerations. The Council's core cash resources are shown in the table in 7.4 (these are draft and still subject to possible revisions).

7.4 Core cash resources

Balance Sheet Resources (£m)	31st March 2023 £m	31st March 2024 £m
General Fund Balances	25.8	19.7
HRA Balances	1.5	0.6
Housing Major Repairs Reserve	3.9	3.8
Capital grants unapplied	6.6	10.6
Usable capital receipts	1.7	1.1
Total	**39.5**	**35.8**

7.5 Investments held by the Council.

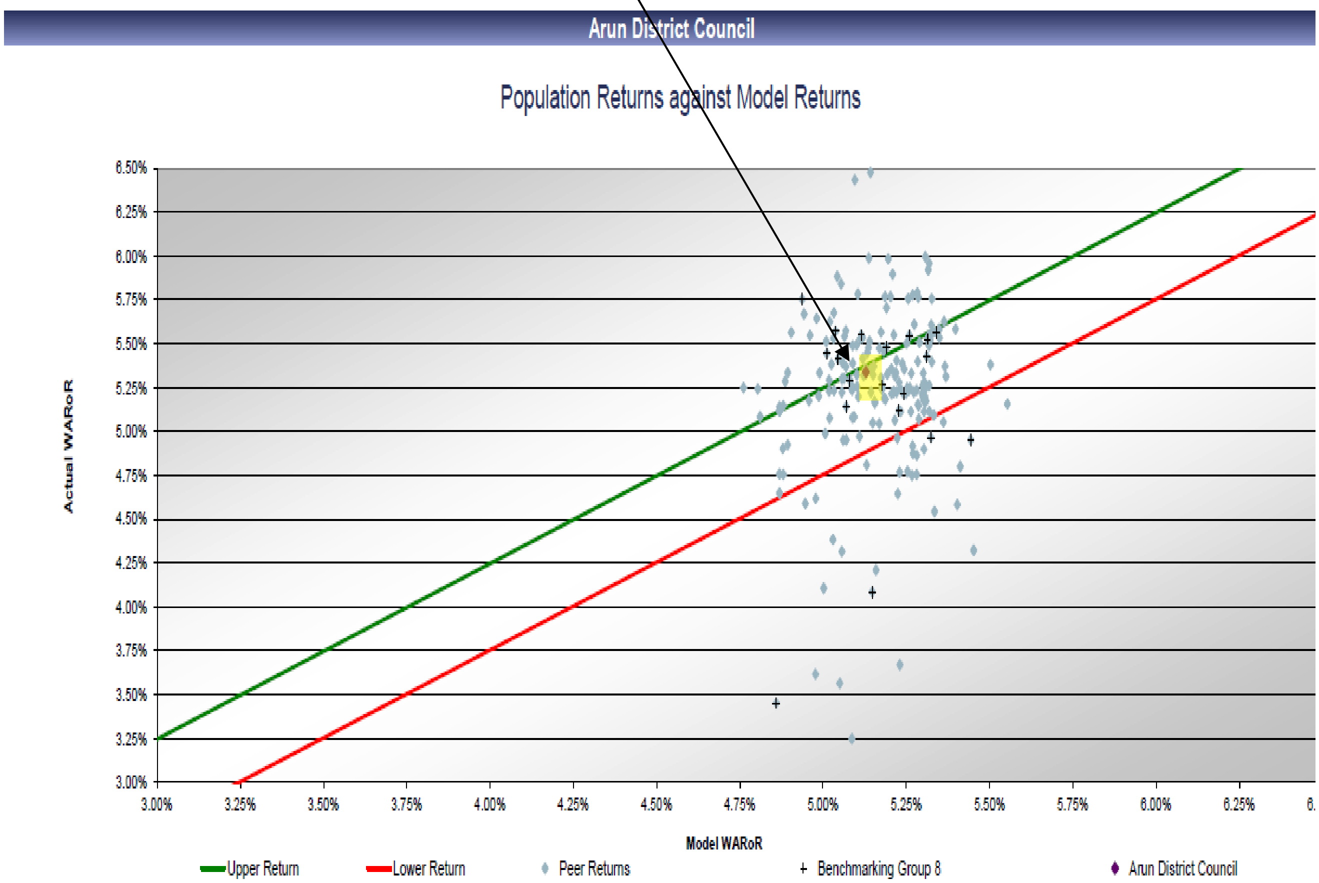
The Council maintained an average balance of approximately £42m of internally managed funds, plus £5m CCLA property fund and £2m Better World Cautious Fund (BWCF) (formerly called the Diversified Income Fund (DIF)). These internally managed funds earned an average rate of return of 5.05% plus 4.71% for the property fund and 3.3% for the BWCF / DIF giving an overall return of 4.94%. This compares with a budget assumption of £48m investment balances earning an average rate of 3.20%.

7.5.1 Total investment income was £2.43m compared to a budget of £1.54m. This was due to the increases in interest rates which were not predicted at the time and remained high, and a lower than anticipated pace of spend across the Council's capital programme.

7.5.2 The Council has also subscribed to Link's Investment Benchmarking Club to review the investment performance and risk of the portfolios.

7.5.3 A full list of investments at the 31 March 24 is included in appendix 4 and paragraph 7.5.4 below shows a comparison of Arun's investment performance against other Councils.

7.5.4



	Actual WARoR	Model WARoR	Difference	Lower Bound	Upper Bound	Performance
Arun District Council	5.34%	5.13%	0.21%	4.88%	5.38%	Inline

The Councils performance for the treasury investment portfolio is just below the upper return boundary for the end of Q4 2024.
This is as a result of the yields on investments under 1 month (MMF, Call accounts & Notice accounts) rising in line with increases in the Bank rate and investments made in 1-to-6-month durations (Fixed Deposit) pushing the portfolio's weighted average rate of return (WARoR) to 5.34% against the model portfolio's WARoR of 5.13% in the model portfolio.

8.0 IFRS 9 fair value of investments

8.1 Following the consultation undertaken by the Department of Levelling Up, Housing and Communities [DLUHC] on IFRS 9, the Government has extended the mandatory statutory override for local authorities to reverse out all unrealised fair value movements resulting from pooled investment funds to 31st March 2025. Local authorities are required to disclose the net impact of the unrealised fair value movements in a separate unusable reserve throughout the duration of the override in order for the Government to keep the override under review and to maintain a form of transparency.

8.2 The valuation of investments previously valued under the available for sale category e.g., equity related to the “commercialism” agenda, property funds, equity funds and similar, will be changed to Fair Value through the Profit and Loss (FVPL).

8.3 The Council had the following valuations at 31 March 2024 which would affect the Council taxpayer if the override was not in place:

- CCLA property fund - £4,581,250 (£5 million invested)
- CCLA Better World Cautious Fund - £1,985,709 (£2 million invested)

This would have had an adverse impact of £433,041 on the Council’s revenue budget.

Prudential and treasury indicators

APPENDIX 2

1. PRUDENTIAL INDICATORS	2022/23	2023/24	2023/24
Extract from budget and rent setting report	**Actual**	**Original**	**Actual**
	£'000	**£'000**	**£'000**
Capital Expenditure			
Non – HRA	7,023	5,944	7,206
HRA	6,443	8,998	7,085
TOTAL	13,466	14,941	14,291
Ratio of financing costs to net revenue stream			
Non - HRA	(5.45)%	(6.51)%	(8.37)%
HRA	16.60%	18.19%	18.25%
Capital Financing Requirement as at 31 March			
Non – HRA	(19)	(314)	41
HRA	52,876	55,666	52,377
TOTAL	52,858	55,352	52,418
Annual change in Cap. Financing Requirement			
Non – HRA	*4,423	***3,457	(499)
HRA	345	**2,085	60
TOTAL	4,768	5,542	(440)

* Due to Extended cleansing contract with new vehicles
** New build and sheltered accommodation that has slipped
*** Alexandra theatre expenditure that has slipped

2. TREASURY MANAGEMENT INDICATORS	2022/23	2023/24	2023/24
	Actual	Original	Actual
	£'000	£'000	£'000
Authorised Limit for external debt Borrowing Other long term liabilities	 53,000 5,000	 59,000 4,000	 59,000 4,000
TOTAL	**58,000**	**63,000**	**63,000**
Operational Boundary for external debt Borrowing other long term liabilities	 48,000 5,000	 55,000 4,000	 55,000 4,000
TOTAL	**53,000**	**59,000**	**59,000**
Actual external debt	35,460	35,460	35,460
Upper limit for total principal sums invested for over 365 days (£m) *(maximum of £36m in 23-24 was allowed to be invested for greater than 365 days)*	**24,000**	**36,000**	**36,000**
	-		-

Maturity structure of fixed rate borrowing - upper & Lower limits	Actual at 31/03/24	lower limit	upper limit
under 12 months	0%	0%	40%
12 months and within 24 months	0%	0%	40%
24 months and within 5 years	0%	0%	50%
5 years and within 10 years	25%	0%	60%
10 years and above	75%	0%	100%

APPENDIX 3

LIST OF AUTHORISED COUNTERPARTIES

Category 1 - Limit of £10 million for each institution - Maximum investment period - 5 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**AA-**	**F1+**
	Moody	**Aa3**	**P-1**
	S&P	**AA-**	**A-1+**

All Local Authorities

Australia & New Zealand banking Group Ltd (ANZ - AUS)
Bank of Nova Scotia (CAN)
Development Bank of Singapore Ltd (DBS-SING)
Handelsbanken Plc (UK)
National Australia Bank (AUS)
Oversea-Chinese Banking Corp Ltd (OCBC-SING)
JP Morgan Chase (USA)
United Overseas Bank Ltd (UOB - SING)

Category 2 - Limit of £9 million for each institution - Maximum investment period - 3 Years

		Long Term	Short Term
Min Criteria			
	Fitch	**A+**	**F1**
	Moody	**A1**	**P-2**
	S&P	**A+**	**A-1**

Barclays Bank plc (RFB & NRFB) (UK)
Bank of Scotland PLC (RFB) (Lloyds Banking Group-UK)
Goldman Sachs International Bank (UK)
HSBC Bank plc (RFB &NRFB) (UK)
National Bank of Canada (CAN)
National Westminster Bank PLC (RFB) (UK)
Natwest Markets Plc (NRFB) (UK)
Santander (UK)
Standard Charted Bank (UK)
The Royal Bank of Scotland PLC (RFB) (UK)

Category 3 - Limit of £6 million for each institution - Maximum investment period - 2 Years

		Long Term	Short Term
Min Criteria	**Fitch**	**A-**	**F1**
	Moody	**A3**	**P-2**
	S&P	**A-**	**A-1**

Nationwide Building Society (UK)
Close Brothers (UK)

Category 4 - Limit of £4 million for each institution - Maximum Investment period - 1 year
Building Society with Assets greater than £10 billion

Coventry Building Society (UK)
Leeds Building Society (UK)
Principality Building Society (UK)
Skipton Building Society (UK)
Yorkshire Building Society (UK)

Category 5 - Council's Bank
NO LIMIT - appropriate category 1 to 3 (Max of £9M term deposit)

Lloyds Bank Plc (RFB) (Cat 2 for Term deposit limit)
Lloyds Bank Corporate Markets Plc (NRFB) (Cat 2 for Term deposit limit)

Collective Investment Schemes structured as Open Ended Investment Companies (OEICs)

	Fitch	NAV
Category 6 - Money Market Funds (MMF's)		
(CNAV, LVNAV, VNAV & Enhanced MMF's		
Limit of £4million for each institution		
Aberdeen Standard (GBP)	AAA	LVNAV
CCLA Public sector deposit fund (PSDF)	AAA	LVNAV
Deutsche Banking Group	AAA	LVNAV
Federated Investors Ltd	AAA	LVNAV
Fidelity (GBP)	AAA	LVNAV
State Street Global Advisors	AAA	LVNAV
Northern Trust	AAA	

Category 7 - Alternative Investments - No defined maturity date
Maximum investment £4 million

Ultra-Short dated Bond Funds

Category 8 - Debt Management Agency Deposit Facility (DMADF)
NO LIMIT (UK Govt)

Debt management Office (DMO)

Category 9 - Bonds issued by multilateral development banks - 5 Years
Maximum investment £4 million AAA

Category 10 – Property Funds - No defined maturity date
Maximum investment £6 million

CCLA - Property Fund

Category 11 - Multi-Asset Funds - No defined maturity date
Maximum investment £6 million

CCLA - Better World Cautious Fund (previously called Diversified Income Fund)

Appendix 4

Reference no.	Counterparty	Issue Date	Maturity Date	Principal	Current Interest Rate
900	London Borough of Barking & Dagenham	08/01/2024	04/04/2024	£2,000,000.00	5.600
878	Standard Chartered Bank - Sustainable Deposits	10/07/2023	05/04/2024	£1,000,000.00	6.260
884	Goldman Sachs International	15/09/2023	05/04/2024	£1,000,000.00	5.780
901	London Borough of Barking & Dagenham	17/01/2024	05/04/2024	£2,000,000.00	5.550
866	Close Brothers Limited	18/04/2023	17/04/2024	£4,000,000.00	5.000
872	Close Brothers Limited	19/05/2023	17/05/2024	£1,000,000.00	5.200
896	Lancashire County Council	13/12/2023	13/06/2024	£1,000,000.00	5.750
876	Nationwide Building Society	15/06/2023	14/06/2024	£1,000,000.00	5.310
890	DBS Bank Ltd	25/10/2023	25/07/2024	£1,000,000.00	5.620
892	Goldman Sachs International	01/11/2023	01/08/2024	£1,000,000.00	5.620
894	DBS Bank Ltd	15/11/2023	15/08/2024	£1,000,000.00	5.500
902	Merthyr Tydfill CBC	15/02/2024	15/08/2024	£1,000,000.00	6.000
888	Standard Chartered Bank - Sustainable Deposits	18/10/2023	17/10/2024	£1,000,000.00	5.820
889	Goldman Sachs International	20/10/2023	18/10/2024	£1,000,000.00	5.750
865	Goldman Sachs International	05/01/2023	06/01/2025	£1,000,000.00	4.645
893	Close Brothers Limited	06/11/2023	06/11/2025	£1,000,000.00	5.350
44447	Lloyds Bank			£1,800,000.00	5.140
100500	CCLA (Churches, Charities and LA's) (MMF)			£4,000,000.00	5.2711
110000	Federated Investors LLP (MMF)			£4,000,000.00	5.3138
99999	Fidelity Fund Management Ltd (MMF)			£4,000,000.00	5.2611
130000	Deutsche Bank (MMF)			£965,000.00	5.1857
140000	CCLA (Churches, Charities and LA's) LAPF			£5,000,000.00	*5.16
140500	CCLA (Churches, Charities and LA's) BWCF			£2,000,000.00	*4.40
				£42,765,000.00	

* rates at 31-3-24

MMF- Money Market Fund
LAPF - Local Authority Property Fund
BWCF- Better World Cautious Fund