

## Treasury Management Annual Report 2023-24

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<b>Lead Member/Relevant Portfolio Holder</b>	<b>Councillor Sarah Cox</b> , Portfolio Holder for Corporate Finance, Property and Resources

<b>Corporate Priority:</b>	Ensuring the right conditions to support delivery (inward)
<b>Relevant Ward Member(s):</b>	N/A
<b>Date of consultation with Ward Member(s):</b>	N/A
<b>Exempt Information:</b>	No
<b>Key Decision:</b>	No
<b>Subject to call-in:</b>	No Not key decision

### 1 Summary

- 1.1 The report provides a summary of the Treasury activities in 2023-24. The report also covers the actual position on the Prudential Indicators in accordance with the Prudential Code.

### 2 Recommendations

**That Cabinet:**

- 2.1 **Recommend to Council the approval of the Treasury Management Annual Report 2023-24 as outlined in Appendix A.**
- 2.2 **Note the actual position of the Prudential Indicators for 2023-24**

### **3 Reason for Recommendations**

- 3.1 It is important that Cabinet are aware of the Council's Treasury Management performance to ensure they can make informed decisions that protect the Council's financial assets while taking regard of financial stability and potential returns.
- 3.2 The Annual Treasury Report is a requirement of the Council's reporting procedures.
- 3.3 The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

### **4 Background**

- 4.1 The Treasury Management Code of Practice is reviewed and the Strategy is approved at the start of each financial year. The following documents in respect of the 2023-24 financial year were approved by the Council as part of the budget setting process on 23 February 2023:
- Borrowing and Investment Objectives
  - Capital Finance Objectives
  - Investment and Borrowing Strategies
  - Borrowing Limits
- 4.2 Updates have been provided to Members during the year through the portfolio holder updates alongside the quarterly reporting process.
- 4.3 Continued changes in the regulatory environment place a much greater onus on Members for the review and scrutiny of treasury management policy and activities. This report is important in that respect, as it provides details of the year end position for treasury activities and highlights compliance with the Council's policies previously approved by members. The Council has complied with the requirement of the Code to give prior scrutiny to all of the above treasury management reports by this meeting before they are reported to the Council.
- 4.4 During 2023-24 the Council complied with the legislation and regulatory requirements which limit the levels of risk associated with its Treasury Management activities. In particular its adoption and implementation of both the Prudential Code and the Code of Practice for Treasury Management means that its capital expenditure was prudent, affordable and sustainable and its treasury practices demonstrated a low risk approach.

### **5 Main Considerations**

- 5.1 The Annual Report provides comprehensive detail of the activities undertaken on treasury management during the last financial year. It provides, at Appendix A, the performance of the prudential indicators against the indices set by the Council as part of the budget setting process.
- 5.2 The main issues are set out in the attached appendix with the main points summarised below. The key prudential indicators for the year, with comparators, are as follows:

<b>Prudential and treasury indicators</b>	<b>2022/23 Actual £'000</b>	<b>2023/24 Latest Budget £'000</b>	<b>2023/24 Actual £'000</b>
Capital expenditure	4,314	21,339	5,314
Capital Financing Requirement:			
• Non-HRA	54	43	43
• HRA	31,484	31,484	31,484
• Total	31,538	31,527	31,527
Gross borrowing	31,413	31,413	31,413
Debt	54	43	43
Total	31,467	31,456	31,456
Investments:			
Less than 1 year	17,620	21,500*	16,980
Longer than 1 year (Property Fund)	2,000 (Property Fund)	2,000 (Property Fund)	2,000 (Property Fund)

\*average balance across the year

- 5.3 No borrowing was undertaken for any further purpose and the Council's maximum actual borrowing position of £31.413m was within its Statutory Borrowing Limit and the Authorised Limit of £46m. At 31 March 2024, the Council's external debt was £31.456m (£31.467m at 31 March 2023) and its investments totalled £18.9m (£19.6m at 31 March 2023).
- 5.4 The anticipated average level of investments in 2023-24 was forecast at £23.5m in February 2023 which is in broadly line with the actual average which was £25.4m. Due to the profiling of the year end precept receipts and payments the yearend balance is always lower and as at 31 March 24 was £18.9m.
- 5.5 The ratio of the financing costs to the net revenue stream has reduced in respect of the General Fund (-19.31% in 2023-24 compared to -6.61% in 2022-23) and decreased in respect of HRA (26.50% in 2023-24 compared to 31.02% in 2022-23 as per Appendix A), which is mainly down to the increased income from investment returns as well as use of reserves on the general fund. On the general fund there are no financing costs (i.e. no debt) therefore the financing ratio is shown as negative figure with no debt to be serviced but income generated from reserve balances.
- 5.6 The gross borrowing, except in the short term, should not exceed the CFR. This is to ensure that borrowing levels are prudent and, over the medium term, the Council's external borrowing, net of investments, is only utilised for a capital purpose. As at 31 March 2024 gross borrowing was below the CFR, primarily due to a small amount of internal borrowing on the HRA.
- 5.7 The overall investment rate of return was 5.07% compared to 2.19% in 2022-23.
- 5.8 Whilst the level of balances available for investment were lower than those anticipated but due to the sustained increase of interest and investment rates in year, above the budget assumption of 2.51%, a significant amount of additional income was achieved. The overall rate of return for 2023-24 was 5.07% which generated additional income of £674k over the original budget. This is across both the General Fund and HRA.

- 5.9 The 2023-24 financial year has continued to be a testing and difficult economic environment with the ongoing inflationary pressures impacting on the cost of delivering services, pay, utilities etc. However, from a treasury perspective the rise in inflation has seen an associated increase in the bank interest rate as a mechanism to try and slow down / reduce inflation which has been positive. This has led to interest rates remaining high and as outlined above resulting in additional income being generated which has helped offset some of the additional costs the council has faced.
- 5.10 The investment portfolio has continued to incorporate more diversification in terms of both counterparty and maturity. As interest rates continued to rise the council will continue to monitor its investment options and maturity length. In order to maximise investment returns the Council continues to hold £2m in a CCLA property fund which has generated positive returns for the Council.
- 5.11 **Implementation of IFRS9**
- 5.11.1 The implementation of IFRS9 has resulted in a change in the treatment of the £2m investment in the CCLA property fund, such that fluctuations in the value of the fund now impact on the Surplus or Deficit on the Provision of Services.
- 5.11.2 Following consultation, the MHLG have introduced a mandatory statutory override to mitigate any effect on the General Fund which has recently been extended for a further 2 years until 2025 to allow councils time to adjust their portfolio of investments, if that is felt necessary.
- 5.11.3 In previous years there was a fluctuation in the valuation of the property fund and as the market has reacted to the cost of living and inflationary pressures there has been a downturn in property rates resulting in a decrease in the valuation of the property fund resulting in a notional loss in the fund of £225k as at 31 March 2024. If it were not for the statutory override this loss would have needed to be recognised in the income and expenditure account and would have impact on the overall net cost of the Council. Whilst the overall value of the investment has dropped the dividend yield itself has been increasing. Due to the risks around this type of investment the Council has previously approved the establishment of a reserve in order to help offset any potential deficits that might arise in future should the statutory override be removed. At the end of 2023-24 the balance in this reserve stood at £160k, with a further £30k budgeted to go in during 2024-25 bringing the total to £190k, which can be called on in the future if required. Due to the current loss in value the officers will continue to review the reserve level required.

A property fund by its very nature is a long-term investment in terms of potential fluctuations in asset values but since the initial investment was made in 2017 the council has received investment income of £580k which has supported the revenue budget during that time.

## 6 Options Considered

- 6.1 No other options have been considered as it is a statutory requirement to have in place agreed prudential indicators. The report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities. The Council is required to comply with both codes through Regulations issued under the Local Government Act 2003.

## **7 Consultation**

- 7.1 Consultation has been undertaken with the portfolio holder regarding the position for the 2023-24 financial year

## **8 Next Steps – Implementation and Communication**

- 8.1 This report will be submitted to the Council meeting on 25 July 2024.

## **9 Financial Implications**

- 9.1 The Treasury Management Strategy and Policy are core financial policies which underpin all the work of the Treasury Management function and incorporate any implications arising from the capital programme.

- 9.2 During the last final year interest rates remained higher than predicted with provided a significant level of additional investment income during the year which was a welcome benefit to help offset other in-year financial pressures. Current returns remain above 5% which is in line with the expected rates for 2024-25 and will continue to be monitored with a view to maximise returns where possible (in accordance with the strategy) over the remainder financial year. The downturn to this is that borrowing rates have also increased and should the Council look to borrow the costs of borrowing will of course be much higher than it was.

**Financial Implications reviewed by: Assistant Director for Resources, 14 June 2024**

## **10 Legal and Governance Implications**

- 10.1 The Local Government Act 2003, section 15(1), requires a local authority "...to have regard (a) to such guidance as the Secretary of State may issue, and (b) to such other guidance as the Secretary of State may by regulations specify...".
- 10.2 The guidance on investments is issued under section 15(1) of the 2003 Act and authorities must therefore have regard to it.
- 10.3 Two codes of practice issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) contain investment guidance which complements Ministry for Housing, Communities and Local Government (now Department for Levelling Up, Housing and Communities) guidance. These publications are:
- Treasury Management in the Public Services: Code of Practice and Cross Sectoral Guidance Notes
  - The Prudential Code for Capital Finance in Local Authorities
- 10.4 Local authorities are required to have regard to the current editions of these CIPFA Codes by regulations 2 and 24 of the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003.

**Legal Implications reviewed by: Monitoring Officer.**

## **11 Equality and Safeguarding Implications**

- 11.1 There are no direct equality or safeguarding issues arising from this report.

## **12 Data Protection Implications (Mandatory)**

- 12.1 A Data Protection Impact Assessments (DPIA) has not been completed as there are no risks/issues to the rights and freedoms of natural persons.

### 13 Community Safety Implications

13.1 There are no direct links to community safety arising from this report.

### 14 Environmental and Climate Change Implications

14.1 The Council recognises the importance of supporting sustainability and ethical investments and will ask the financial organisations to provide their ethical statements where we look to place investments with them and will consider Environmental, Social or Governance (ESG) specific products if they meet our risk criteria.

### 15 Other Implications (where significant)

15.1 No other implications have been identified.

### 16 Risk & Mitigation

16.1 These are assessed as part of the Corporate Services Risk Register

Risk No	Risk Description	Likelihood	Impact	Risk
1	Loss of investment income during 2024-25 as result of change in interest rates	Low	Marginal	Low Risk
2	Reduction in the valuation of the Councils Property Fund investment resulting in an actual loss should the regulations change to charge the loss to revenue account.	Significant	Marginal	Medium Risk
3	Loss of investment through failure of a counterparty	Very Low	Critical	Low Risk

		Impact / Consequences			
		Negligible	Marginal	Critical	Catastrophic
Likelihood	Score/ definition	1	2	3	4
	6 Very High				
	5 High				
	4 Significant		2		
	3 Low		1		
	2 Very Low			3	
	1 Almost impossible				

Risk No	Mitigation
1	Continue to maximise returns in line with the Treasury management investment strategy
2	Establishment of a property fund reserve to help mitigate any losses in the future should the statutory override be removed and there is a need to be charged direct to the revenue account in line with any change in accounting rules.

## 17 Background Papers

None

## 18 Appendices

18.1 Appendix A – Annual Treasury Management Review 2023-24